

ACCOUNTING IN ASIA-PACIFIC REGION: HOFSTEDE-GRAY THEORY

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Abstract

The objective of this paper is to describe that culture and social-economy can affect financial accounting in Asia-Pacific region. Furthermore, descriptive explanation that will be presented such paper is by identifying whether environment affect accounting practices, or not, in the region. The explanation is based on Hofstede-Gray Theory which associates between accounting values and cultural dimension.

The Hofstede-Gray Theory has been used by a number of writers as the basis of a framework trying to understand why national accounting practices take the form they do and in some cases to try to determine normatively whether accounting techniques are appropriate to particular societies (e.g. Baydoun and Willet, 1995).

Key words: Asia Pacific, Hofstede-Gray Theory, accounting values, environment

INTRODUCTION

Some world blocks and agreements were developed with various similar purposes: defense, politic, economic, social-culture, and religion. For example, NATO, Non-Aligned Block, APEC, ASEAN, Islamic Conference Organization, respectively. Although preliminary holding one purpose, they expand to another one.

Asia Pacific Economic Cooperation (APEC) is a regional group consisting twenty one countries that have objective to develop its economic community to increase welfare in the region. APEC arranges a summit conference annually. The summit held in Hanoi, 2006 declared four economic directions, three of them concerning free trading. It means that in the future, the region will put free transaction into effect to the countries each other. No barrier among the region.

There is a considerable amount of physical, cultural, political, and economic diversity in this region. This makes it a natural choice as a field within which to reflect upon the 'environmental hypothesis' in accounting, i.e. the belief that the environment has a systematic and discernable influence on national accounting practices.

Apart from the mere fact of the diversity just mentioned, the countries dealt with the region more than a modicum interest. Hong Kong, Japan, Singapore, and Korea are four of the 'Tiger' of Asia. The People's Republic of China (PRC) is a cultural giant undergoing massive restructuring of its socialist economy. Taiwan, the fifth 'Tiger' economy and the 'other' China, is a small island state as ideologically far removed as it could be from mainland China. North Korea is a communist state, while socialist Vietnam is now a member of ASEAN and promises to be an example of a rapid economic and social change in the near future. The Philippines is a part of South-east Asia on the edge of the mainstream cultural influences of that region, and with a long history of Spanish and latterly United States colonial history. Malaysia and Indonesia are both Islamic nations and the latter is the most populous Muslim country in the world. Brunei is an oil rich Sultanate and Papua New Guinea is a traditional society adjusting to the demands of modern commerce. Macau is a Portuguese dependency, the oldest European colony in the Far East, with an income level comparable to Hong Kong and also soon to revert to China. Cambodia is a country suffering from the effects of a long civil war. Modern Australia and New

Zealand societies, both developed economies and members of the OECD, are still predominantly European in culture. Finally, Thailand is a culturally sophisticated society with a relatively advanced developing economy which has never been colonized by any European power.

Given the issue under discussion, the question should be posed as to whether one would, in fact, expect environment to affect accounting practice. There is a growing literature which argues that it is the case. Such theories are based upon observed differences in accounting practices at various levels. For example, studies have shown that the Japanese tend to be relatively 'conservative' in reporting income compared to countries like the UK, the US, and France. Certain countries tend to rely upon the government or government agencies to enforce accounting standards rather than allow standards to be set voluntarily. Some countries, such as Germany, are more rigid in the format allowed for the disclosure of financial information than others and much less information is disclosed in countries like Japan than in the US.

The objective of this paper is to describe that culture and social-economy can affect financial accounting in the Asia-Pacific region. More specifically, a descriptive explanation that will be presented in this paper is by identifying whether environment affects accounting practices, or not, in the region. The explanation is based on Hofstede-Gray Theory which associates accounting values and cultural dimensions. In such an explanation, literature, cultural effect, and conclusion are excluded.

LITERATURE

Several theories of their more immediate causes have been proposed, particularly in the international accounting literature. It has been noted that the inclination to use 'reserve accounting' to deflate profit is less likely to be discouraged in a system in which income is reported to closely-knit, powerful groups of supplier capital with access to detailed financial data (as is the case in Japan) than it would be in a system relying on widespread sources of finance from owners of capital, many of whom must rely upon the income figure being 'true and fair' (as is the case in the UK). Similarly, the trait of strong governmental interference has been variously explained in terms of weak professionalism, e.g. France (Nobes, 1990), type of political system, e.g. China (Chan, 1995), and patterns of funding enterprises (creditors versus investors), e.g. Japan (Radebaugh and Gray, 1993).

Cooke and Parker (1994) describe and classify financial reporting practices in some of the West Asia Pacific Rim countries with a drawing relationship fairly direct based upon the perceived effects of quite narrow economic factors. In some recent literatures, however, there has been an inclination to look beyond the more immediate economic explanation of differences in accounting practices, to see if there are deeper environmental and cultural factors involved. For example, it might be asked if 'conservative' Japanese accounting practices reflect an underlying conservative trait in Japanese culture, or if uniformity in the presentation of data mirrors a more general culture tendency to prefer an ordered life.

Probably the most well known exponent of this cultural approach to understanding the nature of accounting practices is Gray (1988). Gray attempted to relate a number of accounting values – preferences for conservatism, uniformity, secrecy and professional judgment – to Hofstede's (1980) dimensions of culture: power distance, uncertainty avoidance, individualism, and masculinity. The Hofstede-Gray theory has been used by a number of writers as the basis of a framework for trying to understand why national accounting practices take the form they do (e.g. Parera, 1989; Gerhardt, 1990) and in some cases to try to determine normatively whether accounting techniques are appropriate to particular societies (e.g. Baydoun and Willet, 1995). Hofstede's approach, however, is just one of a number of ways of studying culture.

CULTURAL EFFECTS

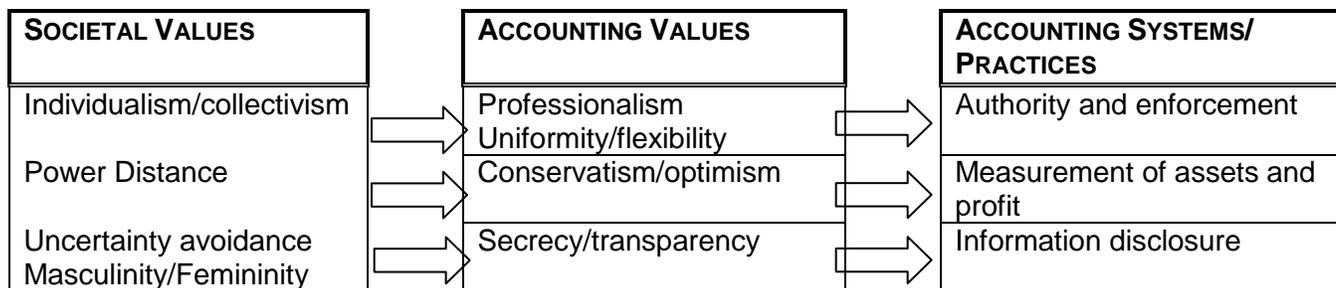
Broadly speaking, the existing literature on the effects of the environment on accounting practices referred to above may be divided into three categories: 1) the common sense analysis of the links between immediate economic and political causes and their perceived effects on accounting practices, 2) 'cultural based' theories using the Hofstede-Gray framework to explain differences or deficiencies in accounting practices, and 3) a 'catch-all' category often using a combination of both approaches under which the remaining work may be placed. Categories 1) and 2) make up by far the majority of publish work. Most, but not all, of this literature fall into the domain of international accounting.

With respect to category 1), example have already been mentioned but Cooke and Parker (1994) contains a collection of some of the more oft-quoted perceived connections in the context of the financial reporting practices of some Asia-Pacific Rim countries. Among the several factors discussed are colonial history, the state of economic development, the financing structure of the economy, and the involvement of government. Recent colonization is usually by far the most obvious single factor determining the specific characteristics of financial reporting. Studies by Mueller (1967, 1968), Nair and Frank (1980), and Siedler (1967) are examples of studies using this approach. In the Asia-Pacific, the influence of Anglo-American accounting in countries such as Malaysia, Hong Kong, and the Philippines, Australia, and New Zealand is obvious. The influence of government is also clear. Studies typically distinguish between countries like Sweden, where macro-economic planning is important objective of reporting; Germany, where taxation plays an important part in determining accounting rules; and the UK approach where, typically, taxation influences marginally.

The most obvious characteristics of accounting practices often seem to be primarily determined by colonial history (the Philippine utilizes North America, Indonesian government utilizes ICW 1924 until 2004). Furthermore, there is the traditional dimension of the presence of centrally planned economies in the period of transition to market economies, which is particularly important in Asia Pacific Region. Both the effects of colonialism on accounting techniques and the results of modifying Soviet systems of accounting to the needs of market economies are interesting and important.

In regarding to the financing structure of industry, Cooke and Parker (1994) in distinguishing economies which are capital market-based, government credit-based, and private credit-based. According to this theory, in credit-based system typified by the continental European model, government-driven and following taxation regulations, investors are more likely to attempt to influence the actions of management. Also, they are more likely to permit a rapid investment response to changing circumstances (possibly under central government guidance) and are more likely to avoid short-termism than are capital market-based systems, although there is some evidence that Japan may now be moving toward a capital market system (Cooke and Parker, 1994). In capital market-based systems, the emphasis is on the public disclosure of information, an external audit, and the existence of professional accounting bodies.

With regard to the literature in category (ii), it can be seen how this involves quite naturally from (i). Gray's theory (1988) takes as its subject matter the preferences of account's users and prepares. These preferences, it is supposed, will be formed under the influence of broader cultural values and will in turn affect the regulatory environment in which accounting takes place, the patterns of disclosure of accounting information and even, possibly, the characteristics of the accounting numbers chosen for decision making purposes. Gray's accounting values and the broad structure of this theory are shown in Figure 1 below



Source: Radebough and Gray (1996)

Individualism Versus Collectivism

Individualism stands for the preference for a loosely knit social framework in society wherein individuals are supposed to take care of themselves and immediate families only. Its opposite, Collectivism, stands for the preference for a tightly knit social framework in which individuals expect their relatives, clan, or other in-group to look after them in exchange for unquestioning loyalty. The fundamental issue addressed by this dimension is the degree of interdependence a society maintains among individuals. It relates to people's self-concept: "I" or "we"

Power Distance (Large Versus Small)

Power Distance is the extent to which the members of a society accept that power in institution and organization is distributed unequally. This affects the behavior of the less powerful as well as the more powerful members of society. People in Large Power Distance societies accept a hierarchical order in which everybody has a place that needs no further justification. People in Small Power Distance societies strive for power equalization and demand justification for power inequalities. The fundamental issue addressed by this dimension is how society handles inequalities among people when they occur. This has obvious consequences for the way people build their institution and organization.

Uncertainty Avoidance (Strong Versus Weak)

Uncertainty Avoidance is the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. This feeling leads them to beliefs promising certainty and to maintain institutions protecting conformity. Strong Uncertainty Avoidance societies maintain rigid code of belief and behavior and are intolerant of deviant persons and ideas. Weak Uncertainty Avoidance societies maintain a more relaxed atmosphere in which practice counts more than principles and deviance is more easily tolerated. The fundamental issue addressed by this dimension is how a society reacts to the fact that time only runs one way and the future is unknown, and whether it tries to control the future or just lets it happen. Uncertainty Avoidance has also consequences for the way people build their institutions and organizations.

Masculinity Versus Femininity

Masculinity stands for the preferences in society for achievement, heroism, and material success. Its opposite, Femininity, stands for the preference for relationship, modesty, caring for the weak, and the quality of life. The fundamental issue addressed by this dimension is the way in which a society allocates social roles to the sexes.

Gray proposed the identification of four accounting values, as follows: (Gray, 1988)

Professionalism Versus Statutory Control

This value reflects a preference for the exercise of individual professional judgment and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control.

Gray proposes professionalism versus statutory control as a significant accounting value dimension because accountants are perceived to adopt independent attitude and to exercise their individual professional judgment throughout the world. To what extent, then, can professionalism be linked to the societal values? Professionalism can be linked perhaps most closely with the individualism and uncertainty-avoidance dimension. A preference for independent professional judgment is consistent with a preference for a loosely knit social framework where there is a more emphasis on independence, a belief in individual decisions, respect for individual endeavor. This is also consistent with weak uncertainty avoidance where practice is all important, where there is a belief in fair play and as few rules as possible, and where a variety of professional judgments tend to be more easily tolerated.

Uniformity Versus Flexibility

This value reflects a preference for the enforcement of uniform accounting practices between companies and for consistent use of such practices over time, as opposite of flexibility in accordance with the perceived circumstances of individual companies.

This is a significant accounting value dimension because attitude about uniformity, consistency, or comparability are a fundamental feature of accounting principles worldwide. This value is open to different interpretations, ranging from a relatively strict intercompany and intertemporal uniformity, to consistent within companies over time and some concern for comparability between companies, to relatively flexibility of accounting practices to suit the circumstances of individual companies.

To what extent can uniformity be link to societal value dimensions? Uniformity can be linked perhaps most likely with the uncertainty-avoidance and individualism dimensions. A preference for uniformity is consistent with a preference for strong uncertainty avoidance, which leads in turn to a concern for law and order and rigid codes of behavior, a need for written rules and regulations, a respect for a conformity, and search for ultimate, absolute truths, and values. This value dimension is also consistent with a preference for collectivism, as opposed to individualism, with its tightly knit social framework, belief in organization and order, and respect for group norm.

Conservatism Versus Optimism

This value reflects a preference for a cautious approach to measurement that enables one to cope with the uncertainty of future events as opposed to a more optimistic, and risk taking approach.

This is a significant accounting value dimensions because it is arguably “the most ancient and probably the most pervasive principle of accounting valuation”. Conservatism or prudence in asset measurement and the reporting of profits is seen as fundamental attitude of accountant worldwide.

To what extent, then, can conservatism be linked to societal value dimension? Conservatism can be linked perhaps most closely with the uncertainty avoidance dimension and short/long term orientation. A preference for a more conservative measures of profits and assets is consistent with strong uncertainty avoidance that stems from a concern with security and a perceived need to adopt a cautious approach to cope with the uncertainty of future events. A less conservative approach to measurement is also consistent with a short-term orientation where quick results are expected and hence a more optimistic approach is adopted relative to conserving resources and investing for long-term results.

Secrecy Versus Transparency

This value reflects a preference for confidentiality and the disclosure of information about the business only to those who are most closely involved with its management and financing as opposed to a more transparent, open, and publicly accountability approach.

This is a significant accounting value dimension that stems from management as it does from accountant because of the quality and quantity of information disclosed to outsiders. Secrecy, or confidentiality, in business relationships is nevertheless a fundamental accounting

attitude. Secrecy also appears to be closely related to conservatism. Both values imply a cautious approach to corporate financial reporting in general, but secrecy relates to the disclosure dimension and conservatism relates to the measurement dimension.

To what extent, then, can secrecy be linked to societal values dimensions? A preference for secrecy is consistent with strong uncertainty avoidance because the latter stems from the need to restrict the disclosure of information to outsiders to avoid conflict and competition and to preserve security. A close relationship between secrecy and power distance also seems likely in that high power distance societies are likely to be characterized by the restriction of information to preserve power inequalities. Secrecy is also consistent with a preference for collectivism, as opposed to individualism, in that its concern is for interest for those most closely involved with the firm rather than external parties.

Matrix showing the nature of the relationship of accounting values with societal values is shown below

Hofstede's Cultural / Societal Values	Garay's Accounting Values			
	Profess	Uniformity	Conservatism	Secrecy
Power Distance	Negative	Positive	n/a	Positive
Uncertainty Avoidance	Negative	Positive	Positive	Positive
Individualism	Positive	Negative	Negative	Negative
Masculinity	n/a	n/a	Negative	Negative
Confusion Dynamism	Negative	Positive	Positive	Positive

Source: Baydoun and Willet (1995)

Meanwhile position each country of Asia-Pacific Region in quadrant of accounting value can be shown as follow: (Willet, Roger *et.al.*, 1997: 12)

FLEXIBILITY	<p>STATUTORY CONTROL</p> <p>Less developed Asian</p> <ul style="list-style-type: none"> - Indonesia - Taiwan - Thailand - Malaysia - Philippines <p style="text-align: right;">Japan</p>
<p>Hong Kong</p> <p>Singapore</p> <p>Asian colonial</p> <p>Anglo-Saxon</p> <p>Australia</p> <p>New Zealand</p> <p>PROFESSIONALISM</p>	UNIFORMITY

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