Cultural Influences on Accounting and Its Practices

Meredith Young

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____
Gene Sullivan, Ph.D.
Thesis Chair

____
Keith Wargo, Ed.S.
Committee Member

____
Jeffery Ritchey, Ph.D.
Committee Member

____
James H. Nutter, D.A.
Honors Director

____
Date

Abstract

This thesis discusses various cultural aspects that have influenced accounting. Hofestede (1984) and Gray (1988) conducted studies and observations of the cultural dimensions and values that have contributed to culture and accounting research. National culture is broad in its influences, but affects the smallest aspects of society-even accounting. Accounting is also influenced by organizational culture, the overall environment in which a company functions. Next is ethics, an integral aspect of accounting, persuaded by the culture in which it is derived. Religion is more than a belief; it constitutes a way of life, involving unique practices and perspectives in accounting. Last, this paper will discuss how these cultural differences will impact the international convergence of accounting standards soon to come.

Cultural Influences on Accounting and Its Practices

Accounting is far more than methodologies, numbers and financial statements. It holds to basic rules and standards to preserve the profession's purpose, but is also shaped by a variety of internal and external forces. The accounting practice actually signifies and symbolizes the culture in which it is performed.

Definition of Culture

Culture is a concept that has been studied, researched and discussed for thousands of years. It influences every aspect of society, far beyond what is commonly recognized. Many papers have been written and studies completed to understand the facets that culture permeates. A recent and highly recognized in-depth study of culture was conducted by Geert Hofestede in the early 1980s. Numerous studies have been performed based on the conclusions he reached in his research. It was also based off this research that an exploration began into understanding how culture has influenced accounting.

A notable outcome of Hofestede's (1984) study was an understanding of culture itself. He defined culture as "the collective programming of the mind which distinguishes the members of one group or society from those of another" (p. 82). A group's culture is what makes them unique; it is the factors that separate them from another group. It is the unconscious code of conduct found within everything from a small group of two to an entire ethnic population. Culture can be passed along through generations, nationality or written rules. It influences the norms, values and interactions within and across social systems and forms an individual's worldview, the way in which everything in life is seen- right or wrong, beautiful or ugly, and true or false. As culture stems from internal thought and personal actions, it “becomes crystallized in the institutions and tangible products of society” (Hofstede, 1984, p. 82). When this occurs, culture is not only internal but becomes external which then reinforces the individual’s internal cultural perspectives.

This idea emphasizes an important aspect of Hofestede’s (1984) definition of culture in that it begins in the mind. This can make culture difficult to recognize and describe, especially if it is one’s own culture. It can be invisible to the eye if not viewed through the correct lenses. Hofestede (1984) claims it can take years to understand the culture in which the researcher was born into. Within one’s culture, their “way of life” is seemingly normal with no unique characteristics. Yet, compared to a different culture it could be opposite in almost every way. It can also be dangerous to even try and understand another culture as this perspective is subject to ethnocentrism, a person’s own cultural views skewing the perspective of the studied culture (Secord & Su, 1993). Regardless of this, however, researching and evaluating a culture is vital to understand how different functions and aspects of society relate to everyday life, even within accounting.

Research

Hofestede’s Research

Hofestede’s (1984) most notable work was a study performed in the early 1980s to provide culture researchers four “manifestations of culture” (p. 93). He performed his research by evaluating surveys conducted by psychologists at 60 IBM offices around the world. These surveys evaluated the values of employees located in several different countries. The reason that the testing took place at several different branches of a single company was to ensure that culture would be the only variable and work place rules and purposes would be the constants. After an evaluation of the surveys of IBM's 50 largest subsidiaries, he formed his four dimensions of culture where each group ranks somewhere along the four cultural continuums (Hofstede, 1984). Furthermore, these manifestations are vital to understanding culture's influence on accounting as these are the basis to most studies conducted on the subject.

Individualism versus collectivism. The first of Hofestede's (1984) manifestations is individualism versus collectivism. This is the way in which an individual relates and lives in society. An individualistic culture is "loosely knit," where each member of society is mainly interested in his or her self and his or her immediate family members. Individualistic cultures are focused on personal achievements and loyalty only to themselves. A collectivist culture is a "tightly knit" community, where everyone within their cultural group is unquestionably loyal to each other. They are focused not on themselves but are interested in doing what will be to the advantage and serve the interests of their in-group, those with whom they associate. In more simplistic terms, the individualistic versus collectivistic culture is focused on "I" versus "we" in their thoughts and daily decision making (Hofstede, 1984).

Large versus small power distance. The second manifestation is large versus small power distance. Power distance is the way in which institutions of power are distributed in a culture, influencing everyone from the least to the highest in power. In a large power distant society, power is distributed unequally, found within a small group of individuals. It is also hierarchical, where serving and meeting the demands of one's superior is of the upmost importance. This order is unquestioned and highly regarded. In a small power distant society, power is distributed more evenly and found within a greater number of individuals. A hierarchy still exists in this culture, but individuals strive to equalize the power and desire to know why any inequalities in power exist (Hofstede, 1984). The superior is still obeyed and respected but on a much lower scale than in a large power distance society.

Strong versus weak uncertainty avoidance. The third manifestation is strong versus weak uncertainty avoidance. Uncertainty avoidance is how unwillingly a culture handles the unknown. In a strong uncertainty avoidant culture, a strict code of beliefs is maintained and there is no tolerance for new ideas, due to the possibility of creating unknowns. This culture wants to live in the black and white and seeks to ascertain certainty, protection and conformity (Hofstede, 1984). Unknowns are reduced by using and following technology, law and religion (Cohen, Pant, & Sharp, 1993). In a weak uncertainty avoidant culture, members are more relaxed and tend to be principles-based rather than rules-based. They are much more comfortable with an individual's personal ideas and living in the unknown. These dimensions either want to control the future or can easily let the future happen on its own (Hofstede, 1984).

Masculinity versus femininity. Last is the manifestation of masculinity versus femininity. This addresses the social roles of the sexes in a particular culture. A masculine society prefers achievement, success and heroism. A feminine society prefers relationships, caring and the quality of life. Some societies demand a maximum social difference between sexes, meaning men are the more assertive and women are the more caring. Other societies allow a minimal social difference between sexes where men and women can be both assertive and caring. This type of culture is known as a "welfare society" where caring for people is important to all members of society (Hofstede, 1984).

Gray's Research

These four manifestations are the roots in understanding culture's impact on accounting and its practices. The relationship between culture and accounting has only been studied for the past 35 years. Some researchers have studied the accounting of ancient Egyptians as they built their temples; others have studied the fundamental role of internal accounting for the Jewish people (Carmona & Ezzamel, 2006). Despite these and a few other studies, little research had been done on the influence of culture in regards to modern day accounting. Gray (1988) decided to explore this relationship by deriving four accounting values from various accounting literature and relating them to Hofestede's (1984) cultural dimensions. Hofestede (1984) and Gray's (1988) correlating values provide a majority of the foundation in culture and accounting research done today.

Professionalism versus statutory control. Gray's (1988) first value is professionalism versus statutory control. This is the dichotomy for the preference of professional judgment and self-regulation versus complying with strict legal requirements and control. This concept is very important in accounting as it is the accountant's job to make independent legal and ethical decisions in any practice. A tendency towards professional judgment is consistent with an individualistic and weak uncertainty avoidant society. Professional judgment is also more easily accepted in a culture with small power distance as there is less fear of authority's reprimands. Though statutory control can be important in situations where it is necessary to follow the law precisely, this could hinder an accountant's development of professional judgment (Gray, 1988).

Uniformity versus flexibility. His second value is uniformity versus flexibility. This is a preference for uniform and consistent accounting practices between companies rather than accepting varying practices deemed necessary in certain situations (Gray, 1988). The desire for uniformity can be seen in FASB's conceptual framework through the accounting principles of consistency and comparability (FASB, 2006). As discussed later, uniformity is increasingly important today as accounting moves toward international convergence. However, it may need to retain some room for flexibility in order to adjust to varying cultural dimensions. Uniformity suggests a culture that leans towards strong uncertainty avoidance in hopes to eliminate any possibility of differences by employing standardized accounts and policies [(Baydoun &Willett, 1995), (Gray, 1988)]. Uniformity is also more preferable in high power distance societies as codes and rules are more likely to be accepted (Gray, 1988).

Conservatism versus Optimism. The third set of values Gray (1988) derived is conservatism versus optimism. This suggests a preference for remaining cautious in measurements when dealing with an uncertain future rather than being more optimistic and risky in reasoning (Gray, 1988). A conservative perspective in accounting is easily seen as many principles are based on this view, such as objectivity, verifiability, reliability and the practice of lower of cost and market (Baydoun & Willett, 1995). It seems that the typical accountant mind tends to be more conservative while others, such as entrepreneurs, tend to be more risky. Conservatism also suggests a strong uncertainty avoidant tendency in order to be more cautious and cope with the unknown (Gray, 1988).

Secrecy versus transparency. The last of Gray's (1988) values are secrecy versus transparency. This would be a tendency for confidentiality and restricting information about the business to those who are closely connected versus being more open and accountable to the public. This is a difficult dichotomy in accounting as a business wants to maintain their security from competitors but there is also a need, especially today, to remain transparent and accountable to the public (Gray, 1988). Determining whether a company is more secret or transparent can be seen in the number of items they disclose and how many and what is included in supplementary statements (Baydoun & Willett, 1995). A secret culture is related to high power distance by restricting information in order to maintain unequal powers. Transparent cultures tend to be more feministic as they are more caring and put more emphasis on being open with people (Gray, 1988).

This research is only the foundation of the many tests and studies that have been completed in discovering the impact of culture on accounting. Researchers have discovered and continue to discover that "accounting is shaped by the environment in which it operates" (Askary, Pounder, & Hassan, 2008, p. 145). Accounting systems are the result of the culture in which it is found and its various practices are uniquely formed by such. Many factors such as values, religion and politics make up these environments making accounting and its practices differ in as many ways as there are cultures (Askary, Pounder, & Hassan, 2008).

Culture's Influence on Various Accounting Practices

Accounting practices such as detecting misstatements, preparing financial statement disclosures and other accounting activities may appear to be equal across the world as they follow identical or similar standards. Besides the differences that obviously occur due to following International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP), there should not be any other variable in the accounting practices between companies. However, these practices could contain multiple differences as influenced by the cultural dimensions in which they are performed.

Zarzeski (1996) provides an in-depth observation of how accounting practices are derived differently between cultures. Accounting standards, the written rules of accounting, are formed by accounting practices, the implied rules of accounting, conducted in a particular culture. These implied rules develop differently due to the way in which business relationships evolve across various cultures. Business relationships differ due to the environment or culture in which the relationship is formed, including external factors such as differing laws, economic state and political climate. Therefore, if accounting standards come from accounting practices and accounting practices are developed and influenced by culture through business relationships, then accounting is highly driven by the culture in which it is practiced (Zarzeski, 1996).

The Two Models

Initial differences between accounting standards can be seen through the two accounting models, the foundations by which modern accounting standards have been formed. The first is the Anglo-American model. This model heavily influences professional standard setting bodies, emphasizes capital markets and relies upon debt financing and equity provided by the public. It highly regards true and fair financial statement presentation and is the foundation of the accounting standards in the United States and United Kingdom (Oluku & Ojeka, 2011).

The second model is the Continental European model and is found in cultures not as influenced by the U.S. There is less of an emphasis on presenting true and fair financial statements and more of an emphasis and reliance upon the government. The financial information provided to users under this model is directed more towards creditors rather than investors as most of these entities receive funding from lending agencies (Oluku & Ojeka, 2011). The direction of international accounting is headed towards the Anglo-American model as Western influences pervade the global marketplace.

Auditing and Errors

A significant practice in accounting is auditing. The Public Company Accounting Oversight Board (PCAOB) defines the role of an auditor as the responsibility to attest to the fairness of a company's financial statements by expressing an opinion on those statements. His or her opinion reflects whether the financial statements are in accordance with GAAP and provides a reasonable assurance that the statements are free of material misstatement (Public Company Accounting Oversight Board, 1971). In order for an auditor to complete a reliable audit and express a fair opinion, he or she must resist and take all precautions from being subject to a conflict of interest from any internal or external pressures (Cohen, Pant, & Sharp, 1993).

This could be a problem in a large power distance society where auditors may feel pressure to issue a certain opinion by a powerful or wealthy client (Cohen, Pant, & Sharp, 1993). Though accounting standards stress professional judgment, an auditor in this culture and situation may feel more obligated to please the authority and "save face" to avoid public embarrassment than to keep the rules of the profession. Therefore, auditors in a large power distant society may need to take a different approach in performing their engagements than one who is in a small power distant society, and users need to be aware of this cultural impact when utilizing those financial statements (Cohen, Pant, & Sharp, 1993).

As defined by the PCAOB, part of an auditor's opinion and engagement procedure is to provide reasonable assurance that the financial statements are free of material misstatement. Knowing how culture can impact the likelihood and location of accounting errors in a company's financial statements can greatly assist an auditor when performing the audit. Research has found that accounting errors are heavily influenced by the large versus small power distance and individualism versus collectivism manifestations as posed by Hofestede (1984) (Chan, Lin, & Lai Lan Mo, 2003).

In a large power distant society, companies tend to be centralized as the greatest amount of authority resides with a small few in power. Centralized management tends to use accounting to display a positive image and may override basic accounting rules to do so, leading to a greater risk for material misstatement. Also, in this type of culture and management, subordinates tend to be less educated which could lead to a greater number of GAAP, classification and professional judgment errors. Small power distant company cultures are typically decentralized so power and knowledge is more evenly distributed throughout the organization. In this culture, more checks and balances are established and better training is provided company-wide. Therefore, financial statements in this culture can be expected to have a lesser chance of material misstatement (Chan, Lin, & Lai Lan Mo, 2003).

In an individualistic society, people act in their own interests and seek to “climb the corporate ladder.” Therefore, more turnovers occur, which increases the chance of accounting errors and amplifies the desire to manipulate numbers to display a positive public image. Cutoff and classification errors also increase in an individualistic culture as this type of accountant wants to satisfy user demands. Collectivist companies, on the other hand, stress in-group goals and desire to achieve those goals before their own (Chan, Lin, & Lai Lan Mo, 2003). Therefore, because greater trust is built within this organization, accountants are less likely to distort the numbers.

Interestingly, individualistic companies with a large power distance have been found to have greater errors in their accounts receivable and payable. Furthermore, studies show that US firms stressing the importance of a small power distance over individualism tends to have smaller accounting errors (Chan, Lin, & Lai Lan Mo, 2003). All of these findings can assist auditors functioning in any culture to focus their procedures in the necessary direction based on the culture in which they practice.

Disclosures

Disclosures included in financial statements can also be greatly influenced by the culture in which they are prepared. Cultures of strong uncertainty avoidance tend to disclose less information to the public and more to private entities such as banks and financing companies where they can maintain more secure relationships. Weak uncertainty avoidant cultures tend to publicize their financial standings as they do not rely on maintaining stable relationships as does their counterpart. In collectivist societies, companies are more focused inwardly which can create secrecy, resulting in less disclosed information. Individualistic companies are more public with their information as they do not have the in-group or closely-held company atmosphere as a does a collectivist society (Zarzeski, 1996).

A culture which portrays a large power distance may feel discouraged to share their private information with the public, so their disclosures will be more limited. However, small power distant companies have a greater relationship with users and therefore encourage sharing their financial information publicly. Masculine societies seek to compete and achieve, building relationships with other companies and constituents in order to do so. Therefore, masculine companies tend to share more information with the public. This tendency is more often found in local companies rather than international companies (Zarzeski, 1996). Therefore, financial statement users must be cautious of the culture in which those statements were derived. They must realize that the information provided to them may not necessarily be complete and must basis their judgments and decisions off of that knowledge.

Further research has been conducted on how disclosures are treated in local versus international companies. Local companies disclose the type of information that is viewed as necessary within their local culture and not necessarily the information that may be demanded by foreigners. The reason for this is that companies want their financial statements to speak the “accounting language” of their home culture, which is not necessarily identical to the rest of the world. These companies derive their resources locally so they want their financial statements and disclosures to meet those demands (Zarzeski, 1996).

On the other hand, international companies are more willing to disclose the information that is necessary in the global market rather than their home culture as this is where their resources are obtained (Zarzeski, 1996). Similarly to local companies, international companies want their financial statements to speak the “global accounting language” by providing more information to meet the wide variety of demands. However, international companies that try to speak this language still have a flavor of their local culture found throughout their financial statements (Gray, 1988).

Therefore, the basic accounting practices that seem to follow the same or similar standards can actually vary quite differently depending on the culture in which it is performed. Accountants and financial statement users must be wary of such fact when making financial decisions based on a company’s completed financial statements. This will give those users a greater advantage as they do not only understand the apparent numbers and information but also the undisclosed culture that underlies those statements.

Nationality and Accounting

A person's nationality is the initial thought that comes to mind when culture is mentioned. It does not comprise the entirety of cultural influences, but does have some influence in every aspect of society, from the government to business to everyday life. Thus, national culture has a significant influence on accountants and their practices as well.

As previously mentioned, accounting is a product of its cultural environment (Zarzeski, 1996). The major differences between accounting systems around the world is due partly to the national culture as this sets the norms in which society functions. Also, overarching laws are established by culture-driven authorities. Many researchers suggest that accounting practices evolve within a country in order to meet the needs of their particular society (Oluku & Ojeka, 2011). Cohen, Pant & Sharp (1993) state, "Accounting and management control systems are manifestations of culture and reflect basic cultural assumptions" (p. 10). Therefore, as demands and needs vary from country to country, so will the way in which accounting is practiced.

China

In China, accounting is practiced very differently from Western cultures due to its strong socialistic and governmental influences. The Chinese government has significant control over almost all aspects of society, especially accounting. Therefore, financial statements are complied according to the needs of the government rather than the needs of investors to make financial decisions. Most companies are also owned by the government, so the need to make their financial statements accordingly is apparent.

Furthermore, ordinary investors in China are typically under-educated in accounting and finance so their needs for complete financial statements are limited anyways (Fang, 2007).

The level of education for accountants within China is significantly less than in other developed countries. This, in turn, affects their professional and moral judgment as they may not have the background knowledge needed to make sound decisions. This could have a significant impact on the reliability of the accounting profession and other work (Fang, 2007). Many foreign companies that open branches in China will train local managers in the company's parent country to ensure they run the company according to the company's cultural standards (Chan, Lin, & Lai Lan Mo, 2003).

As the market continues to change, Chinese financial statements will have to be geared more towards investors and accountants will have to better their education to suffice. This adjustment will occur at a slower pace due to the mix of religions influencing the national culture, including Buddhism, Taoism and Confucianism. These religions stress moderation and harmony so an immediate change of any kind, including accounting, would be too much to handle (Fang, 2007). Therefore, as the world globalizes, the Chinese economy will gradually change, as well, to meet the demands.

Germany

Management styles and accounting practices in Germany are significantly different from the way in which they are performed in the United States. This is largely due to the way the cultures rate on the dimensions and values established by the research of Hofestede and Gray. In-depth studies have been conducted to identify where those differences exist.

First, Germans are not typically flexible to change as compared to Americans. The rigid and standardized German management accounting system is due to their low tolerance for flexibility. This allows managers to make decisions on a consistent and predictable basis throughout the organization. Germans, then, are a strong uncertainty avoidant culture as they desire to be aware of all minor details, leaving nothing unknown. Americans, on the other hand, are a weak uncertainty avoidant culture as they allow their management accounting systems to vary between companies. They also more easily adapt to the frequent changes that occur within business (MacArthur, 2006).

The internal motivation of Germans also differs from Americans. Germans want to work hard and always be busy, while Americans are willing to work hard when necessary but do not want to stay busy all of the time. As a result, the German accounting system will constantly make reports and follow very detailed methods while American accounting systems will contain the necessary details, but does not rely on continuous production of information (MacArthur, 2006).

German culture also instills specific and formal rules to ensure accounting and business functions are handled consistently, as seen in the rigid and standardized management system. Employees are bound by strict guidelines regarding how to behave, what to do and what their results will be at the end of the day. US culture does not value rules and detail as highly (MacArthur, 2006). This allows businesses to accept gray areas and gives individuals more freedom to make their own decisions.

Lastly, in German accounting, timeliness and precision are highly regarded. Management wants the most information measured precisely to make sound decisions in a timely manner. These traits further assist their need to avoid any uncertainties. In US accounting, punctuality and precision are not always required but can be learned if necessary (MacArthur, 2006).

Japan

There are three major cultural characteristics of Japanese society that makes their accounting system, practices, and organizational culture unique. First is the cultural norm that views the government as the highest authority, even over professional standard boards. The Japanese believe in the "moral basis of government" (Harrison & McKinnon, 1986, p. 243) due to the culture's background in Confucianism, perceiving life as the "ruler" and the "ruled" (Harrison & McKinnon, 1986, p. 243).

This cultural aspect is significant for Japan in that, though independent accounting professional boards exist, the government remains the greater influence on accounting laws and standards. The Japanese Institute of Certified Public Accountants (JICPA) proclaims itself as independent and there is no specific documentation connecting the JICPA and the government. However, in daily practice, the government seems to be the controlling arm of JICPA's actions. For example, it is the government, not JICPA, that authorizes, denies and revokes C.P.A. licenses (Harrison & McKinnon, 1986).

The second cultural aspect is based on Hofestede's cultural dimension of collectivism. The Japanese refer to this cultural norm as *dantai isbiki* or "group consciousness." Like collectivism, group consciousness is the predisposition to see themselves as a group, relying upon each other, rather than as individuals. In a positive sense, this allows the workplace to be focused on mutual needs and helps keep disputes from the public (Harrison & McKinnon, 1986).

However, this can also taint the arms-length transactions needed in the accounting practice to ensure professionalism. This also impacts the auditing profession as it is viewed as part of the company, having the responsibility to protect the company's interests rather than the public's. Therefore, independent auditors are a foreign concept and sometimes unaccepted by Japanese companies (Harrison & McKinnon, 1986).

The last cultural aspect is once again based on the Confucianism principle of yin and yang. This is where complementary forces alternate and balance each other to maintain a harmonized environment. There is no strict rule of what is good or bad but only that which keeps society in harmony. Therefore, Japanese tend to compromise and avoid confrontation in order to keep the necessary balances aligned (Harrison & McKinnon, 1986). This, too, influences the accounting profession as it compromises judgments and decisions rather than demanding the independence necessary to maintain the profession's reputation.

Organizational Culture and Accounting

Culture is not only found explicitly in the accounting practices of an organization, but is also found implicitly in the day-to-day activities of a company. This fact has implied consequences on employer-employee relationships and accountants' practices. Researchers refer to this cultural influence as organizational culture. Schwartz and Davis (1981) define organizational culture as the "pattern of beliefs and expectations shared by the organizations members' that create norms and powerfully shape the behavior of individuals and groups in the organization" (Meek, 1988, p. 456)-- it is the "way of life" within an organization. A company's unique organizational culture may not be clearly defined, but it is unquestionably sensed and recognized by the lowest of employees to the CEO.

Consequently, organizational culture permeates every aspect of an entity and is, therefore, significant to its operations. It affects employees' general behaviors, such as motivation and performance, but it also forms and influences organizational artifacts. Organizational artifacts are the structures and practices in an organization, such as auditor judgments and independence in accounting (Chow, Harrison, McKinnon, & Wu, 2002), (Maali & Napier, 2010).

The organizational culture of a company is created at its conception, but can change throughout its life and maturity. Leaders instill the values and assumptions in the organization that shape the culture in which it will operate. The organization members may accept and implement those principles at first but they are not necessarily bound to those beliefs for the entirety of their employment (Maali & Napier, 2010). As the company grows, individuals will bring their own views and values into the company, but the primary culture of the organization remains to be established by executives.

Hofestede's Research

Hofestede's (1984) four manifestations have been applied in many studies regarding organizational culture. Similar to other accounting practices, the two major dimensions influencing organizational culture are individualism versus collectivism and strong uncertainty avoidance verses weak uncertainty avoidance. In an individualistic culture, employees are regarded simply as labor and the employer-employee relationship is built on “mutual advantage” (Hofstede, 1984, p. 87). The employer has the right to terminate and the employee has the right to quit if it is to the advantage of either party. This culture prefers professionalism, in that all people should be treated equally, and implements a strict policy against personal preferences in decision making. Also, individualistic organizational cultures view the job or task as a higher priority over the people and relationships involved (Hofstede, 1984).

In a collectivist organizational culture, employer-employee relationships have a “moral component” (Hofstede, 1984, p. 87). It is the responsibility of the employer to protect the employee regardless of performance and the responsibility of the employee to remain loyal to the employer, any change in employer would destroy that loyalty. Personal relationships are highly valued and will receive better deals in business transactions than strangers (Hofstede, 1984). These relationships are also more highly regarded than any business that is to be accomplished that day.

A manager or any executive from an individualistic culture that finds him or herself working in a collectivist culture must take heed to the differences that will exist. Individualistic managers must take time to build relationship with coworkers and subordinates in order to successfully integrate and operate within that company. This may seem unimportant to the manager, but has significant consequences to his success within that organization (Hofstede, 1984).

In organizations that are strongly uncertainty avoidant, it is more socially acceptable, even in the workplace, to show emotions. Emotions are an unknown and people in this culture need a way in which to release that which would remain uncertain if held inside. Company policies and explicit rules are also a characteristic of this type of organization as it wants to know what to do in any situation. In a weak uncertainty avoidant culture, people who are different are appreciated because of the creativity in which they bring to the organization. There is also less need for explicit rules and more room for unwritten codes as employees are willing to make their own decisions and judgments (Hofstede, 1984). Therefore, this type of organization flows freely and is open to new ideas.

Hofestede not only studied and defined the four cultural manifestations as mentioned earlier, but he also defined six diametrically opposed values in a typical organizational culture. The first is results versus process orientation. A results orientation identifies goals and seeks to achieve them at all costs while process orientation institutes practices in order to move forward as an organization. Job versus employee orientation is an organizational emphasis on completing the job as opposed to focusing on the people (Chow, Harrison, McKinnon, & Wu, 2002).

Professional versus parochial orientation is the third value where employees either bring their identity to the job or find their identity through their job. A closed or open system orientation refers to a more secretive company versus a company with better communication internally and externally. Fifth is tight versus loose control where the culture is either tightly bound to structure or free-flowing. The last value defined is a pragmatic versus normative orientation where companies are either market-driven or follow consistent rules in any economic situation (Chow, Harrison, McKinnon, & Wu, 2002).

Management

As previously mentioned, organizational culture is formed by the values the leadership sets forth in the company. Managers may find it difficult, however, to begin working in an organizational culture unlike one they have experienced before. Management is “constrained by its culture-context, because it is impossible to coordinate the actions of people without a deep understanding of their values, beliefs and expressions” (Hofstede, 1984, p. 82). Therefore managers entering a new organizational culture must ensure they are appropriately trained to prepare for the differences they will face. Ideally, a person hired for a management position in which one or more cultures exist is proficient and has had extensive experience in both cultural settings (Cohen, Pant, & Sharp, 1993). In this way, new management will be most successful.

A study of how organizational culture is influenced when foreign companies are established was conducted with a Taiwanese company affiliated with the U.S. Local Taiwanese companies are collectivist oriented while US companies are individualistic. It was found that the Taiwanese company with the US affiliation tended to be more individualistic. Therefore, no matter how far a company travels and no matter how different the national culture is, parts of the home culture will always remain intact with the organization (Chow, Harrison, McKinnon, & Wu, 2002). However, managers that open international branches of their company must be mindful that differences will exist initially and so they must establish some training to consolidate for the differences.

The type of management practiced by company leaders influences every aspect of the organization. Transactional leadership is a reward or punishment leadership style where, when an employee does good or right, he or she is benefited in some way, but if they do wrong, the person receives some type of reprimand. Transformational leadership, on the other hand, encourages growth and inspires employees to work hard and achieve more by developing personal values rather than simply abiding by company policy (Worth, 2012).

The way in which an organizational culture rates on Hofestede's dimensions and the way in which management is practiced makes a significant impact on how accounting is performed. These manifestations and values not only set the tone for the entire organization but will indirectly set the tone for accounting. Organizational culture can form the attitudes of accountants to either be professional or biased in their judgments and decision-making according to the way in which the company handles other business transactions. It can also determine whether accountants feel the demand to follow the letter of the law or are willing to deviate from the laws as needed.

Also, if accountants are consumed with providing the best results to leaders in exchange for rewards, this could lead to misstatements and other unethical practices. However, if accountants are inspired to do right based on their personal values, as emphasized by transformational leadership, they can focus on providing reliable and complete financial information to the public. Therefore, to understand the values of the accountants within a company, one can look at the organizational culture and to understand the organizational culture of a company, one can look at the values of its accountants.

Ethics, Culture and Accounting

The cornerstone of accounting that sanctions all practices is ethics. It pervades every aspect of accounting from how the rules and standards are practiced to decisions made on a daily basis. This is why professional accounting boards and literature have greatly emphasized proper ethical behavior from the very beginning of accountancy.

Ethics has been studied and defined by many researchers throughout all practices. Onyebuchi (2011) defines ethics as the "systematic study of conduct based on moral principles, reflective choices, and standards of right and wrong conduct" (p. 275). The ethics of an individual is an internal belief system of how they view the world and is influenced by the external environment in which they live. This is where culture and ethics converge; a person's ethics is influenced by his or her subgroup's culture, up to the national culture. Thus, what is defined as proper ethical behavior spans the spectrum of cultural actions and beliefs.

Why has ethics become such an imperative subject within accounting? The core elements of the accounting profession are integrity and truth, which are necessary to justify the practice's status and privileges in serving the public (Onyebuchi, 2011). Accounting was once considered to have the highest integrity among professions; however, this view has slowly deteriorated over the years in light of the many financial scandals that have taken place (Satava, Caldwell, & Richards, 2006). This view of accounting and business is best portrayed through the words of CS Lewis:

> I live in the Managerial Age, in a world of "Admin". The greatest evil is not now done in those sordid "dens of crime" that Dickens loved to paint. It is not even done in concentration camps and labor camps. In those we see its final result. But it is conceived and ordered (moved, seconded, carried and minuted) in clean, carpeted, warmed and well-lighted offices, by quiet men with white collars and cut fingernails and smooth-shaven cheeks who do not need to raise their voices. Hence, naturally enough, my symbol for Hell is something like the bureaucracy of a police state or the offices of a thoroughly nasty business concern. (Vinten, 2006)

Accounting cannot dare to continue subjecting itself to such a public perspective. If this continues, accounting will lose the status and privileges that make it necessary to even remain in existence. Therefore, to maintain the public's trust, professional standard boards must attempt establishing ethical standards by which all accountants are bound.

Move Towards Relativity

Many may wonder why there has been so much unethical behavior within accounting. The foundations of this problem began evolving in the mid-1990s when a great shift in values occurred in the United States. The cultural values within the C.P.A. subgroup slowly succumbed to this shift by becoming personally rather than socially oriented. Accountants became more focused on personal achievements and making money than serving the public (Onyebuchi, 2011). The individualistic characteristics in Western culture have slowly moved values from absolute to relative. Secularism (relativism) has replaced the Judeo-Christian (absolutism) values upon which the United States was founded (Lehman, 2004). Without an absolute standard, a person's cultural background will more easily influence his or her ethical standards of right and wrong, which has considerable implications for the accounting profession.

Some researchers have suggested there are too many formal rules and procedures for accountants to follow, which destroys the public's trust. If there is a need for such specific rules, then there must be a low level of trust regarding the profession. Their solution, then, is to limit the specific rules and regulations to regain the public's trust by converting to principle-based standards (Afifunddin & Siti-Nabiha, 2010). If ethical standards, including personal views of right and wrong, have become relative, then allowing accountants to form their own opinions and decisions from general principles could potentially lead to corruption. Either way, as the shift in values occurs and relativity becomes the norm, people are able to find ways to work around the laws imposed by authorities as well.

The collapse of Enron is a prime example of this and how relativity in accounting can lead to destruction. Accounting has historically been a rules-based practice and the employees of Enron believed they were following the laws appropriately- doing the right thing. However, their understanding of "right" followed the legally-based international management mode. This ethical system believes that rules work differently in business than in other facets of life. When this model is applied, the person is unable to morally see that it is based in self-deception and "abstract greed" (Satava, Caldwell, & Richards, 2006, p. 273).

In confessions made by Enron employees and accountants, one stated, “Interpreting [accounting] rules was always more of an art than a science,” (Satava, Caldwell, & Richards, 2006, p. 273) and they had grown cold to the fact they were doing wrong. Other accountants said they used the rules as an opportunity to take advantage of where it was weak. The employees were so convinced that their financial statements were accurate that no employee even questioned the fraudulent actions (Satava, Caldwell, & Richards, 2006). This was the root by which the evil at Enron began.

Though rules-based accounting obviously has its flaws, if accounting moves away from enforcing specific guidelines to following basic principles, what will happen to the profession? Having rules provides at least a bottom line for the public to judge whether accountants’ actions are right or wrong. Without those rules, by which standards will accountants be judged by when they commit an act against the interest of the public?

This cultural shift towards relativity is dangerous for the accounting profession. Accountants have become self-serving rather than public-serving. People have a hard time seeing the difference between right and wrong when there is no absolute standard by which to live. When people are given and abide by absolutes, people become duty-centered and endeavor to follow those rules with the integrity and objectivity, rather than with self-interest and subjectivity. And, it is integrity and objectivity that are vital to maintain the accounting profession into the future.

Hofestede’s Research

Other studies have been conducted regarding culture’s influence on ethics based on Hofestede’s manifestations. They found that each dimension had some implication by which people would act in certain situations. The first is in an individualistic culture, individuals are more willing to speak their mind, confront others and not show favoritism. This allows auditors to be more confrontational with management if any questions arise in an audit. A collectivist culture finds confrontation to be rude, so unethical practices may be able to remain hidden. This type of society also favors preferential treatment and conforming to group norms. Therefore, in an unethical situation, subordinates are more likely to follow the authority no matter the cost (Cohen, Pant, & Sharp, 1993).

A strong uncertainty avoidant culture is highly structured, requiring extensive rules and regulations for various situations. However, they tend to believe that the only prohibited actions are those with rules specifically against that action. So in situations where no rule is provided, strong uncertainty avoidant cultures are more likely to believe that situation is acceptable and/or fall more easily into peer pressure. Weak uncertainty avoidant cultures are less structured and more tolerant of ambiguity. They are focused more on content than the issue in professional judgments. They also apply a broad ethical framework when making decisions and are more likely to abstain from certain actions that are questionable when no rule exists (Cohen, Pant, & Sharp, 1993). This cultural dimension is very important when deciding whether accounting should be rules-based or principles-based. Deciding which way to go will have serious implications on the ethicality of certain actions and decisions made in both cultures.

Power distance and masculinity are the last of Hofestede's dimensions that observers have related to tendencies in ethical dilemmas. The way in which a culture rates on power distance determines an employee's acceptance of an employer's force to commit unethical practices. High power distant societies are more likely to cover-up scandals, and if discovered, the blame is shifted to lower subordinates. According to masculinity, women, especially those who are older, are much less accepting of unethical actions and behaviors than are men (Cohen, Pant, & Sharp, 1993). This can be seen as Sherron Watkins and Cynthia Cooper were the whistleblowers at Enron and WorldCom, respectively (Conory & Emerson, 2004).

Cultural Clashes

An ethical clash of Hofestede's cultural dimensions can be seen in the fall of Parmalat, Italy's largest financial scandal. The company had a collectivistic and large power distant culture, two dimensions setting the company up for failure. Parmalat was family-based, where almost every position of leadership included an immediate family member (Jennings, 2004). Eighty-five percent of Parmalat's Board of Directors consisted of close friends or family members of the executives. This was common in Italy at the time, as 90% of Italian Board of Directors had similar ratios (D'Orio, 2004). The small-town community also held deep respect for the "wholly Italian" (Storelli, 2005, p. 771) company, as Parmalat's growth put the town on the map. The local Italians were proud to see and showcase the fact that a family business could grow so quickly (Storelli, 2005). Therefore many secrets were easily kept by family members to protect the company and the community as Parmalat began its demise.

Their large power distant characteristics also influenced their ethical reasoning. Parmalat has been described as having a "yeehaw culture" (Jennings, 2004, p. 44). This kind of culture has a “Wild West demeanor as expenses balloon, order and rules are disregarded, and the most powerful run operations with few checks and balances on their actions and decision-making” (Jennings, 2004, p. 44). Other factors found in this culture include, “pressure to maintain extremely aggressive numbers and performance, fear and silence, and the young executives and bigger-than-life CEOs” (Jennings, 2004, p. 44). These elements are key identifiers of a company with a large power distant culture. Employees were so scared of the “intimidating presence” of their top managers, that they were more willing to make mistakes than approach management with questions (Jennings, 2004).

All of these factors enabled Parmalat to deceive for many years, until its true state was revealed for the entire world to see. Companies must take note of such examples when determining the ethical culture they will implement. The dimensions of their company’s culture must complement one another rather than clash or conflict as it did for Parmalat. This may be difficult initially, but the benefits will greatly outweigh as the company continues ethically, far into the future.

Teaching Ethics

As C.P.A.s continue to enter the accounting profession, what is the best way to prepare them to make ethical decisions throughout their career, that is, to serve the public interest no matter the cost? Institutions have implemented ethics classes in almost every major, including accounting, in hopes that their graduates will maintain ethical practices. Younger businesses have been found to have lower ethical standards than older business professionals, so it is important for such institutions to found ethical standards in students before they enter the job market (Conory & Emerson, 2004).

Is teaching the major ethical systems and completing an ethics course enough to ensure this has happened? Research has found this may not be enough. There is a high correlation between religiosity and ethical standards. This leads many to believe that emphasizing students' religion of choice is a better teaching tool than simply defining ethics. Furthermore, studies suggest that the more diverse a company's employees- ethically, generationally and religiously- the less the chance of a scandal occurring (Conory & Emerson, 2004). Therefore, if the accounting profession wants different results in their accountants and future, they must begin adhering to such advice.

Religious Influences on Accounting

Culture and religion unite where beliefs move from internal values to external actions. These actions can affect everything from daily decisions to entire societal norms. Accounting, too, is affected by the religious lifestyles and beliefs of professional accountants. The development of accounting systems within the Christian church and Islam have been specifically studied and observed in regards to how these religions have uniquely influenced the practice.

Christianity

Accounting has been practiced for thousands of years in public and private groups and companies. Today's Christian institutions practice accounting as part of their ministerial duties; however, this has not always been the case. The early Church of England viewed the world in a sacred-profane divide. Every action and activity was defined as holy and sacred or worldly and profane. Money and a focus on handling money were considered worldly and profane activities. This belief was based on the verse in Matthew 6:24 which states, “No one can serve two masters. Either you will hate the one and love the other, or you will be devoted to the one and despise the other. You cannot serve both God and money” (New International Version, 1984). Therefore, the Church of England saw accounting as a profane practice and harmful to the Church (Afifunddin & Siti-Nabiha, 2010). The only relevancy “accounting” had within the Church was to support that which was sacred by ensuring enough cash inflow to cover expenses (Carmona & Ezzamel, 2006).

As Protestantism grew, the sacred and the profane began to be redefined. Researchers observed that “Protestantism represented an immense shrinkage in the scope of the sacred reality, as compared with its Catholic adversary” (Afifunddin & Siti-Nabiha, 2010, p. 1134). This introduced a new perspective of life in the Christian church. Life did not consist of mysteries and magic, but of daily routines that could be “infused with sacred power” (Afifunddin & Siti-Nabiha, 2010, p. 1134). This new perspective aligned with the command in 1 Corinthians 10:31 which says, “So whether you eat or drink or whatever you do, do it all for the glory of God.” Daily routines included the practice of accounting which, like other aspects of life, could be done for the glory of God.

Churches then began to see accounting as a way to steward the money given to them. It was no longer a practice done just by outsiders of the church, but could actually be integrated into the mission of the Church (Vinten, 2006). Money is how the Church and its operations are funded to carry out the directives set forth in the Bible. Therefore, it is important for Churches to be able to provide an account in regards to how they handled the money entrusted to them. Accountability has also become increasingly important in the Church to maintain its charitable and tax-exempt status (Vinten, 2006).

Unfortunately, this new perspective of money and accounting within the Church could have negative effects as well. Churches can easily become too focused on their financial needs rather than fulfilling the work of the Lord (Carmona & Ezzamel, 2006). This could occur in a church that is flourishing in financial gifts or in a church that is barely able to make it to the next week. If the sole focus of the church is on fundraising instead of knowing Christ and making Him known, the "accomplishments" of the church are ultimately worthless. Therefore, the church must still abide by the command in Matthew 6:24, but does not have to take it so far as to forget the importance of accountability and stewardship that can be accomplished through accounting.

As the sacred-profane divide shifted in the church, it began to infiltrate the entirety of Western culture. As Western civilization flourished, it became increasingly materialistic. Society no longer regarded life after death and a belief in God did not have the economic or political impact it once did (Afifunddin & Siti-Nabiha, 2010).

By the end of the Middle Ages, Christian institutions no longer emphasized the integration of the Christian faith and public business disciplines. Churches may have begun to integrate faith and business within church duties, but did not do the same with business men working outside of the church. This secular Western culture freed accounting and business from a religious-based morality to an emphasis on behaviors bound by man-made laws (Afifunddin & Siti-Nabiha, 2010). The Christian faith, once at the heart of business, became only a belief that no longer had a place in business, and this fact has had serious implications for business practices today.

Islam

Many see Islam simply as a religion. However, Islam is far more than this; it is a culture, worldview and lifestyle by which its followers abide (Hamid, Craig, & Clarke, 1993). They set forth to infuse their beliefs into everything they do. The unique business and accounting practices within the Islamic society exemplify how accounting can be integrated with religious foundations (Maali & Napier, 2010).

Islam does not have the sacred-profane divide that has been found in the history of the Christian Church. They view various aspects in life as either worldly or religious. This is not a strict separation as worldly acts are related to and prepare a person for higher, religious acts. Muslims believe, therefore, that everything should be done according to the religious acts Allah has revealed in the Quran, including accounting (Afifunddin & Siti-Nabiha, 2010).

The Quran discusses keeping account of transactions in Albaqarah, Verse 282, stating:

> O you who believe! When you contract a debt for a fixed period, write it down. Let scribe write it down in justice between you. Let not the scribe refuse to write as Allah has taught him, so let him write…

This is about as far as the accounting practice has been regarded in Islam, simply as a technology for recording transactions; however, that perspective is beginning to change (Afifunddin & Siti-Nabiha, 2010).

Accountability and ethics are highly regarded within the Islamic culture. Muslims believe they will have to give an account to Allah for everything done in their lives on the Day of Judgment. They believe a book is waiting for them that has recorded all of their good deeds and they will receive rewards or punishment, accordingly. To add to their book of good deeds, Muslims must abide by Islamic law, Shari'ah law, in every aspect of life. This law contains ethical standards to live by, defining what is good, as derived from Islamic Principles. There have also been regulations defined by Shari'ah law regarding ethical practices when recording financial transactions. Therefore, Muslim accountants are bound by these laws and it is their duty to obey them for they will one day be held accountable for their actions (Afifunddin & Siti-Nabiha, 2010).

The specific accounting and financial practices of Islamic culture is very unique. The Islamic Financial Accounting Standard Board (IFASB) has set out to begin publishing its own unique standards by which all Islamic-based companies can comply. They created Statements of Financial Accounting Nos. 1 and 2, *Objectives of Financial Accounting* and *Concepts of Financial Accounting* and Financial Accounting Standard No. 1 entitled *General Presentation and Disclosure in Financial Statements.* These standards have been implemented mainly within Islamic financial institutions, but it is the first step to creating Islamic-based financial standards for all (Baydoun & Willett, 1995).

Shari'ah law has specific financial rules to be practiced by all members and other rules forbidding certain actions, that significantly influence accounting standards, practices and financial statements. The law imposes a tax upon all Muslims called the *zakat*, a primary tenet of Islam. This tax redistributes wealth from the rich to the poor (Hamid, Craig, & Clarke, 1993). Giving to the poor is not just a requirement by law, but Muslims have also given billions of dollars annually in philanthropic gifts (Afifunddin & Siti-Nabiha, 2010). Islamic law and Quran 3:130 prohibit the charging of interest, or *riba*, meaning increase. Any profit gained beyond what was loaned is considered *riba* and strictly forbidden (Hamid, Craig, & Clarke, 1993). Islam also stresses full disclosure in financial statements, up to the appropriate amount, in order to maintain social accountability (Baydoun & Willett, 1995).

The differences between Western and Islamic accounting pose a problem as Western accounting practices become the primary standards in a globalizing world. Some differences even conflict with the very tenets of Islam. Islamic accounting could be integrated or accepted into current accounting practices today. However, the convergence between IASB and FASB has seemed to give little regard to this matter so far (Hamid, Craig, & Clarke, 1993).

International Convergence

As significant as the differences are between Western and Islamic accounting, every cultural aspect, from Hofestede's cultural dimensions to ethics, will undergo pressure in the light of international accounting convergence propelled by the IASB and FASB. These are differences that cannot necessarily be reconciled by a new set of standards since the cultural differences begin, not in the laws of nations, but in the hearts, minds and value systems of individuals. Therefore, is harmonization of global accounting standards actually possible?

Advocates of international harmonization assert that providing and requiring a specific set of standards around the world would improve the essential accounting principles of consistency and comparability. This would allow foreign investors to view and study financial statements in a consistent manner, enabling better decision making and allowing the world-wide economy to flourish (Zarzeski, 1996). Requiring the adoption of comparable accounting standards around the world takes steps toward that goal, but is not sufficient to fully achieve it. (Oluku & Ojeka, 2011).

As seen previously, culture affects the way in which a person views the world, including the standards by which they abide. The differences that result from this occurrence can be subtle or profound. This will likely take place, as well, when accountants from different cultural backgrounds interpret and apply the converged standards they are given. Muller has stated that accounting “must respond to the over-changing need of society and must reflect the social, political legal and economic condition within which it operates” (Oluku & Ojeka, 2011, p. 917). Countries have already established their economic market and financial needs based on the accounting standards developed from their cultural background (Zarzeski, 1996). This shows one world-wide accounting standard subject to a world of multiple cultural differences, may not fully achieve the goals set forth.

Another issue of international accounting convergence is the fact that it is imposing Western standards on the rest of the world. These new standards are being formed by Anglo-American accountants and rules. This could be offensive to some cultures that do not follow the same cultural patterns as the West. It also makes it seem that Western culture and accounting is superior to all other systems (Hamid, Craig, & Clarke, 1993). This could be perceived in an Islamic community that does not follow the same beliefs and standards as does the West, but are still bound to abide by their rules. These issues may become more evident in the future as accounting standards continue to converge.

In conclusion, the significant influence of culture on accounting is evident. Everything, from cultural values to organizational culture to religion, shapes the accounting practice in different ways. These differences cannot be easily reconciled by implementing one basic accounting standard for all to follow. Culture begins internally and it is difficult, maybe impossible, for external rules to change the basic values of a society. Therefore, future accounting standard setters must take into consideration cultural influences in order to maintain the profession's basic purposes and growth into the future.

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