THE CULTURAL RELATIVITY OF ACCOUNTING SYSTEMS

By

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Introduction

The differences in accounting practices as between countries have been highlighted over the last two decades by academic research (Gray et al 1984, AAA 1977, 1976a and 1976b, Zeff 1977, Mueller 1967 and 1968, Choi and Mueller 1984) as well as other studies carried out by professional organizations (AICPA 1964 and 1975) and accounting firms (Price Waterhouse 1973, 1975 and 1979). As these differences became increasingly evident, attempts were made to classify countries on the basis of their accounting practices. The methods adopted by accounting researchers in classifying accounting systems can be identified as, subjective (Mueller 1967, 1968), judgemental (Nobes 1983, 1984), sphere of influence (Seidler 1967, Previts 1975) and statistical (Frank 1979, Nair and Frank 1980, AAA 1977, DaCosta et al 1978).

Mueller (1967) represents the first systematic classification of accounting systems. He identifies four categories of accounting systems in Western capitalist countries, namely, (i) accounting in a macro framework, where enterprise accounting is closely linked with national economic policies, (ii) accounting based upon microeconomic factors, where accounting is regarded as part of business economics, (ii) accounting as an independent discipline, where accounting is regarded as a separate service function in business practice, and (iv) uniform accounting, where accounting is viewed as a regulatory device. By adopting Mueller's analysis as the basis, Nobes (1983, 1984) classifies accounting systems of Western capitalist countries into two broad categories under (i) Micro-based and (ii) Macro-uniform. He then sub-classifies micro-based systems into business economics based and business practice based systems, and macro-based systems into continental and government economics based systems. Again he identifies two systems under Business practice based systems as U.K. and U.S. influenced and two systems under Continental Systems as Tax based and Law based.

Seidler (1967) and Previts (1975) base their classifications upon perceived "spheres of influence of mother countries" and categorize accounting systems into three models under (i) British, (ii) American and (iii) Continental European. The AAA (1977) identifies five zones of influence in accounting systems. They are, (i) British, (ii) Franco-Spanish-Portugese, (iii) Germanic-Dutch, (iv) U.S. and (v) Communistic.

Da Costa et al (1978) classify accounting systems into two groups by using cluster analysis on the accounting practices reported in the Price Waterhouse surveys. The two groups are, (i) U.K. and former colonies and (ii) others. By analysing the same data, Frank (1979) identifies four groups of countries, namely, (i) British Commonwealth, (ii) Latin Amercan (iii) Continental Europe, and (iv) U.S. The same data are used by Nair and Frank (1980) in an attempt to classify accounting systems separately based on measurement and disclosure. Having carried out a statistical analysis of accounting practices in the 44 countries, they classify ccounting systems into eight groups on the basis of disclosure practices, and four groups on the basis of measurement practices. (see APPENDIX 1). (For a detailed review on this topic, see Nobes (1984) and Choi and Mueller (1984 Chapter 2).

The differences in national accounting systems are attributed in general to a variety of environmetal factors under which they operate. Culture is often considered to be one of the important environmental factors impacting upon the accounting system of a country. This is probably based on the premise that accounting is a socio-technical activity in the sense that it implies dealing with people and non-human resources or techniques, as well as with the interaction between the two; And, that although the technical aspect of accounting is less culture-dependent than the human aspect, since the two interact, accounting cannot be culture free. On the other hand, it has also been argued that accounting is in fact culture determined (Violet 1983). The concept of "cultural relativism", i.e. the rationality of any behaviour should be judged in terms of its own cultural context and not of that of any outsider, has become increasingly prominant in recent discussions on national accounting systems (Arpan and Radebaugh 1985). However, there is no conclusive evidence to support or reject the assumption that accounting is directly influenced by culture. The discussions on this topic are mainly descriptivel One of the major problems here is the absence of a theoretical framework for analysing the issues involved. The present paper purports to, (*a*) develop a model setting out the associations between culture and accounting, (*b*) formulate a set of hypotheses on the basis of the identified associations and (*c*) suggest possible implications of cultural factors for international accounting issues.

'Culture' and 'Values'

The key terms used in this paper are "culture" and "values". Like the term "system", both these terms have interdisciplinery connotations, and have been given a variety of different definitions under different disciplines. Therefore, it is extremely difficult, almost impossible, to provide all encompassing definitions to these terms. For instance, culture is to a human collectivity what personality is to an individual. It can only be described, but not defined. However, for the purpose of the present discussion, the meanings given are similar to those reflected in the following definitions. Kluckhohn (1951 p. 86) perceives culture as consisting "in patterned ways of thinking,

feeling and reaching, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups, including their embodiments in artifacts ; the essential core of culture consists of traditional (i.e. historically) derived and selected) ideas and especially their attached values". In short, it means the distinctive way of life of a group of people, their complete design for living. Hofstede (1980 p. 25) defines culture as "the collective programming of the mind which distinguishes the members of one human group from another.". In this sense, systems of values are among the building blocks of culture. Hofstede's definition of value as "a broad tendency to prefer certain states of affairs over others"(p. 19), is similar to the meaning given by Rokeach (1972 pp. 159-60), which says "to say that a person "has a value" is to say that he has an enduring belief that a specific mode of conduct or end state of existence is personally and socially preferable to alternative modes of conduct or end-states of existence".

Culture appears at many levels. For example, national culture is the shared values of most members of a nation ; organizational culture is the additional values shared by most members of an organization ; occupational culture is the values acquired by those belonging to a distinct occupation such as accounting. In addition, we can also think of a generation culture, a class culture, and so on.

'Culture' in the Accounting Literature

Although comparative accounting research efforts have resulted in an increased awareness of the influence on accounting of environmental factors in general, the impact of culture upon accounting has not yet been the subject for any detailed inquiry and analysis. However, a number of scanty references to culture can be found in the accounting literature over the last two decades.

Seidler (1969) argues that many of the managerial accounting concepts developed in the U.S. may be both unacceptable and unworkable under different cultural environments. For example, he points out that American managerial accounting techniques and concepts, such as responsibility accounting, are based on the assumption that attempt to increase both individual discretion and responsibility in large organizations will be acceptable to both management and employees. It is argued that, although this may be the case in the U.S. where drives for achievement and advancement are strong, in many developing countries, employees may not desire additional or indeed any responsibility at the price of possible failure. This is particularly true of the highly paternalistic business environments of the Middle Eastern and Mediterranian countries. An AAA Committee (1971) notes that the implications of motivation theory for accounting are perhaps greater than those of any other behavioural area. It is argued that since a major purpose of managerial planning and control systems is to motivate performance, and since organization goals and accomplishments are often stated in accounting terms and individual

performance is often evaluated by accounting measures, an understanding of the motivational effects of accounting systems and reports is vital. However, it may be of interest to mention here that, contrary to the belief held prior to 1970 (Triandis 1980 p. 35), the issues of motivating people differ from one society to another (Tannenbaum 1980). In other words, cross cultural research has revealed that not all of the key elements of contemporary motivation theory may be universal.

Beazley (1968) emphasizes that research efforts directed at cultural, differences and similarities between countries are likely to provide better explanation as to why people behave differently, and to show that different is not necessarily synonymous with inferior. This, incidentally is a very valid point for most Western accountants seem to think that what is good for them should also be good for all others, and that anything different must be inferior. McComb (1979) also expresses a similar view when he says that it is important to try and understand the cultural and societal reasons for the existence of national differences in accounting principles and practices, rather than speeding the process of promulgating further intetnational accounting standards.

Alhashim (1973) draws attention to the fact that the study of cultural factors is important in determining the attitudes of the preparers and users of accounting statements, which are significantly influenced by environments in which they originate and operate. With regard to corporate disclosure in India Singhvi (1967) and Das Gupta (1977) express similar views. Both refer to the reluctance of managers to disclose certain information due to economic and cultural reasons. Frank (1979) and Nair and Frank (1980) attempt to establish a close association between economic and cultural variables and the classification of countries into groups based on their accounting practices. They conclude that due to economic and cultural differences it may be more difficult for policy makers to achieve harmonization of practices than was previously realized.

Jaggi (1975) provides a most interesting discussion on the impact of the cultural environment and individual value orientation on disclosure of financial information. He develops his thesis on the basis of reserach findings in the social sciences which demonstrate that the value orientation (defined as "a selective orientation toward experiences, implying deep commitment to repudiation which influences the order of choices between possible alternatives in action" (Kluckhohn 1961 p. 18) of individuals in a society is to a great extent the product of the cultural environment of that society. He also adopts the notions of *Universalism* (a value orientation toward institutionalized obligation to society) and *Particularism* (a value orientation toward institutionalized obligation to friendship), which were developed by Parsons and Shils (1950) to be used in identifying the different patterns of value orientations of indivi duals between countries. He then links these notions to management decision making and establishes that the value orientations of managers are an important factor affecting disclosure decisions.

Jaggi pays particular attention to the reliability of financial information disclosed, and proposes to measure reliability in terms of the adequacy and accuracy of information disclosed in financial statements, by examining the finanancial statement preparation process. It may be argued that Jaggi's proposal fails to achieve a complete measure of reliability due to the fact that he does not consider all the important componants of reliability, for example, verifiability. However, it does not affect the significance of his conclusion that the value orientation of managers affects information that is disclosed through disclosure decisions.

In an attempt to classify countries on the basis of the value orientation of individuals, Jaggi identifies countries which possess complex technology, emphasize individual freedom and mobility and appreciate competition and achieved status as predominantly univesalistic value oriented, and those which are less technical, less sicentific, and less urban as predominantly particularistic value oriented. Accordingly, the economically developed countries are categorized under the former group, and the developing countries under the latter. On the basis of this classification, he points out that in the work situations of universalistic societies, individuals are expected to be impersonal in their relations with other individuals, and they are supposed to be loyal to the firm and honour their obligations to society, whereas in the work situations of particularistic societies, individuals are assessed by others primarily in terms of their relations with them, evaluation in an impersonal and objective manner is rare. He then proceeds to say that this kind of interpersonal association is also extended to the adult's entire social world, which influences perceptions of social situations in terms of close personal bonds. He draws support for his argument from management literature, for example, Harbison and Myers (1959), which examines the influences of the cultural environment on management's effectiveness in different countries, such as Chile, India, Sweden, France Italy and Israel, and Haire, Ghiselli and Porter (1966) which examines the impact of the cultural environment on similarities and differences in managerial attitudes and management practices in fourteen countries.

With regard to information disclosure, it is argued that managers with universalistic value orientation are likely to be committeed to disclosing relatively reliable information compared to those with particularistic value orientation who are not likely to realize their obligations to outsiders or to society. The obligations of the particularistic value oriented managers will primarily relate to family members owning and managing firms. Since the family members will be able to obtain information informally, the financial statements primarily meant for outsiders will be prepared in such a way that they disclose information which is absolutely essential and is required by law or by customs. The managers will have little regard to adequacy or accuracy of the information, and they will not recognize the information needs of society or government agencies for making economic and social policies. This will result in relatively low reliability of information disclosed in financial statements.

The above references to culture are in respect of its perceived influence on management accounting, international harmonisation of accounting standards and extenral reporting, particularly the attitudes of financial statement preparers and users. In addition, Mueller (1968), Zeff (1972) Nobes and Parker (1981), Schoenfeldt (1981) Browmich and Hopwood (1983), Renshall (1983), Choi and Mueller (1984) and Arpan and Radebaugh (1985) also consider culture as a factor that influences the accounting development of a country.

Culture Based Societal Value Dimensions

Recently there has been a considerable interest in cross cultural comparisons, particularly in the field of management. For example, England (1978) and Hofstede (1980) have sought to analyse differences in work related values across cultures, Manstfield and Poole (1981) and Hickson and McMillan (1980) have discussed organizational structures across cultures, Everett, et al (1982) have discussed similarities in managerial attitudes.

Hofstede's study is based on data collected through an employee attitude survey of a multinational corporation, which took place twice between 1968 and 1973, involving different subsidiaries in sixty four countries. The total survey material consisted of over 116,000 questionaires in 10 languages (Hofsede 1983). In an attempt to develop a commonly acceptable, well-efinded and empirically based terminology to describe cultures he identifies four distinct dimensions which are considered to reflect the cultural orientation of a country, namely, (a) *Individualism versus Collectivism*, (b) *Large versus Small Power Distance* (c) *Strong versus Weak Uncertainty Avoidance*, and (d) *Masculinity versus Femininity*. It would be useful to briefly describe the main features of each of the above dimensions before examining their implications for accounting.

Individualism versus Collectivism

This dimension relates to the degree of integration a society maintains among its members, or the relation between an individual and his/her fellow individuals. Individualism stands for a preference for a loosely knit social framework in society wherein individuals are supposed to take care of themselves and their immediate families only. This incidentally is very similar to Jaggi's notion of Universalism. On the other hand, Collectivisim stands for a tightly knit social framework in which individuals can expect their relatives or other in-group to look after them in exchange for unquestioning loyalty. This again is similar to Jaggi's notion of Particularism.

The identified characteristics of this dimension tend to raise some questions in regard to established theories which have a bearing on mnagement thought in general, for example, the general validity of economic theories based on self-interest, and of psychological theories based on self-actualization, because

in a collectivist society, preference is given for collective interest and achievement. These questions also reflect on the type of accounting issues raised by Seidler (1969). Some other issues that are likely to become important under this dimension include, the nature of the employer-employee relationship, and the priority given in business. In an individualist society, employer-employee relationships tend to be calculative, whereas in a collectivist society, such relationships tend to be morally based. On the other hand, in an individualist society, priority in business is given to task rather than to the relationship as in the case of a collectivist society. Hofstede concludes that the degree of individualism in a country is statistically related to that country's wealth (1983c. p. 80). Accordingly, wealthy countries tend to be more individualistic oriented whereas poor countries tend to be more collectivistic oriented. This would seem to indicate an aspect of clear difference in societal values that exist between countries. Furthermore, on that basis, a reasonably clear distinction can be made between industrially developed countries and developing countries (see Appendix II (i)). All the developing countries fall on the bottom end of the individualism vs. Collectivisum scale, whereas industrial countries fall on the top end of the same scale.

(The data given in Appendix II in respect of a sample of 27 Countries which include 9 industrialized and 18 developing Countries (9 Latin American and 9 Asian were extracted form Hofstede (1983),

Large versus Small Power Distance

This dimension relates to the extent to which the members of a society accept that power in institutions and organizations is distributed unequally. For example, in large power distance societies people tend to accept a hierarchical order in which everybody has a place which needs no further justification, wheras in small power distance societies people tend to strive for power equalization and demand justification for power inequalities.

The identified characteristics of this dimension tend to draw attention to the issues such as whether subordinate consultation is necessary or paternalistic management is accepted. In a large power distance society, subordinate consultation may not be as important as in a small power distance society, because there is a tendency for its members to accept paternalistic management. The degree of inequality in a society is measured by the extent of power distance. The level of power distance is related to the degree of centralisation of authority and the degree of autocratic leadership. Societies in which power tends to be distributed unequally can remain so because this situation satisfies the psychological need for dependence of the people without power. In other words the value system of the two groups are complementary . Hofstede identifies a global relationship between power distance and collectivism (1983c p. 82).

Collectivist countries always show large power distance, although individualist countries do not always show small power distance. It is interesting to note that all poor countries are collectivist with large power distance (see Appendix II (ii).

Strong versus Weak Uncertainty Avoidance

This dimension relates to the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. The fundamental issue involved here is how a society reacts on the fact that the future is unknown, i.e. whether it tries to control the future or to let it happen. In the weak uncertainty avoidance societies people have a natural tendency to feel relatively secure, whereas in strong uncertainty avoidance societies people tend to try and beat the future. Because the future remains essentially unpredictable and there will be higher level of anxiety among people. In such societies, there will also be institutions that try to create security and avoid risk. One important way of creating security is law, through law and other formal rules and institutions, protection is provided against unpredictability of human behaviour. The existence of relatively high degree of planning of economic activities in strong uncertainty avoidance societies could also be explained in terms of this value dimension. Religion is another way of creating a feeling of security. All religions attempt to create in the minds of people an expectation of something which is certain.

The identified characteristics of this dimension tend to draw attention, among other things, to the existence of emotional need for formal and informal rules to guide behaviour, the degree of formalisation, standardization and ritualisation of organizations, the extent of tolerance for deviant ideas and behaviour and willingness to take risks. Although clear differences between countries can be identified on this dimension, it does not clearly fall into the grouping of countries on the basis of wealth. Therefore, there are different patterns of relationship between the degrees of uncertainty avoidance and power distance (see Appendix II (iii).

Masculinity versus Femininity

This dimension relates to the division of roles between the sexes in society. Masculinity stands for a preference in society for showing off achievement, heroism, assertiveness, making money or material success, thinking big, and so on. Femininity stands for a preference for putting relationships with people before money, helping others and caring for the weaker, the quality of life, preservation of environment, "small is beautiful" and so on.

The identified characteristics of this dimension tend to draw attention to the existence in a society, competitiveness as against solidarity, equity as against equality, and achievement motivation as against relationship motivation.

Career expectation, acceptability of macho manager behaviour are some of the other issues raised under this dimension. On this dimension too there is no identifiable pattern between less and more economically developed countries (see Appendix II (iv)).

Towards a Theoretical Framework

Hofstede's analysis of culture is likely to provide a starting point in formmulating a theoretical framework for identifying the impact of culture upon accounting, in view of the absence of any rigorous discussion on this topic in the accounting literature, However, it is imperative that any such exercise should include an attempt to identify a set of specific societal values or cultural factors which are perceived to be directly associated with accounting practices, for then only can their impact be examined through a logical process. Arpan and Radebaugh (1985) make a useful contribution in this regard by identifying a set of cultural factors in their list of environmental factors which influence accounting practices. Accordingly, the major cultural factors included are conservatism, secrecy, attitude toward business, and attitude toward accounting profession. They do not, however, provide any systematic analysis of the relationships between these factors and accounting practices. Gray (1985) represents an attempt to develop a model by identifying the mechanism by which values at societal level are related to the accounting subculture which directly influences accounting practice. Accordingly, four value dimensions of the accounting subculture, which are also related to societal values, are recognized. They are,

(i) *Professionalism.*—Where there is a preference for the exercise of individual professional judgement and the maintenance of professional judgement and the maintenance of professional self reguation as opposed to compliance with prescriptive legal requirements and statutory control.

(ii) *Uniformity :* Where there is a preference for the maintenance of uniform accounting practices between companies and for the consistent use of such practices over time as opposed to flexibility in accordance with the perceived circumstances of individual companies.

(iii) *Conservatism.*—Where there is support for a prudent and cautious approach to measurement so as to cope with the uncertainty of future events.

(iv) *Secrecy :* Where there is support for confidentiality and the restriction of information about the business only to those who are closely involved with its management and financing.

The identified direct associations between the values of the accounting subculture and the societal value dimensions of Individualism and Uncertainty Avoidance are set out in Exhibit I.

Exhibit I

Direct association between societal and accounting values

Values of Accounting Subculture	RELATIONSHIP WITH SOCIETAL VALUES	
	Positive	Negative
Professionalism	Individualism	Uncertainty avoidance
Uniformity	Uncertainty avoidance	Individualism
Conservatism	Uncertainty avoidance	Individualism
Secrecy	Uncertainty avoidance	Individualism

In addition, the societal value dimensions of Power Distance and Masculinity vs. Femininity also have a bearing on accounting values. For example, collectivist countries always show large power distances, although individualist countries do not always show small Power distances. In other words, in the case of developing countries, power Distance has negative relationship to Individualism, and this would indicate a negative relationship to Professionalism, and positive relationships to Uniformity, Conservatism and Secrecy.

Further, there is an identifiable relationship between the dimensions of Power Distance and Uncertainty Avoidance. For example, 8 of the 9 most collectivist countries fall within the top half of the uncertainty avoidance scale, which could be interpreted to mean that in large power distance societies there tends to be a high degree of uncertainty avoidance, because of the emotional need for security for people without power. In other words, in the case of

developing countries, Power Distance has a positive relationship to Uncertainty Avoidance, and this would indicate a negative relationship to Professionalism and positive relationships to Uniformity, Conservatism and Secrecy.

Furthermore, Masculinity vs. Femininity dimension shows a positive relationship to Individualism, for example, 6 of the most individualist countries fall within the top half of the Masculinity vs. Femininity scale. This would indicate a positive relationship to Professionalism and negative relationships to Uniformity, Conservatism and Secrecy. On the other hand, Masculinity vs. Femininity dimension also shows a negative relationship to Uncertainty Avoidance, for example, 6 of the weakest uncertainty avoidance countries fall within the top half of the Masculinity vs. Femininity scale. This would further support its relationships to accounting values as identified above. (Classification of accounting systems by Gray on the basis of each of the four accounting values is given in Appendix III).

The Values of the accounting sub-culture are likely to influence certain aspects of the accounting practice, namely, (*a*) the authority for accounting systems, (*b*) their force of application, (*c*) the measurement practices used and (*d*) the extent of information disclosed (Gray 1985). In particular, the degree of professionalism (or uniformity) preferred in an accounting sub-culture would influence the nature of authority for the accounting system. The higher the degree of professionalism (or the less the degree of uniformity) the greater the degree of professional self-regulation and the less the need for government interference ; the degrees of uniformity (or professionalism), conservatism and secrecy preferred in an accounting sub-culture would influence the force of application of the accounting system. The higher the degree of uniformity (or the less the degree of professionalism) the lower the extent of professional judgement and the stronger the force of application of accounting rules and procedures ; Also the degree of conservatism influences the manner in which accounting rules and procedures are applied ; the degree of conservatism and uniformity preferred in an accounting sub-culture would influence the measurement practices used. The higher the degree of conservatism the stronger the ties with traditional measurement practices, and the higher the degree of uniformity the more likely is the use of a given set of measurement rules ; the degrees of secrecy, conservatism, uniformity and professionalism preferred in an accounting sub-culture would influence the extent of information disclosed in accounting reports. The higher the degree of secrecy, the lower the extent of disclosure ; the higher the degree of conservatism the more emphasis

placed on prudence as against disclosure ; the higher the degree of uniformity (or the less the degree of professionalism) the more emphasis placed on compliance as against disclosure. Therefore, the extent and reliability of disclosure in financial statements are very likely to differ with differences in the value orientation of managers from different countries. The mechanism by which culture based societal values are associated with accountng systems is set out in Exhibit II.

Exhibit II

Societal Values and Accounting Practice

Accounting values Societal values	Authority	Application	Measurement	Disclosure
Professiona lism	X	X		X
Uniformity	X	X	X	X
Conservatism		X	X	X
Secrecy				X

On a broader perspective, societal values are affected by Ecological influences through geographic, economic, demographic, historical, technological and urbanisation factors, which in tern are influenced by external factors such as forces of nature, trade, investment and conquest. On the other hand, both ecological factors and societal values influence a society's institutional arrangements with regard to legal system, political system, corporate ownership,

capital market, professional associations, education, religion, and so on, which impact upon accounting practices. These relationships are set out in Exhibit III.

Exhibit III

Accounting and Culture

EXTERNAL INFLUENCES
FORCES OF NATURE TRADE, INVESTMENT CONQUEST

↓

ECOLOGICAL INFLUENCES
GEOGRAPHIC, ECONOMIC DEMOGRAPHIC, HYGINIC, HISTORICAL TECHNOLOGICAL, URBANIZATION

↓

INSTITUTIONAL CONSEQUENCES
LEGAL SYSTEM, POLITICAL SYSTEM, CORPORATE OWNERSHIP, CAPITAL MARKETS, PROFESSIONAL ASSOCIATIONS, EDUCATION, RELIGION

SOCIETAL VALUES	ACCOUNTING VALUES	ACCOUNTING SYSTEMS
MANAGERIAL WORK RELATED VALUES	PROFESSIONALISM UNIFORMITY	AUTHORITY APPLICATION
INDIVIDUALISM POWER DISTANCE UNCERTAINTY— AVOIDANCE MASCULINITY	CONSERVATISM SECRECY	MEASUREMENT DISCLOSURE

R E I N F O R C E M E N T

The foregoing analysis suggests some associations between societal values and accounting values (hence accounting systems). Understandably the associations are complex. Exhibits I, II and III indicate general relationships, based on observation of Hofstede's findings and analysis of activities of accountants etc., One could articulate some specific hypotheses on the basis of these relationships. The Exhibits incorporate four variables concerning culture-based societal values :

— Individualism v. Collectivism
— Large v. Small Power Distance
— Strong v. Weak Uncertainty Avoidance
— Masculinity v. Femininity

and four values of an accounting sub-culture :

— Professionalism
— Uniformity
— Conservatism
— Secrecy

Focussing on the relationships between societal values and accounting sub-culture (and disregarding for the moment the link between accounting sub-culture and accounting systems), Exhibit I could be restated as a series of specific hypotheses about those relationships, e.g.

(1) The greater the Individualism and the smaller the Uncertainty Avoidance within a society *then* the greater the Professionalism (or the smaller the Uniformity) exhibited within an accounting sub-culture.

Corollary

(2) The less the Individualism and the greater the Uncertainty Avoidance within a society *then* the less the Professionalism (or the greater the Uniformity) exhibited within an accounting sub-culture.

(3) The greater the Uncertainty Avoidance and the less the Individualism within a society *then* the greater the Conservatism exhibited within an accountng sub-culture.

Corollary

(4) The smaller the Uncertainty Avoidance and greater the individualism within a society *then* the smaller the Conservatism exhibited within an accounting system.

(5) The greater the Uncertainty Avoidance and the less the Individualism within a society *then* the greater the Secrecy exhibited within an accounting sub-culture.

Corollary

(6) The smaller the Uncertainty Avoidance and greater the Individualism within a society *then* the smaller the Secrecy exhibited with in an accounting sub-culture.

As stated earlier, the above hypotheses were developed from Hofstede's observations and classifications of circumstances in 1968–73. Hofstede was concerned with management practices, and not with accounting values and practices or associations relevant to accounting values and practices. It would be possible to replicate above analysis by remeasuring variables to see whether the relationships hypothesised from 1968–73 data still hold in 1980s.

Implications for International Accounting

In the 1950s and 1960s, the management thinking in Europe and the U.S. was dominated by the "convergent hypothesis". i.e. a way of thinking that believed that (a) management was something universal, (b) there were principles of sound management which existed regardless of national environments, and (c) if the practices of any country deviated from these principles, it was time to change those practices. However, during the 1970s, the belief in the unavoidable convergence of management practices started to be threatened by the persistent national differences in the conditions under which such practices took place. One of the important factors considered to be responsible for these differences was culture. There have been similar developments in the field of accounting. For example, the establishment of International Accountng Standards Board in 1973 for harmonising accounting standards at international level can be regarded as an example of the impact of the convergence belief upon accounting. However, this supra-national organisation is now facing new realities which tend to question its very existence due mainly to reasons similar to those mentioned above.

It is clear that there are significant cultural differences between Western capitalist countries and developing countries. These differences are most easily identifiable in the areas associated with the dimensions of Individualism/ Collectivism and Power distance. Differences may also be present in the areas of Uncertainty avoidance and Masculinity/Femininity dimensions. For example, Hofstede specifically raises the issue of the transfer of management skills to developing countries. He argues that the management development programmes exported to developing countries by Western capitalist countries often do not work because the skills transferred are culturally irrelevant or dysfunctional in the other countries context (1983b). Therefore, to the extent that accounting skills are culturally specific, these differences are certain to create gaps in virtually any transfer of accounting skills which include standards and practices, from a Western capitalist to a developing country.

Due to particularistic orientation of managers in developing countries, they will have little regard for adequacy or accuracy of the pubished information and they will not recognize the information needs of society or government for making economic decisions, this will result in relatively low reliability of information disclosed in financial statements. Therefore, as Jaggi suggests, active role of governments in developing accounting principles and providing legal authority is likely to result in a higher reliability of published financial information, which may be essential for creating public confidence and trust in companies, and for creating an atmosphere where industrialisation can progress in these countries.

Most developing countries can be categorized as strong uncertainty avoidance societies, since the future remains essentially unpredictable and there is high degree of anxiety among people. In such a society, there is an emotional need for legal protection and government interference to safeguard public interest. In addition, being large Power Distance societies, there is high degree of centralization of authority in developing countries, and there tends to be a psychological need for dependence of the people without power. These factors would seem to indicate favourable conditions for legal and government control in accounting.

Finally, developing countries demonstrate a strong preference for maintenance of uniform practices between companies and consistency of practices over time (Appendix III). This in fact is supported by many cultural factors. First, since developing countries in general are at the bottom end of the Individualism scale, they are not likely to resist uniformity on the grounds of individualist values such as preference for flexibility in action. Second, to the extent that they are strong uncertainty avoidance societies, there is an emotional need for formalization to guide behaviour. There is also a tendency to regard deviant ideas as a threat and not to tolerate them. Third, since all developing countries are large Power Distance societies, there is significant emphasis on maintaining order, which is also a factor in favour of uniformity.

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APPENDIX I

CLASSIFICATION OF NATIONAL ACCOUNTING SYSTEMS

1. Mueller (1967)

I Microeconomic	II Independent discipline	III Macroeconomic	IV Uniform
Netherlands	U.K. U.S.A.	Germany Sweden	France

2. AAA/Buckley (1974)

I	II	III	IV
British	Franco-Spanish Portugese	Germanic Dutch	U.S.

3. Seidler/Previts (1975)

I British Model	II American Model	III Continental Europe

Canada
Australia
New Zealand
South Africa
Nigeria
West Indies
Thailand
Some South
  American
  Countries
	Japan
	Mexico
	West Germany
		Southern Europe

4. Da Costa et al (1978)

I U.K. and former colonies	II others
U.K.	U.S.A. France West Germany South American Countries

5. NAIR and FRANK (1980) (Disclosure)

I	II	III	IV
Belgium	Australia	Bahamas	Bermuda
Bolivia	Ethiopia	Germany	Canada
Brazil	Fiji	Japan	Eire
Chile	Keyna	Mexico	Jamaica
Colombia	Malaysia	Panama	Netherlands
France	New Zealand	Philipines	Rhodesia
Greece	Nigeria	U.S.A.	U.K.
Paraguay	Singapore	Venezula	
Spain	South Africa		
Uruguay	Trinidad		
Zaire	Tobago		

V	VI	VII
Argentina	Denmark	Italy
India	Norway	Sweden
Iran		
Pakistan		
Peru		

6. NAIR AND FRANK (1980) (Measurement)

I	II	III	IV
Australia	Argentina	Belgium	Bermuda
Bahamas	Bolivia	Denmark	Canada
Fiji	Brazil	France	Japan
Iran	Colombia	Germany	Mexico
Jamaica	Ethiopia	Norway	Philipines
Malaysia	Greece	Sweden	U.S.A.
Netherlands	India	Switzerland	Venezuela
Nigeria	Italy	Zaire	Chile
Rhodesia	Pakistan		
Singapore	Paraguay		
South Africa	Peru		
Trinidad	Uruguay		
Tobago			
U.K.			

7. NOBES (1984)

I	II
Micro based	Macro-Uniform

Business Economics	Business Practice	Continental	Government Economics
	U.K. Influence / U.S.A. Influence	Tax Based / Law Based	
Netherlands	Australia U.K. Ireland New Zealand / Canada U.S.A.	Belgium France Spain Italy / Germany Japan	Sweden

COUNTRY DIFFERENCES IN CULTURE BASED SOCIETAL VALUES

(i) Individualism

	INDIVIDUALISM		POWER DISTANCE		UNCERTAINTY AVOIDANCE		MASCULINITY	
	Rank	Index	Rank	Index	Rank	Index	Rank	Index
1. U.S.A.	1	91	22	40	20	46	9	62
2. Australia	2	90	25	36	17	51	9	61
3. U.K.	3	89	26	35	24	35	4	66
4. Netherlands	4	80	24	38	16	53	26	14
5. Canada	5	80	23	39	18	48	13	52
6. Belgium	6	75	11	65	2	94	12	54
7. France	7	71	9	68	5	86	20	43
8. Sweden	8	71	27	31	25	29	27	5
9. India	9	48	6	77	22	40	10	56
10. Japan	10	46	19	54	3	92	1	95
11. Argentina	11	46	20	49	6	86	10	56
12. Jamaica	12	39	21	45	26	13	3	68
13. Brazil	13	38	8	69	10	76	16	49
14. Uruguay	14	36	15	61	1	100	23	38
15. Philippines	15	32	2	94	21	44	5	64
16. Malaysia	16	26	1	104	23	36	14	50
17. Chile	17	23	14	63	7	86	25	28
18. Singapore	18	20	7	74	27	8	17	48
19. Thailand	19	20	12	64	15	64	24	34
20. Korea	20	18	16	60	8	85	22	39
21. Taiwan	21	17	17	58	13	69	19	45
22. Peru	22	16	13	64	4	87	21	42
23. Indonesia	23	14	4	78	18	48	18	46
24. Pakistan	24	14	18	55	12	70	14	50
25. Colombia	25	13	10	67	9	80	6	64
26. Venezuela	26	12	3	81	11	76	2	73
27. Equador	27	8	5	74	14	67	7	63

(ii) Power Distance

	INDIVIDUALISM		POWER DISTANCE		UNCERTAINTY AVOIDANCE		MASCULINITY	
	Rank	Index	Rank	Index	Rank	Index	Rank	Index
1. Malaysia	16	26	1	104	23	36	14	50
2. Philippines	15	32	2	94	21	44	5	64
3. Venezulea	26	12	3	81	10	76	2	73
4. Equador	27	8	4	78	14	67	7	63
5. Indonesia	14	23	5	78	19	48	18	46
6. India	9	48	6	77	22	40	10	56
7. Singapore	18	20	7	74	27	8	17	48
8. Brazil	13	38	8	69	11	76	16	49
9. Erance	7	72	9	68	5	86	20	43
10. Colombia	25	13	10	67	9	80	6	64
11. Belgium	6	75	11	65	2	94	12	54
12. Peru	22	16	12	64	4	87	21	42
13. Thaliand	19	20	13	64	15	64	24	34
14. Chile	17	23	14	63	6	86	25	28
15. Uruguay	14	36	15	61	1	100	23	38
16. Korea	20	18	16	60	8	85	22	39
17. Thaiwan	21	17	17	58	13	69	19	45
18. Pakistan	23	14	18	55	12	70	15	50
19. Japan	10	46	19	54	3	92	1	95
20. Argentain	11	46	20	49	6	86	11	56
21. Jamaica	12	39	21	45	26	13	3	68
22. U.S.A.	1	91	22	40	20	46	9	63
23. Canada	4	80	23	39	18	48	13	52
24. Netherlands	5	80	24	38	16	53	26	14
25. Australia	2	90	25	36	17	51	9	61
26. U.K.	3	89	26	35	24	35	4	66
27. Sweden	8	71	27	31	25	29	27	5

(iii) Uncertainty Avoidance

	INDIVIDUALISM		POWER DISTANCE		UNCERTAINTY AVOIDANCE		MASCULINITY	
	Rank	Index	Rank	Index	Rank	Index	Rank	Index
1. Uruguay	14	36	15	61	1	100	23	38
2. Belgium	6	75	11	65	2	94	12	54
3. Japan	10	46	19	54	3	92	1	95
4. Peru	22	16	12	64	4	87	21	42
5. France	7	71	9	68	5	86	20	48
6. Argentina	10	46	20	49	6	86	10	56
7. Chile	17	23	14	63	7	86	25	28
8. Korea	20	18	16	60	8	85	22	39
9. Colombia	25	13	10	67	9	80	5	64
10. Brazil	13	38	8	69	10	76	16	49
11. Venezuela	26	12	3	81	11	76	2	73
12. Pakistan	23	14	18	55	12	70	14	50
13. Taiwan	21	17	17	58	13	69	19	45
14. Equador	27	8	4	78	14	67	7	63
15. Thailand	18	20	13	64	15	64	24	34
16. Netheiland	4	80	24	38	16	53	26	14
17. Australia	2	90	25	36	17	51	9	61
18. Canada	5	80	23	39	18	48	13	52
19. Indonesia	23	14	5	78	19	48	18	46
20. U.S.A.	1	91	22	40	20	46	8	62
21. Philippines	15	32	2	94	21	44	6	64
22. India	9	48	6	77	22	40	11	56
23. Malaysia	16	26	1	104	23	36	15	50
24. U.K.	3	89	26	35	24	35	4	66
25. Sweden	8	71	27	31	25	29	27	5
26. Jamaica	12	39	21	45	26	13	3	68
27. Singapore	18	20	7	74	27	8	17	48

(iv) Masculinity

	INDIVIDUA-LISM		PLOWER DISTANCE		UNCERTA-INTY AVOIDANCE		MASCULI-NITY	
	Rank	Index	Rank	Index	Rank	Index	Rank	Index
1. Japan	10	46	19	54	3	92	1	95
2. Venezuela ..	26	12	3	81	10	76	2	73
3. Jamaica ..	12	39	21	45	26	13	3	68
4. U.K.	3	89	26	35	24	35	4	66
5. Philippines ..	15	32	2	94	21	44	5	64
6. Colombia ..	25	13	10	67	9	80	6	64
7. Equador ..	27	8	4	87	14	67	7	63
8. U.S.A. ..	1	91	22	40	20	46	8	62
9. Australia ..	2	90	25	36	17	51	9	61
10. India	9	48	6	77	22	40	10	56
11. Argentina ..	11	46	20	49	5	86	11	56
12. Belgium ..	6	75	11	65	2	94	12	54
13. Canada ..	4	80	23	39	18	48	13	52
14. Malaysia ..	16	26	1	104	23	36	14	50
15. Pakistan ..	23	14	18	55	12	70	15	50
16. Brazil	13	38	8	69	11	76	16	49
17. Singapore ..	18	20	7	74	27	8	17	48
18. Indonesia ..	24	14	5	78	19	48	18	46
19. Taiwan.. ..	21	17	17	58	13	69	19	45
20. France ..	7	71	9	68	6	86	20	43
21. Peru	22	16	12	64	4	87	21	42
22. Korea	20	18	16	60	8	85	22	39
23. Uruguay ..	14	36	15	61	1	100	23	38
24. Thailand ..	19	20	13	64	15	64	24	34
25. Chile	17	23	14	63	7	86	25	28
26. Netherlands ..	5	80	24	38	16	53	26	14
27. Sweden ..	8	71	27	31	25	29	27	5

APPENDIX III

CLASSIFICATION OF ACCOUNTING SYSTEMS ON THE BASIS OF ACCOUNTING VALUES (GRAY 1985)

(a) Professionalism Groupings

I HIGH	II MEDIUM	III LOW
AUSTRALIA CANADA NEW ZEALAND U.K. U.S.A. — NETHERLANDS	AUSTRIA ISRAEL — GERMANY SWITZERLAND — DENMARK FINLAND NORWAY SWEDEN — IRELAND	JAPAN — AGRENTINA BRAZIL — COLOMBIA MEXICO VENEZUELA — IRAN PAKISTAN TAIWAN THAILAND — CHILE PERU PORTUGAL — GREECE — INDIA PHILIPPINES — HONG KONG SINGAPORE

BELGIUM
FRANCE
ITALY
SPAIN
SOUTH AFRICA

(*b*) **Conservatism Groupings**

I STRONG	**II** MEDIUM TO STRONG	**III** WEAK TO MEDIUM	**IV** WEAK

BELGIUM
FRANCE
—
ARGENTINA
BRAZIL
ITALY
SPAIN
—
COLOMBIA
MEXICO
VENEZUELA
—
CHILE
PERU
PORTUGAL
—
GREECE

GERMANY
SWITZERLAND
—
AUSTRIA
ISRAEL
—
FINLAND

INDIA
PHILIPPINES
—
HONG KONG
SINGAPORE

NETHERLANDS
NORWAY
—
AUSTRALIA
CANADA
NEW ZELAND
SOUTH AFRICA
U.S.A.

DENMARK
SWEDEN
—
IRELAND
U.K.

JAPAN

IRAN
PAKISTAN
TAIWAN
THAILAND

(c) **Uniformity Groupings**

I	II	III	IV
STRONG	MEDIUM TO STRONG	WEAK TO MEDIUM	WEAK

I	II	III	IV
BELGIUM FRANCE — ARGENTINA BRAZIL ITALY SPAIN — COLOMBIA MEXICO VENEZUELA — CHILE PERU PORTUGAL — GREECE	GERMANY SWITZERLAND — AUSTRIA ISRAEL — FINLAND	INDIA PHILIPPINES — HONG KONG SINGAPORE	NETHERLANDS NORWAY — AUSTRALIA CANADA NEW ZEALAND SOUTH AFRICA U. S. A.

DENMARK
SWEDEN
—
IRELAND
U. K.

JAPAN

IRAN
PAKISTAN
TAIWAN
THAILAND

(*d*) **Secrecy Groupings**

I HIGH	II MEDIUM TO HIGH	III LOW TO MEDIUM	IV LOW
GREECE	CHILE PORTUGAL — YUGOSLAVIA	DENMARK FINLAND NETHERLANDS NORWAY SWEDEN	USTRALIA CANADA IRELAND NEWZEALAND SOUTH AFRICA U.K. U.S.A. — INDIA PHILIPPINES
AGRENTINA — BELGIUM ITALY COLOMBIA MEXICO VENEZUELA — ITALY	FRANCE — BRAZIL SPAIN — PERU TURKEY — ISRAEL		
JAPAN			HONG KONG SINGAPORE
AUSTRIA GERMANY SWITZERLAND	IRAN — PAKISTAN TAIWAN THAILAND		