

On Accounting and Culture

COMPTABILITÉ ET CULTURE

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Abstract: Accounting is regarded as the global commercial language. It is of much use to the economic development in the process of globalization. There is some connection between accounting and culture. Many scholars do the research in the relevant field, including Hofstede and Gray. In this article, I analyze the relationship between accounting and culture in China on the basis of Gray's hypothesis.

Key words: culture, accounting, accounting values

Résumé: La comptabilité est considérée comme un terme commercial pur. Elle est de grande importance pour le développement économique dans le processus de globalisation. Il y a certains liens entre la comptabilité et la culture. Beaucoup de savants effectuent des recherches sur ce domaine, y compris Hofstede et Gray. Dans l'article présent, l'auteur analyse, sur la base de l'hypothèse de Gray, la relation entre la comptabilité et la culture en Chine.

Mots-Clés: culture, comptabilité, valeurs de comptabilité

1. INTRODUCTION

Since 1990s, global economy has developed very fast. In the process of globalization, different states become more and more interdependent, and the resources are supposed to be reallocated in a rational way. Globalization has brought about great changes in many fields, for example, in accounting.

Accounting is regarded as the commercial language in global economy. Changes have taken place in accounting, one of which is an internationally unified accounting standards – International Financial Reporting Standards. The aim of IFRS is to provide high quality, understandable, and enforceable global accounting standards, and they can help to provide transparent and comparable financial information. Transparent and comparable financial information on a global scale plays an important role in investment, trade, and in the management of multinational corporations. EU, Australia, New Zealand, and Singapore have adopted IFRS.

With China's accession to the WTO, business activities with and within China have been expanding at enormous speed. The government fully understands that a sound financial reporting system plays a key role in

the economic development. MOF has set itself the objectives of fostering investors' confidence in financial information, increasing transparency of financial reporting, and the convergence of accounting standards.

In February, 2006, MOF issued new accounting standards. The new standards are appropriate to China's developing socialist market economy, and aimed at the convergence of accounting standards.

A better awareness of cultural differences in accounting can provide a guide for the government when it drafts some relevant standards and regulations, can help people have a better understanding of the accounting professionals and their behavior, and provide an insight for predicting the trend of development in accounting.

2. RELEVANT PRIOR RESEARCH

Gray(1988) has put forward a hypothesis on how a national environment might reflect the cultural dimensions identified by Hofstede(1980):

1st. The higher a country ranks in terms of Individualism and the lower it ranks in terms of Uncertainty avoidance and Power distance then the

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more likely it is to rank highly in terms of Professionalism.

2nd. The higher a country ranks in terms of Uncertainty avoidance and Power distance and the lower it ranks in terms of Individualism then the more likely it is to rank highly in terms of Uniformity.

3rd. The higher a country ranks in terms of Uncertainty avoidance and the lower it ranks in terms of Individualism, the more likely it is to rank highly in terms of Conservatism.

4th. The higher a country ranks in terms of Uncertainty avoidance and Power distance and the lower it ranks in terms of Individualism and Masculinity then the more likely it is to rank highly in terms of Secrecy.

A number of studies have tested Gray's hypothesis, including one by Pourjalali and Meek(1995) which identified a match between changes in cultural dimensions and the accounting environment in Iran following the revolution.

3. ACCOUNTING ENVIRONMENT IN CHINA

3.1 The users of accounting information

There is discrepancy between the users in China and those in countries where there is developed market economy. The purpose of financial reporting is to help the investors to make informed, sound decisions. In China, the users of accounting information is mainly the government, for most of the enterprises are owned by the government, hence the government's behavior has a large impact on accounting. Besides, ordinary investors don't know much about finance and accounting. They themselves sometimes don't have the ability to tell truth from the error.

As market economy develops, investors will need more and more authentic and timely financial information.

3.2 The environment for doing business

There isn't yet totally fair competition among enterprises. Besides competition, there are other factors that help bring profits to the enterprise, e.g. the enterprises in the sectors of telecommunication and power supply. Once there is totally fair competition, every enterprise is supposed to be an independent entity.

3.3 The development of the market economy

Now China is in the process of gradual transition from planned economy to market economy, and still remains the status of a developing country. The markets of production means, finance, property right and labor force are being set up, and the market systems are being improved.

3.4 The legal factor

Countries such as China, France and Germany establish various relevant laws and regulations. Accounting practice is to be in accordance with corporation law, tax law, accounting law, etc. Compared to countries such as America, accounting professionals in China have less say.

3.5 Educational background

On a whole, accounting professionals in China are not that much properly educated. The percentage of the professionals who have got higher education is low. Their professional judgment and professional moral standards are far to the satisfaction of the public. Besides, the users of the financial information have little knowledge in this field and haven't much experience in investment. Sound financial information hasn't played a key role in their decision-making yet.

4. ACCOUNTING AND CULTURE

4.1 Chinese traditional culture

China is a country which has a long history. Its traditional culture has been influenced by Confucianism, Taoism and Buddhism. Chinese culture attaches importance to moderation and harmony. It doesn't advocate radical changes. Instead, it tells people to be in harmony with themselves, with each other, with the environment and with the society.

Chinese culture has a large impact on the policies made by the government. For example, now China is in the process of *gradual* transition from planned economy to market economy, not a radical change. Another example, MOF issued new accounting standards in February, 2006. Though the government realizes the importance of adopting IFRS in its economic development, it only talks of the convergence of accounting standards, not a totally acceptance. Still another example, now Chinese government advocates setting up a harmonious society. In the harmonious society, things will be governed by the law, there will be fairness and honesty, people will take an active part in the society, and everything is in harmony.

Chinese traditional culture has helped set up a stereotype of Chinese people. Chinese people are filial, hardworking, obedient, easygoing, modest, loyal, etc. Benevolence, morality and justice, courtesy and honesty are regarded as good virtues.

4.2 Four cultural dimensions

Hofstede(1980) from Holland identified four cultural dimensions. They are individualism, as an opposite against collectivism; power distance, uncertainty avoidance, and masculinity, as against femininity.

Based on his theory, there is an analysis of Chinese traditional culture. First, it places collectivism over individualism. Sometimes Chinese need to sacrifice himself for the good of a collective, or the country. There is a popular Chinese saying "All the nails that are sticking out will be hammered", which indicates Chinese culture doesn't encourage individualism. Second, there is a large power distance. Chinese people respect the seniors, and authority as well. Third, Chinese people feels strongly against the uncertainties. Chinese people tend not to welcome radical changes. They regard everything has its own cycle, such as the cycle of day and night, the cycle from birth to death, etc. Men should respect the rhythm of the nature. Fourth, there is much feminism in Chinese culture. Chinese culture values relationship and harmony.

4.3 Accounting values

Based on Gray's hypothesis, it can be concluded that there is low professionalism, and high regulatory control, uniformity and secrecy in accounting in China.

4.3.1 Low professionalism

There is low professionalism. According to Gray, low professionalism has something to do with low individualism, large power distance, a strong feeling against the uncertainties and feminism.

There is large power distance in China. As is mentioned before, Chinese people respect the seniors and the authority. People seek for the power. For a long time in Chinese history, the goal for the Chinese males was to study hard and be an official. Merchants and scholars were looked down upon. Another example, at the beginning of 2007, there were some posts vacant in a municipal governmental department. Many graduates applied for the positions. In some positions that involve power, the percentage of the posts to the applicants was 1:130; while in some other positions which involve little power, few applicants. Besides, in recent years, there is wider gap between the rich and the poor. In the process of the transition from the planned economy and market economy, some privileged people have taken the chance and made a lot of money. And the employees for some state-owned enterprises are better off too. Because these

enterprises benefit from their monopoly position, for example, the enterprises in the sectors of telecommunication and power supply.

Accounting professionals are not so skilled in judgment and are not perfectly self-disciplined. There are detailed regulations in accounting standards and regulations. They tell the accountants exactly what to do in different situations. However, the situations in real life are far more various than is stipulated in the accounting standards. Accountants are sometimes at a loss what to do. Besides, due to the large power distance and emphasis on relationship, accountants are sometimes in a dilemma, whether to act on the accounting standards or listen to their boss. In practice, they may overstate or understate the profits, just for the good of their small collective.

In China, it is the government that is responsible for the laws and regulations in accounting. Authority is respected. Relevant organizations and individuals don't have much say on some important issues, such as the drafting of the accounting standards.

4.3.2 Statutory control and uniformity

There is high statutory control and uniformity in accounting. As is mentioned above, the government is responsible for establishing accounting standards and regulations. Though the government consults some organizations, experts in one way or another, the opinions of the professional organizations, experts, individuals, and the investors don't play an important role.

Uniformity has something to do with uncertainty avoidance and low individualism. It has some connection with power distance as well, for people tend to accept the enforcement of regulations.

4.3.3 Secrecy

As is mentioned above, many of the enterprises are state-owned. Hence the government is mainly the user of the financial information. The information does not necessarily need to be that much transparent. The information only needs to be useful to the management of the enterprise, the governmental department that takes charge.

Secrecy has something to do with large power distance and low individualism. Sometimes fake information appears. Accountants may lie for the benefit of its collective, either boasting on the profit or understating it. In addition, in order to be promoted to a higher post, some officials may ask the accountants to make up some figures in the financial information.

4.4 Some would be changes in accounting values

4.4.1 It is probable that there will be higher professionalism. First, it is a new requirement by the

accounting standards. The 2006 accounting standards emphasize that financial information should be useful to the decision making. And the standards require that accounting professionals should have strong professional judgment, such as a good judgment of the contingencies, and a good judgment of depreciation. Second, education can help. Accounting professional is like the professionals of lawyers and doctors. These professionals all demand good education. As more and more college graduates are accounting majored, higher professionalism can appear. Third, a good moral standard can help too. Honesty is essential. An accountant should be honest enough to provide authentic financial information. Thus, the investors and the public can make sound judgment. But, some firms provide fake financial information, such as Enron in the US. The fake information leads to the bankruptcy of the company and the loss of faith in the accounting professionals. There is some fake financial information in Chinese capital market too. However, honesty is a traditional value. What the accounting professionals need to do is to restore it.

4.4.2 It has a tendency to be more transparent in financial reports. In 1992, the regulations required that the financial information should be useful to the

government. In 2000, the regulations stated that the financial information should be useful to the investors. In 2006, the new accounting standards point out that enterprises should provide authentic, reliable and fair information to the investors and the public. The standards emphasize the usefulness of the financial information to the decision-making.

As the market economy develops, people need fair competition. Investors demand transparent, authentic, and timely information so that they can make sound decisions in investment.

5. CONCLUSION

In the process of globalization, we shouldn't neglect the role of cultural element. Culture plays a role in accounting as well. A better understanding of cultural differences can help us predict the development of accounting in a country, and can help us have a better understanding of the accounting standards, accounting regulations, and the behaviors of the professionals.

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