



A critique of Gray's framework on accounting values using Germany as a case study

Eva Heidhues*, Chris Patel

Department of Accounting and Finance, Faculty of Business and Economics, Macquarie University, NSW 2109, Australia

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ABSTRACT

In the move towards globalisation and convergence, the influence of culture on accounting has been increasingly recognised as an important and controversial topic. However, quantified and narrowly focused approaches such as Gray's (1988) and various extensions of Gray's framework of accounting values have largely dominated and strongly influenced cross-cultural accounting research and education without a critical evaluation of their theoretical and methodological limitations. Indeed, a significant number of studies, curricula and textbooks in international accounting have uncritically adopted Gray's exploratory framework. As such, the objective of this paper is to show the limitations of Gray's proposed hypotheses and the issues associated with the framework's largely uncritical adoption in international accounting literature. We provide evidence that Gray's framework gained authority and prominence in international accounting research largely because of subsequent researchers' unquestioning acceptance and application of this methodology. Importantly, we propose that international accounting research may be further enhanced by taking into account contextual factors such as political, legal, social and historical environments of countries. Using Germany as a case study, we apply this more holistic approach to provide additional insights into the factors differentiating German accounting from other accounting models. We recommend that accounting research will be enhanced by a critical examination of contextual environments of countries rather than a focus on measurement, quantification, simplification and categorisation.

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1. Introduction

International harmonisation of accounting standards and the move towards convergence have revived an increasing interest in the influence of culture in accounting and auditing. The growing number of countries adopting International Financial Reporting Standards (IFRS) and the increasing acceptance of International Standards on Auditing (ISA) have further raised researchers' attention. For example, more than one hundred countries require or permit the use of IFRS with more countries such as Canada, India and Korea planning to adopt IFRS by 2011 (Deloitte Touche Tohmatsu, 2007; IASB, 2007). This move towards convergence is driven largely on assumptions and assertions based on enhancing international comparability of accounting and auditing information.

* Corresponding author. Fax: +61 0 2 9850 8497.

E-mail addresses: eva.heidhues@efs.mq.edu.au (E. Heidhues), cpatel@efs.mq.edu.au (C. Patel).

However, it is important to note that IFRS and IAS strongly rely on the ‘substance-over-form’ approach with a strong reliance on professional judgments. Importantly, there is ample evidence that professional judgments are influenced by accountants’ and auditors’ cultural values. Indeed, a growing number of studies have analysed the influence of culture on standard setting (Bloom and Naciri, 1989; Ding et al., 2005; Schultz and Lopez, 2001), auditor independence (Agacer and Douppnik, 1991; Hwang et al., 2008; Patel and Psaros, 2000) and accountants’ values and judgments (Douppnik and Riccio, 2006; Douppnik and Richter, 2003, 2004; Patel, 2003). Although culture has long been recognised as an important and controversial topic in accounting, a large number of cross-cultural accounting studies have failed to capture the complexity and richness of cultural influences (Belkaoui and Picur, 1991; Lindsay, 1992; Patel, 2004; Welton and Davis, 1990). Moreover, quantified and narrowly focused dimensional approaches such as Hofstede’s (1980) and Hofstede and Bond’s (1988) cultural dimensions, Gray’s (1988) framework of accounting values and the various modifications of Gray’s (1988) framework have largely dominated cross-cultural accounting research. Indeed, a significant number of studies such as Williams and Tower (1998), Schultz and Lopez (2001) and Hope et al. (2008) have tested and applied Gray’s exploratory (1988) framework without critically evaluating its relevance and soundness. Additionally, curricula and textbooks in international accounting such as Mathews and Perera (1991, 1993, 1996), Roberts et al. (2002, 2005) and Douppnik and Perera (2009) have also relied heavily on Gray’s (1988) framework often without further questioning its assumptions. In the remainder of the paper Gray’s (1988) framework of accounting values and the various modifications and extensions of Gray’s (1988) framework will be referred to as ‘Gray’s framework’.

Based on Hofstede’s (1980) four cultural dimensions, Gray (1988) developed an exploratory framework incorporating four accounting values of professionalism, uniformity, conservatism and secrecy and proposed that these values “may be used to explain and predict international differences in accounting systems and patterns of accounting development internationally” (Gray, 1988, p. 5). Specifically, Gray (1988) hypothesises that Hofstede’s (1980) cultural dimensions of power distance, individualism, uncertainty avoidance and masculinity determine accounting values, which explain differences in accounting systems internationally. Gray’s (1988) deterministic and componential framework resulted in the formulation of simplistic and narrowly defined hypotheses such as, “the higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism and masculinity the more likely it is to rank highly in terms of secrecy” (Gray, 1988, p. 11).

Since Hofstede (1980), Hofstede and Bond (1988) and Gray’s frameworks have significant influence on accounting research and accounting education, it is important and timely that researchers critically evaluate such deterministic and narrowly focused frameworks. As such, the objective of this paper is to show the limitations of Gray’s proposed hypotheses and the issues associated with the framework’s largely uncritical adoption in international accounting literature. Indeed, we provide evidence to show that Gray’s framework gained authority and prominence in international accounting research largely because of subsequent researchers’ unquestioning acceptance and application of Gray’s methodology. In contrast to this ‘oversimplification’ we propose that international accounting research can be further enhanced by emphasizing the importance of contextual factors such as political, legal, social and historical environments of countries. Using Germany as a case study, we apply this more holistic approach to provide additional insights into the factors differentiating German accounting and particularly German financial disclosure from other accounting models and practices. Of the four accounting values specified in Gray’s framework, the secrecy hypothesis has been formulated in a significant number of studies (Douppnik and Tsakumis, 2004; Gray and Vint, 1995; Hope, 2003; Hope et al., 2008; Jaggi and Low, 2000; Wingate, 1997; Zarzeski, 1996). Moreover, Gray’s secrecy and conservatism hypotheses are considered to be the most important accounting values because of their potential to influence recognition, measurement and disclosure of financial items (Douppnik and Riccio, 2006; Douppnik and Tsakumis, 2004).

Although Gray’s framework claims to include “ecological influences” and “institutional consequences”, these linkages are not clearly explained and are largely neglected in the development of his narrowly focused two-dimensional accounting values (Gray, 1988, p. 7). Indeed, the importance of political, legal, historical, social and economic factors and their interdependencies in evaluating national accounting models is not evident in the hypothesis development that specifically focuses on Hofstede’s (1980) four societal values. It is our objective to show that valuable insights and greater understanding of national accounting systems can be achieved by using holistic and richer perspectives to provide deeper insights into culture, accounting values and its interdependencies. Using Germany as a case study, this paper critically examines the influence of political, legal, historical, social and economic factors on Germany’s accounting system and provides explanations to why German accounting may be perceived to be more ‘secretive’ relative to accounting in other countries. Specifically, we demonstrate that the largely oversimplified application of Gray’s framework may have led to misconceptions in the explanation and prediction of differences and similarities between accounting values and systems internationally. We argue that international accounting research should not be blinded by the simplicity of Hofstede’s (1980) and Gray’s framework, but should further focus on capturing the complexity of cultural and contextual influences on accounting by including more holistic perspectives.

The remainder of this paper is organised as follows. The first section introduces Gray’s framework of accounting values and evaluates its uncritical adoption and application by subsequent researchers. The second section focuses on examining financial disclosure in the German accounting model. In light of this German case study, the final section concludes the paper by highlighting various reasons for the popularity of Gray’s framework in mainstream international accounting research and recommends that international accounting research will be enhanced by taking into account historical, social, economic and legal factors in a country rather than a narrow focus on measurement, quantification, simplification and categorisation.

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