

An Investigation into the Influence of Cultural Factors in the International Lobbying of the International Accounting Standards Committee: The Case of E32, *Comparability of Financial Statements*

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Abstract: *This article investigates the influence of cultural factors on the corporate comment letters sent concerning the International Accounting Standards Committee's exposure draft 32, Comparability of Financial Statements, to test Gray's hypothesized linkages between accounting values and the cultural values identified by Hofstede. For cultural values, content analyses results were consistent with the power distance and individualism hypotheses but only partly supported the femininity-masculinity and uncertainty avoidance hypotheses. For accounting subcultural values, strong support was found for the Anglo and Nordic companies' hypothesis but only weak support was evident for the Germanic and More developed Latin companies' hypothesis.*

This article investigates the influence of cultural factors on the comments submitted by companies on exposure draft 32 (E32), *Comparability of Financial Statements*, issued by the International Accounting Standards Committee (IASC). The verification or otherwise of the influence of cultural factors in determining accounting preferences is important to international standard setting bodies such as the IASC. It is necessary for the IASC to prioritize the important factors in their continuing harmonization efforts. The IASC can easily replicate the research reported in this article in respect of other international accounting exposure drafts, as they are the repository for all related comment letters.

The proposals in E32 covered 12 major International Accounting Standards (IASs) and therefore should have been perceived by internationally concerned companies to have a far-reaching impact. The topics covered by E32 are: inventory valuation and presentation; unusual and prior period items and changes in accounting policies; research

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and development activities; construction contracts; property, plant and equipment; leases; revenue recognition; retirement benefits in employers' financial statements; changes in foreign exchange rates; business combinations; capitalization of borrowing costs; and investments. This comprehensive exposure draft provides a unique opportunity to investigate the presence of cultural influences undergirding comments from companies in different nations, on many different accounting issues.

BACKGROUND

This article reports an empirical test of Gray (1988) who hypothesized linkages between accounting values and the societal values identified by Hofstede (1980, 1983). These cultural linkages were succinctly captured in further developments of Gray's work by Perera (1989, p. 47) and Perera and Mathews (1990, p. 229) in a table that is reproduced as Table 1. The content of the E32 corporate comment letters are analyzed to test hypotheses for both the cultural values identified by Hofstede and the accounting subcultural values proposed by Gray. This study uses actual data and complements questionnaire studies and conceptual analyses that explore cultural questions. Culture is not an easy phenomenon to directly measure as "it is largely invisible and unconscious" (Hofstede, 1987, p. 1). The difficulty is exacerbated by the existence of different levels or layers of culture within and across societies, such as national culture, professional culture (Fecher and Kilgore, 1994), and organizational culture. Hofstede (1980, 1983) used data regarding the subsidiaries of one multinational company (IBM) that avoided organizational subcultural differences (Hofstede, 1987, p. 4). Also, the author controlled for occupational culture (Hofstede, 1980, p. 73). However, Hofstede (1980, p. 26) stated: "Most subcultures within a society still share common traits with other subcultures, which makes them recognizable to foreigners as belonging to that society." Therefore, the general cultural characteristics of a society should still be discernible to investigators despite the presence of many different subcultures in that society. In addition to the studies already mentioned, several approaches have been used to evaluate the impact on accounting matters of national culture and of various subcultures in society.

At the national culture level, Riah-Belkaoui and Picur (1991) used a questionnaire approach to investigate the effect of culture on the perception of 12 accounting concepts by managers/partners of a Big Six accounting firm. Their research design controlled for organizational culture, occupational culture, managerial culture, and linguistic relativism. The findings supported the hypothesis of significant influence of national culture in the perception of accounting concepts in two of three perceptual dimensions. Cohen, Pant and Sharp (1993) investigated the potential impact of international cultural differences on auditors' ethical perceptions of suspect client behavior, using Hofstede's (1980, 1991) model. Schreuder (1987) reported the results of research by Soeters and Schreuder (1986) that in part suggested a significant influence of U.S. culture on the organizational culture of Big Eight firms operating in Holland.

At the subculture level, Thomas (1989) developed a conceptual framework that utilized mailed questionnaires to study the impact of organizational culture on the selection of accounting methods. In five of seven cases, the results of the questionnaire survey were consistent with the expectation that the professional accounting subculture exerted a significant influence in the selection of accounting practices. In the context of

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