The effects of ethnic culture and organizational culture on judgments of accountants

Parmod Chand

Department of Accounting and Corporate Governance, Macquarie University, North Ryde, NSW 2109, Australia

A R T I C L E   I N F O

Keywords: Ethnic culture Organizational culture Uncertainty expressions Accounting judgments

A B S T R A C T

This study extends prior cross-cultural research by examining the effects of ethnic culture and organizational culture (Big 4 and non-Big 4 accounting firm affiliations) on the judgments of accountants in Fiji. The study also examines how interaction between ethnic culture and organizational culture influences the judgments of accountants. It examines the extent and the cause of differences between the judgments of Ethnic Fijian and Indo-Fijian accountants when interpreting and applying selected International Financial Reporting Standards (IFRSs). Consistent with their ethnic cultural values, the results show that Indo-Fijian accountants are generally more conservative in their judgments than their Ethnic Fijian counterparts. This study provides empirical evidence to support the view that both ethnic culture and organizational culture have a significant effect on the manner in which accountants within a country interpret uncertainty expressions contained in the IFRSs. The results also show that organizational culture has a greater effect on the judgments of accountants than ethnic culture. The results of this study provide important insights into the factors affecting the judgments of accountants within a country and raise interesting theoretical issues.

© 2012 Elsevier Ltd. All rights reserved.

1. Introduction

The primary goal of international accounting convergence is to enhance the comparability of financial statements across countries. The adoption of International Financial Reporting Standards (IFRSs) is seen as a means to achieve this objective (Doupnik & Riccio, 2006: 238). Collaboration by the International Accounting Standards Board (IASB) and the US’s Financial Accounting Standards Board (FASB) on further development of IFRSs and the US accounting standards has effectively abated the last major obstacle to the convergence of financial reporting. There is no doubt that adopting IFRSs is a necessary step towards comparable financial reporting. However, this adoption needs to be accompanied by the active involvement of all the stakeholders to enforce these standards. If countries do not drastically alter their enforcement mechanisms and other political, legal and economic institutions that affect reporting incentives (Ball, Robin, & Wu, 2003: 260), comparable financial reporting may not result. Furthermore, adoption of the IFRSs in a similar manner across nations does not ensure consistent understanding and application of these standards (Bagranoff, Houghton, & Hronsky, 1994: 35). This study questions the implicit assumption that accounting convergence will automatically lead to comparability in financial reporting (Doupnik & Riccio, 2006; Doupnik & Richter, 2004; Rahman, Perera, & Ganesh, 2002; Schultz & Lopez, 2001; Tsakumis, 2007).

With several countries striving for accounting convergence, this study examines whether culture impacts on the interpretation and application of IFRSs. Many prior studies have considered the influence of national culture on the development of accounting and financial reporting practices, and on the judgments of accountants in applying principles-based standards (e.g. Bagranoff et al., 1994; Doupnik & Richter, 2003; Doupnik & Salter, 1995; Gray, 1988; Holmes & Marsden, 1996; Hronsky & Houghton, 2001; Nobes, 1998; Schultz & Lopez, 2001; Soeters & Schreuder, 1988; Zarrzski, 1996). Most of the studies assessing the impact of culture on shaping appropriate accounting practices and judgments have implicitly assumed that national and cultural identities are synonymous (see Baskerville, 2003). It is essential to consider the different cultures within nations, as cultures do not equate with nations.1 Given that most contemporary societies are multicultural in nature, ethnic culture has to be addressed as an important dimension in international accounting research, especially for researchers working with culture as a variable. The current study empirically investigates the influence of culture on the judgments of accountants from two different ethnic groups in Fiji (Ethnic Fijians and Indo-Fijians) while interpreting and applying certain Fijian equivalents of IFRSs. The existence of two dominant and distinct cultures (Fijians and Indo-Fijians) in Fiji provides a valuable research opportunity for this study. Hofstede’s (1994) Values Survey Module (VSM) questionnaire was administered to subjects to verify the cultural differences between the two groups of accountants.

1 For example, there are 98 different cultures that have been identified in 48 countries in Africa, 81 cultures in 32 countries in Western Europe, and in North America, 147 Native American cultures and 9 North American folk cultures are detailed (Baskerville, 2003: 6).

© 2012 Elsevier Ltd. All rights reserved.
This study uses questionnaire surveys to empirically test the extent and the cause of differences between the judgments of Ethnic Fijian and Indo-Fijian accountants when interpreting and applying certain IFRSs which contain uncertainty expressions. First, this study investigates the influence of ethnic culture on professional accountants’ application of accounting rules within Fiji, in the context of Gray’s (1988) accounting value of conservatism. It is expected that the interpretation of uncertainty expressions contained in the IFRSs might be affected by the degree of conservatism shared by Ethnic Fijian and Indo-Fijian accountants. Second, the study examines the influence of organizational culture on the judgments of accountants in Fiji. It is expected that the accountants in the Big 4 firms may interpret and apply accounting standards that require the exercise of professional judgments differently from those in the non-Big 4 firms. Third, this study also examines the interaction between ethnic culture and organizational culture in influencing the judgments of accountants. It is expected that the similarities in the organizational culture, particularly of the Big 4 firms, will moderate the effects of the ethnic culture of its accountants. Fourth, the influence of other variables including professional accountants’ gender, age, level of formal education, years of work experience, level of familiarity with the Fijian equivalents of the IFRSs and the perceived level of complexity associated with the practical scenarios used in this study are also examined.

Cross-cultural accounting researchers (such as Baskerville, 2003; Chow, Harrison, McKinnon, & Wu, 2002; Harrison & McKinnon, 1999) have stressed the need to go beyond the aggregate cross-national level of analysis and explore cultural differences at organizational levels and within-national level. In response to this call, the findings of this study provide insights on the impact of both ethnic culture and organizational culture on the judgments of accountants within a country. Countries adopting the IFRSs should consider whether the IFRSs that have been adopted are applied in a consistent manner within their respective jurisdictions. The empirical results of this study will also provide evidence to assist in understanding the cultural and non-cultural factors that cause differences in the judgments of accountants when interpreting and applying a set of accounting standards within a country. An understanding of these factors should facilitate the move towards the convergence of accounting practices, thereby improving the quality and comparability of international accounting information, systems and procedures. The ultimate aim of convergence is to ensure that the financial reports of companies in different countries are comparable, but if IFRSs are not applied in a consistent manner, then comparable financial reports will not result even if countries have adopted the IFRSs.

2. Background

This study examines the judgment of accountants in Fiji with respect to the interpretation and application of uncertainty expressions contained in IFRSs. IFRSs contain uncertainty expressions to establish the criteria for the recognition, measurement or disclosure of items, and accountants are required to attach meaning to those expressions (Doupnik & Richter, 2003: 15). A number of studies have provided evidence that accountants do not interpret and apply these uncertainty expressions in a similar manner (Belkouai, 1980; Chesley, 1986; Davidson & Chrisman, 1994; Flamholtz & Cook, 1978; Haried, 1972, 1973; Houghton, 1988; Hronsky & Houghton, 2001; Oliver, 1974). This finding implies that the financial disclosure of similar uncertain economic events could vary simply because of differences in the interpretation of uncertainty expressions used in the accounting standards (Chesley, 1986; Davidson & Chrisman, 1994: 188). A few cross-cultural studies have also shown that national culture can affect the numerical probability that accountants assign to uncertainty expressions used in IFRSs (Doupnik & Riccio, 2006; Doupnik & Richter, 2003, 2004). Similarly, differences in the interpretation of uncertainty expressions might lead to differences in the application of the recognition criteria in which those terms are used, resulting in different recognition decisions being made across countries (Doupnik & Richter, 2004: 16).

So far, only two cross-cultural studies (Doupnik & Riccio, 2006; Doupnik & Richter, 2004) have assessed the interpretation of ‘in context’ uncertainty expressions by providing accountants with the relevant excerpts from the accounting standards containing the uncertainty expression. In addition, Tsakumis (2007) is the only study published so far that has used ‘practical’ scenarios wherein accountants had to interpret these uncertainty expressions and make a judgment on how a particular issue should be accounted for in an entity’s financial report.

Simon (2002) argued that without a real-world context, the assessment of uncertainty expression is inevitably an artificial task because in practice events are always embedded in a context. Although simulated scenarios cannot easily be generalized to other contextual situations, they attempt to place the task in a ‘near neutral’ context, so making the results more meaningful (Simon, 2002: 604). Therefore, as Doupnik and Riccio (2006: 256) pointed out, financial reporting decisions based on uncertainty expressions are a function of (1) interpretation of the uncertainty expression threshold and (2) analysis of facts and circumstances to determine whether the probability threshold has been achieved while deciding the relevant financial disclosure. They further argued that both these factors could lead to different financial reporting decisions being made with similar facts and in similar circumstances, which may eventually reduce the cross-national comparability of financial reporting. Consequently, the current study investigates whether the accounting value of conservatism systematically influences the manner in which accountants interpret uncertainty expressions and make a judgment on how a particular issue should be recognized in an entity’s financial report.

3. Theory and hypotheses formulation

3.1. Influence of culture on judgments of accountants

In the accounting literature, the importance of culture – defined by Hofstede (1980: 25) as “the collective programming of the mind which distinguishes the members of one group or society from those of another” – has been widely recognized (see Doupnik & Tsakumis, 2004; Harrison & McKinnon, 1999 for a review of these studies). While examining the influence of culture on various accounting issues including management control systems design, standard setting practices and professional culture in accounting firms, most cross-cultural research to date have almost exclusively relied on the cultural values of Hofstede (1980) and Hofstede and Bond (1988) (Harrison & McKinnon, 1999: 502). Hofstede (1980) and Hofstede and Bond (1988) identified five societal values that can be used to describe a country’s national culture: Uncertainty Avoidance, Individualism, Power Distance, Masculinity and Confucian Dynamism, later referred to as Long-term Orientation.

Using Hofstede’s (1980) cultural framework, Gray (1988) identified four accounting values that can be used to describe a country’s accounting subculture: conservatism, secrecy, professionalism and uniformity. Gray argued that these accounting values influence the development of countries’ financial reporting practices. Although Gray’s cultural accounting framework can be used to show the effect of culture on a country’s set of financial reporting rules, a number of studies including Schultz and Lopez (2001), Doupnik and Richter (2004) and Tsakumis (2007) have shown that it is equally applicable to the manner in which a country’s accountants interpret and apply those rules. The premise of the current study is that conservatism (a
دریافت فوری
متن کامل مقاله

امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات