The impact of culture on interpreting International Financial Reporting Standards in Poland. A comparative analysis with Germany and Great Britain

Jerzy Gierusz *, Katarzyna Koleśnik **, Sylwia Silska-Gembka ***

Introduction

The problem of the impact of culture on the interpretation of financial reporting standards has taken on special significance in the currently ongoing process of accounting harmonization, aimed at the creation of a uniform system of solutions on a worldwide scale. The establishment of supranational organizations and enterprises has complicated international economic relations and revealed the need to standardize accounting regulations, both within individual countries and supranational communities. Having realized the impact of cultural differences on economic life, it is easier to understand what a complex task the process of harmonizing is and how difficult, if not impossible „implanting to a given country of new accounting solutions different in their essence and origin from the previous ones” (Kabalski, 2009, p. 18) may prove to be. Currently we can observe such phenomena in connection with the adoption of the International Financial Reporting Standards (IFRS) to the regulations of continental Europe, including Poland.

It should be stressed that the harmonization did not choose the way of compromise but constitutes an attempt to impose one viewpoint – an Anglo-American one – on the entire world. This means discarding the legacy of other countries, such as Germany or France. In the modern world, as Gierusz says (2001, p. 142) „what is English or American has a global dimension, and what comes from other countries has a local dimension”.

Therefore it is important to find an answer to the question whether the accounting regulations based on the Anglo-American tradition would in fact be fully applicable

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1 Since 2005 all publicly listed companies have been required by law to prepare their consolidated financial statements in accordance with the IFRS.
in various cultural circles, especially that, as previous research shows (Hauriasi, Davey, 2009), social and cultural values shared by some societies are in contradiction with what the IFRS bring.

Cultural differences may cause accountants from various countries to make different use of the same accounting standards, which may result in an adverse impact on the intercultural comparability of financial statements; especially as the idea of harmonization – assuming that everyone understands everything in the same way – ignores this crucial problem. Therefore, an optimistic approach according to which a company „converting into the IFRS, assumes the international language of financial reporting, which will make it understandable in the global market” (Fijałkowska, Jaruga-Baranowska, 2007, p. 98) may not be completely substantiated.

Schultz and Lopez (2001, p. 273) points out that use of uniform accounting standards is not enough to guarantee the standardization of solutions established in various countries, „especially in a situation when they leave freedom of action to accountants”. According to Doupnik et al. (2004), the flexibility of interpreting the IFRS allows for the disclosure of differing results between countries, since accounting standards create possibilities of choice for individuals, requiring them to apply an approach which would be suitable for the arisen circumstances – this is done on the basis of one’s own judgment. Making estimations is also required, which means subjectivism in interpretation of the facts in many areas. Therefore, preparation of a financial statement on the basis of the IFRS often resembles „painting a hundred pictures with the same topic” (Kabalski, 2009, p. 19).

In this context, the problem of interpreting identical accounting standards by accountants from various countries becomes crucial.

The primary objective of this article is to present the research project that is currently being carried out by the Department of Accounting at the University of Gdańsk: The Impact of Culture on Interpreting International Financial Reporting Standards in Poland – A Comparative Analysis with Germany and Great Britain. We present adopted goals, hypotheses, research methods and the significance of the project. We also discuss the basic theoretical framework of the influence of culture on accounting and provide a brief review of the international literature of empirical assessment of the theories of Hofstede and Gray.

The theories of Hofstede’s cultural value dimensions and Gray’s accounting subculture, as well as the empirical research aimed at verifying them, should be perceived as an element of actions aimed at identifying a broadly defined environment in which national accounting standards function.

The research covered by the presented project will be the first attempt at an empirical verification of both the hypothesis on the interpretation of the IFRS in Poland and the broadly defined cultural conditioning in the field of accountancy.

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2 The project is not yet complete hence results are not yet available.
1. Cultural and accounting dimensions in Hofstede’s and Gray’s models

The research into the causes of differences between the accounting systems of individual countries used to ignore the cultural aspects (Sajay, Manassian, 2011, p. 618). It was only since the 1980s, and particularly in the two last decades, that culture, as an accounting-shaping factor, has found itself in the spotlight of international research. Two main trends are distinguished: the first of them is based on the anthropological approach to culture, and the second one emphasizes the definition of culture assumed by Hofstede (2007, p. 17), according to which it is a „collective mind programming which distinguishes members of one group or category of people from another”.

Hofstede was the first to classify national cultures into several dimensions he adopted. These dimensions, determining cultural features, are measurable and allow a culture’s position in relation to other ones to be determined (Hofstede, 2007, p. 36). According to Hofstede, there are six basic dimensions of national cultural values:

1) large vs. small power distance – this factor covers the emotional distance between subordinates and superiors. Whereas in countries with a large power distance subordinates rely heavily on their superiors, regarded as favourable by the former, a characteristic of societies with small power distance is the strong need for mutual consultation;

2) collectivism vs. individualism – these concepts are located on opposite poles, since individualism, unlike collectivism, applies to societies with loose bonds between people, among which „everybody looks after themselves and their closest family” (Hofstede, 2007, p. 111);

3) masculinity vs. femininity – these are elements indicating different mind programming of societies with regard to emotions; in masculine societies, men are expected to be assertive, tough and oriented towards material success, while women should be, above all, modest and caring. On the other hand, a mutual overlap of social roles of both genders is a characteristic of „feminine” societies. Therefore, in predominantly masculine societies, such as the US or Germany, achievement of purely financial results is much more significant than in countries such as Sweden or the Netherlands with their „feminine” shape (Hofstede, 2007, p. 269);

4) weak vs. strong uncertainty avoidance – these factors determine features identified with the degree of threat perceived due to new or unknown situations, which is connected with a need of predictability which can be satisfied by all sorts of laws and customs;

5) long-term vs. short-term orientation – societies with a long-term orientation are characterized by their opposition to thrift and frugality, while a consumption approach is characteristic of those with a short-term orientation, such as Great Britain;
6) indulgence vs. restraint—according to Hofstede et al. (2011, pp. 246–288) indulgence stands for a society that allows relatively free gratification of basic and natural human urges related to enjoying life and having fun. On the other hand, restraint stands for a society that suppresses the gratification of needs and regulates it by means of strict social norms.

Whereas Hofstede’s study was an important impulse for scholarly research of the relations between culture and accounting, the author to pick up this challenge was Gray. In 1988, he defined a set of four cultural features connected with accounting, which are closely related to the dimensions described by Hofstede. They are (Gray, 1988):

1) professionalism vs. statutory control – in the first case, professional evaluation and maintenance of professional self-regulation are emphasized in contrast to compliance with strictly defined regulations and statutory control;

2) uniformity vs. flexibility – indicating the preference of unified solutions assumed in accounting versus the alternative of flexibility of use thereof depending on changing conditions;

3) conservatism vs. optimism – representing a careful approach to the value measurement in the face of uncertainty – as opposed to more aggressive methods of valuation;

4) secrecy vs. transparency – discretion and restrictions of information disclosure are an alternative for transparency and the wide extent of disclosures.

Gray conducted a study on the impact of cultural and social values on the development of the accounting systems in selected countries. In these analyses he proposed testing all attributes of accounting (professionalism or legal regulations, stability or flexibility of the rules), taking into consideration the cultural values defined by Hofstede, i.e. the distance to power, individualism and collectivism, masculinity and femininity, and uncertainty avoidance. He formulated four hypothesis (Gray, 1988, p. 9–11):

H1: Professionalism vs. statutory control
„The higher a country ranks in terms of individualism and the lower it ranks in terms of uncertainty avoidance and power distance then the more likely it is to rank highly in terms of professionalism”.

H2: Uniformity vs. flexibility
„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”.

H3: Conservatism vs. optimism
„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”.

H4: Secrecy vs. transparency
„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”.

3 This new dimension was defined by Hofstede in 2011.

4 The research conducted by Gray does not take into account the fifth and sixth dimensions of the cultural values, i.e. the long- and short-term orientation and consent-restrictiveness, because at the time they were not defined by Hofstede. The fifth dimension – long-term orientation – was incorporated into these hypotheses by Radebaugh and Gray in 2002. According to the authors, a higher national rank of long-term orientation will probably determine a higher national rank of conservatism and secrecy.
H3: Conservatism vs. Optimism
„The higher a country ranks in terms of uncertainty avoidance and the lower it ranks in terms of individualism and masculinity then the more likely it is to rank highly in terms of conservatism”.

H4: Secrecy vs. transparency
„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”.

The relationships between these values are shown in Table 1.

Whereas the first two pairs of features determine the shape of specific institutions and norms of the accounting system, conservatism and secrecy refer to the value measurement of assets, liabilities and the financial result, as well as to information disclosures in a financial statement.

Table 1. Relationships between Gray’s accounting values and Hofstede’s cultural dimensions

<table>
<thead>
<tr>
<th>Gray’s accounting values</th>
<th>Hofstede’s cultural dimensions</th>
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<tr>
<td></td>
<td>Power Distance</td>
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<tr>
<td>Professionalism</td>
<td>Negative</td>
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<tr>
<td>Uniformity</td>
<td>Positive</td>
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<tr>
<td>Conservatism</td>
<td>No relationship hypothesized</td>
</tr>
<tr>
<td>Secrecy</td>
<td>Positive</td>
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</tbody>
</table>

Source: adapted from Gray (1988, pp. 9–11).

According to Gray (1988) and Radebaugh and Gray (2002), uncertainty avoidance and long-term orientation are those of Hofstede’s cultural dimensions which have the greatest impact on the tendency towards conservatism. These two dimensions in turn, along with power distance and individualism, have the strongest influence on the tendency to secrecy.

Hofstede says (2007, p. 270): „if we assume that accounting systems are uncertainty-reducing rituals, fulfilling a cultural need for certainty, simplicity, and truth in a confusing world, one can expect that the degree of uncertainty avoidance which is typical for a country would influence the manners of accounting in this country”. Therefore, a wider extent of disclosures would characterize countries tending to avoid uncertainty. Numerous studies (including Doupnik, Salter, 1995; Salter, 1995, Taylor-Zarzeski, 1996; Akman, 2011) confirmed the existence of a connection between uncertainty avoidance and national accounting systems. Thus countries of the Anglo-American culture, as Gray states, are largely inclined towards optimism and expansion of reporting information, while he regards Germanic countries as ones definitely more inclined towards secrecy and partially also towards conservatism.
At the same time, it should be noted that conservatism is regarded as a feature of the accounting subculture which significantly differs depending on the part of the world – from the highly conservative approach typical to continental Europe, to a less conservative one characterizing British and US accountants (Chanchani, Willett, 2004, p. 129). It is regarded to have the greatest impact on the intercultural comparability of financial statements (Doupnik and Tsakumis, 2004, p. 35). Analogous differences between continental Europe and Great Britain are also perceived in the tendency towards secrecy.

Gray’s analyses have opened a completely new chapter in the research into the causes of differences between national accounting systems, since researchers have begun to realize how much the principles of valuation, the mode of establishing the regulations, as well as the extent of disclosed information, are influenced by cultural factors.

2. The studies of cultural conditioning of accounting in Poland in the light of international studies

The first to speak up in the discussion of cultural conditioning of accounting, as early as in 1968, was Bearley (1968, p. 5), arguing that “differences between accountants from various cultures are greater than those between a farmer and an accountant from one cultural circle”. Moreover, this author emphasizes that scholars’ realization of the fact that cultural values influence many aspects of accounting was fundamental for the studies concerning this discipline. Nevertheless, Sajay and Manassian (2011, p. 618) have proved that until 1980, culture was not perceived as a significant element taken into account in the study of accounting.

A turning point in this regard were the studies of Hofstede (1980) and Gray (1988). A natural consequence of the formulating of the theses quoted above by those researchers were attempts at their practical verification, implemented in various countries, and therefore also in different cultural environments. Table 2 presents some more recent studies of the empirical assessment of Hofstede’s and Gray’s theoretical framework.

In most studies of this area, cultural aspects were usually discussed in the context of their impact on the accounting practices applied in a given country (Noravesh et al., 2007; Salter, Lewis, 2011; Perera et al., 2012)\(^5\), influence on the extent of information disclosed in financial statements (Jaggi, Low, 2000; Hope, 2003; Akman, 2011)\(^6\), as well as the degree of diversity between national and international accounting standards (Ding, 2005). It should be noted that the vast majority of these studies were made before the expansion of the scope of use of the IFRS.

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<table>
<thead>
<tr>
<th>Field of studies</th>
<th>Author</th>
<th>Theory applied</th>
<th>Sample of countries</th>
<th>Brief description of the study</th>
<th>Conclusions</th>
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<tbody>
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<td></td>
<td>Jaggi, Low (2000)</td>
<td>X</td>
<td>Canada, UK, USA (common law countries); France, Germany, Japan (code law countries)</td>
<td>The authors investigate the role of culture and legal origin in explaining disclosure levels.</td>
<td>National cultural values do not appear to have a significant influence on financial disclosures.</td>
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<td>Culture and accounting disclosures</td>
<td>Hope (2003)</td>
<td>X</td>
<td>39 and 42 countries (depending on the particular test)</td>
<td>The author investigates whether national culture (as measured by Hofstede) is correlated with firms’ disclosure levels.</td>
<td>The author finds no links between culture and the level of financial disclosures. However he claims that „(…) it is too early to dismiss culture as an explanatory variable for firms’ disclosure choices” (2003, p. 22).</td>
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<td>Akman (2011)</td>
<td>X</td>
<td>Australia, France, Germany, Italy, the Netherlands and the United Kingdom</td>
<td>The authors investigate whether the differences in financial disclosure due to culture have diminished after the use of IFRS.</td>
<td>Findings of the study show that the use of a single set of accounting standards does not completely eliminate the impact of culture on financial disclosure.</td>
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<td>Culture and the interpretation of accounting standards</td>
<td>Schultz, Lopez (2001)</td>
<td>X</td>
<td>France, Germany, USA</td>
<td>The influence of culture on accountants’ interpretation and application of similar financial reporting standards.</td>
<td>Even given similar facts and rules, judgments among accountants vary significantly. Accountants from Germany and France are more conservative in their professional judgments than accountants from the USA.</td>
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<td></td>
<td>Doupnik, Richter (2003)</td>
<td>X</td>
<td>Germany, USA</td>
<td>The effect of language-culture and linguistic translation on the accountants’ interpretation of verbal uncertainty expressions found in IFRS.</td>
<td>The results indicate significant differences in interpretation across the selected countries. Some differences are attributed to a language-culture effect and others to a translation effect, with the language-culture effect being more dominant.</td>
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<td></td>
<td>Doupnik, Richter (2004)</td>
<td>X</td>
<td>Germany, USA</td>
<td>The effect of national culture on verbal probability expressions found in IFRS.</td>
<td>The study’s results suggest that culture influences the interpretation of verbal probability expressions used in IFRS.</td>
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<td>Culture and the interpretation of accounting standards</td>
<td>Doupnik, Riccio (2006)</td>
<td>X</td>
<td>USA, Brazil</td>
<td>The authors test two of Gray’s hypotheses, secrecy and conservatism, to find whether differences in culture make accountants in distinct countries differently interpret and apply the same financial reporting standards.</td>
<td>The authors find a strong relationship between the conservatism hypothesis and recognition of income-increasing items but no relationship between this hypothesis and recognition of income-decreasing items. However, strong relationships were obtained between the secrecy hypothesis and disclosures of financial information.</td>
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<td></td>
<td>Chand (2008)</td>
<td>X</td>
<td>Australia, Fiji</td>
<td>The author examines the effects of both cultural and non-cultural factors on professional judgments of accountants.</td>
<td>Fijian accountants display stronger conservatism when compared to the Australian accountants. National culture has a significant effect on the manner in accountants’ professional judgment required by IFRS.</td>
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<td>Culture and the differences between national and international accounting standards</td>
<td>Ding et al. (2005)</td>
<td>X</td>
<td>52 countries</td>
<td>The authors investigate the role of culture as an explanatory factor underlying differences between national and international accounting standards. These differences are measured using the following measures: divergence and absence.</td>
<td>The authors find a strong relationship between cultural values and the divergence index but no significant relationship between these values and the absence index.</td>
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<td>Culture and accounting practices</td>
<td>Noravesh et al. (2007)</td>
<td>X</td>
<td>Iran</td>
<td>The authors examine the relationships between cultural values defined by Hofstede and accounting values described by Gray in Iran.</td>
<td>The authors confirm eight out of thirteen of Gray’s hypotheses. Contrary to Gray they find: 1) no positive relationship between: a) uncertainty avoidance and secrecy, b) uncertainty avoidance and uniformity, c) individualism and professional-</td>
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<td>Theory applied</td>
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<td>Sample of countries</td>
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<td>15 countries</td>
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<td>Brief description of the study</td>
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<td>The authors use actual reported data (1998–2004) from SEC Form 20-F to test relationships between one of Gray’s accounting values, conservatism, and Hofstede’s cultural dimensions.</td>
<td>The cultural variable of individualism is significantly and positively related to differences in income measurement practices between countries. Country’s membership in the European Union and corporate tax rate are related to income measurement practice differences.</td>
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<td>Conclusions</td>
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<td>1) H – Hofstede</td>
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<td>2) G – Gray</td>
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<td>a) As a basis for this research the accounting standards that require accountants to exercise their judgment have been identified (the standards relating to income-increasing and income-decreasing, e.g. IAS 18 – Revenues, IAS 11 – Construction Contract).</td>
<td>The findings of the study suggest a high level of professionalism in New Zealand and a low level of professionalism in Samoa. It is concluded that culture may be a factor that has an impact on these differences.</td>
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<td>b) According to the authors (2003), „Divergence measures the degree to which GAAP (author’s note: national accounting standards) and IAS (author’s note: international accounting standards) cover a specific accounting topic but prescribe different methods. Absence measures the degree to which national GAAP do not cover an accounting issue regulated by IAS”(p. 343).</td>
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1) H – Hofstede  
2) G – Gray  

Source: own study.
Few projects have attempted to answer the question whether cultural differences determine the fact that accountants and auditors from different countries may interpret and apply the same accounting standards differently. They include studies by Schultz and Lopez (2001), Doupnik and Richter (2003, 2004), Doupnik and Tsakumis (2004), Doupnik and Riccio (2006), and Chand (2008), whereas the impact of cultural conditioning on interpretation of the IFRS was discussed only in the study by Doupnik and Richter (2003, 2004), in which this problem was taken up in Anglo-American and Germanic countries only from the perspective of one of the cultural features defined by Gray, namely, conservatism. The paper by Doupnik and Riccio of 2006 additionally includes one more feature – secrecy, limited to the USA and Brazil (as a representative of the Latin culture), while the 2008 study by Chand employs Hofstede’s cultural dimension theory in relation to Fiji and Australia (as representatives of two distinct national cultures).

Whereas cultural conditioning of accounting constitutes the basis of numerous surveys implemented by foreign teams, there have been no attempts in this regard in Poland.

A review of Polish literature made in order to determine how much the issues concerning cultural conditioning of accounting are present in the Polish literature unambiguously shows that this problem is very poorly examined in Poland (Koleśnik and Silska-Gembka, 2012). The subject matter under discussion is presented only in its theoretical aspect, which mainly boils down to the presentation of Hofstede’s cultural dimensions and Gray’s model of the accounting subculture. It should be stressed that these issues have usually been given between just several lines and one typewritten page at the most. What is particularly important is that no empirical research in this area has been performed in Poland so far.

However, the issues of cultural conditioning can be found in studies of Polish researchers in the fields of other sciences, such as intercultural psychology (including Bilewicz, 2007; Borkowska, 2007; Sorokowski, 2010) and intercultural management (including Sułkowski, 2002).

3. Research project presentation

Taking into account the significance of research concerning cultural conditioning of accounting and interpretation of the IFRS by accountants and auditors, as well as the fact they have not been initiated in Poland, the Department of Accounting at the University of Gdańsk has been carrying out the project *The Impact of Culture on Interpreting International Financial Reporting Standards in Poland – A Comparative Analysis with Germany and Great Britain.*

Figure 1 illustrates the essence of the project.
The impact of culture on interpreting International Financial Reporting Standards in Poland...

**Figure 1. The essence of the project**

![Diagram showing cultural dimensions and IFRS interpretation](image)

Source: own study.

The research problem of the project can be reduced to the following questions:

1. What is the influence of cultural factors on interpretation of the IFRS in Poland as compared with Germany and Great Britain?
2. Are the regulations of the IFRS unambiguous and precise enough to be understood identically in every country, regardless of the cultural conditioning which had shaped the previously used national accounting standards?

The primary objective adopted was to survey the degree of influence of cultural conditioning, especially conservatism and secrecy, on subjective judgments made by accountants and auditors in connection with the application of assorted IFRS in Poland, Germany and Great Britain.

Implementation of the research goal primarily requires countries constituting the basis of comparison for Poland to be identified. The national cultural values of these countries have to differ significantly from each other, which would guarantee that more distinct results would be obtained (Tsakumis, 2007, p. 32), because the values followed by accountants and auditors in these countries when making subjective judgments required by some of the IFRS should be different.

As mentioned in Chapter 2, on the basis of the identified relations, Gray has placed different groups of countries in two coordinate systems, according to their cultural and customary approach to the establishment of accounting standards, as well as the applied principles of valuation and extent of disclosed reporting information.
From the viewpoint of optimism in value measurement and extent of disclosures of reporting information, two areas of national accounting systems have been distinguished, i.e. a discrete and conservative one (secrecy – conservatism) and an optimist and transparent one (optimism-transparency). The degree of diversity of the values mentioned above with regard to Germany and Great Britain is shown in Table 3.

Table 3. Intensity of values shaping the accounting systems in Germany and Great Britain

<table>
<thead>
<tr>
<th>Cultural Areas</th>
<th>Gray’s accounting subculture values</th>
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<tbody>
<tr>
<td></td>
<td>Secrecy(^{a)})</td>
</tr>
<tr>
<td>Germanic countries, including Germany</td>
<td>6</td>
</tr>
<tr>
<td>Anglo-Saxon countries, including Great Britain</td>
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\(^{a)}\) where: 1 – low tendency towards secrecy, 7 – high tendency towards secrecy  
\(^{b)}\) where: 1 – low tendency towards conservatism, 5 – high tendency towards conservatism


According to Gray’s classification, Anglo-American countries are characterized by the largest degree of optimism and transparency, while a higher degree of conservatism and secrecy characterizes countries originating from the continental tradition of accounting. Great Britain was chosen as the country representing the Anglo-American culture, and Germany as the representative of the continental culture. Poland, before the amendment of the Accounting Act of 2000, was listed among countries belonging to the continental model of accounting, whereas after this period, Polish balance law was expanded by many solutions closely related to the IFRS, which indicates an inclination towards the Anglo-American tradition.

According to Gray (1988, p. 10), conservatism is the oldest and most predominant dimension of accounting, and, along with secrecy, is the value of the accounting subculture which has the strongest impact on the valuation and level of disclosures in a financial statement. Therefore, these two features are most often employed when conducting research regarding intercultural comparability of financial statements (e.g. Eddie, 1990; Salter, 1995; Schultz and Lopez, 2001; Rezazedeh, 2002; Doupnik and Richter, 2003, 2004; Doupnik and Tsakumis, 2004; Doupnik and Riccio, 2006).

It can be assumed that accountants and auditors from countries with a high degree of conservatism will be characterized by a more careful approach to interpretation of standards requiring subjective judgments to be made. On the other hand, those from countries with a high degree of secrecy will be inclined to disclose a limited quantity of information in a financial statement. The manner of interpretation will be verified by studying how accountants and auditors approach verbal probability expressions included in the following IFRS:

1) IAS 11 – Construction Contracts,
2) IAS 12 – Income Taxes,
3) IAS 17 – Leases,
4) IAS 18 – *Revenue*,
5) IAS 36 – *Impairment of Assets*,

In the standards mentioned above, an assumed limit of probability resulting in the obligation of disclosure or determining the limit of measurement is expressed with the following expressions:
1) „it is probable” (IAS 11, par. 23 and 36; IAS 12, par. 34; IAS 18, par. 22; IAS 36, par. 12; IAS 37, par. 14, 34),
2) „it is remote” (IAS 37, par. 28),
3) „reasonable certainty” (IAS 17, par. 27).

Such expressions are used when determining a limit resulting in an obligation to both recognize a given item and make appropriate disclosures in a financial statement. For example, in IAS 37, the expression „it is probable” was used when establishing a limit resulting in an obligation to create a provision, and the expression „it is remote” – with regard to the obligation of disclosures in the additional information in the field of contingent liabilities.

These expressions will be grouped into the three following sets presented in Table 4.

**Table 4. Probability expressions in interpretation of assorted IFRS**

<table>
<thead>
<tr>
<th>IAS/IFRS</th>
<th>Paragraph</th>
<th>Probability expressions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resulting in measurement of items increasing the financial result</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IAS 11</td>
<td>23</td>
<td>it is probable</td>
</tr>
<tr>
<td>IAS 12</td>
<td>34</td>
<td>it is probable</td>
</tr>
<tr>
<td>IAS 17</td>
<td>27</td>
<td>reasonable certainty</td>
</tr>
<tr>
<td>IAS 18</td>
<td>22</td>
<td>it is probable</td>
</tr>
<tr>
<td><strong>Resulting in measurement of items decreasing the financial result</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IAS 11</td>
<td>36</td>
<td>it is probable</td>
</tr>
<tr>
<td>IAS 36</td>
<td>12</td>
<td>it is probable</td>
</tr>
<tr>
<td>IAS 37</td>
<td>14</td>
<td>it is probable</td>
</tr>
<tr>
<td><strong>Resulting in making of disclosures in the financial statement</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IAS 37</td>
<td>28</td>
<td>it is remote</td>
</tr>
<tr>
<td>IAS 37</td>
<td>34</td>
<td>it is probable</td>
</tr>
</tbody>
</table>

Source: own study.

These expressions are used to determine a limit for the recognition of items resulting in an increase in the financial result (e.g. IAS 18 prescribes that the revenue from sale of goods be recognized when it is probable that the economic benefits associated with the transaction will flow to the entity) or its decrease (e.g. IAS 11 requires the expected loss to be recognized when it is probable that total contract costs will exceed total contract revenue).

Therefore, the task of accountants and auditors covered by the survey will be to determine numerically the degree of probability, using a scale of values between 0% and 100%. Because such expressions are used for measuring various items, the level
of conservatism of auditors and accountants from different countries should influence their manner of interpretation.

Moreover, probability description is used when determining a limit resulting in an obligation to make disclosures in a financial statement, therefore the degree of secrecy characterizing accountants and auditors should also influence the interpretation of these phrases.

This corresponds to the main hypothesis, which says:

**Polish auditors and accountants interpreting the IFRS prefer a more conservative approach when making subjective judgments, and are characterized by a higher degree of secrecy at evaluation of disclosures, as compared with accountants and auditors from Germany and Great Britain.**

It is developed into the following statements:

1) accountants and auditors from countries with a high degree of conservatism will determine numerically a higher probability threshold for events resulting in recognition of items increasing the financial result;
2) accountants and auditors from countries with a high degree of conservatism will determine numerically a lower probability threshold for events resulting in recognition of items decreasing the financial result;
3) accountants and auditors from countries with a higher degree of secrecy will establish a higher probability threshold for events requiring a disclosure in a financial statement.

The legitimacy of the assumptions results from the output of Gray’s theory of accounting subculture dimensions described in chapter 2, according to which (Gray, 1988; Radebaugh and Gray, 2002):

1) a higher national rank of uncertainty avoidance and long-term orientation, as well as a lower rank of individualism and masculinity, will probably determine a higher national rank of conservatism (whereas uncertainty avoidance and long-term orientation are regarded as the most significant features);
2) a higher national rank of uncertainty avoidance, long-term orientation and power distance, as well as a lower rank of individualism and masculinity, will probably determine a higher national rank of secrecy.

In view of the fact that, compared with Germany and Great Britain, Poland is attributed with a higher index of uncertainty avoidance, long-term orientation and power distance, as well as a lower index of individualism and masculinity (Figure 2), it can be assumed that Polish accountants and auditors will be more conservative and inclined towards secrecy than German and British ones.

The research material will consist of four parts:

1) an instruction for filling in the questionnaire,
2) a collection of fragments from assorted IFRS, containing verbal expressions of probability determining a limit resulting in an obligation to valuate a given item and make appropriate disclosures in a financial statement,
3) Hofstede’s values survey module (VSM),
4) demographic data of the surveyed persons (such as gender, descent, professional experience in years, occupied position, degree of knowledge of the IFRS and their application in the professional practice).

**Figure 2.** Poland against the background of Germany and Great Britain - Hofstede’s cultural dimensions

![Hofstede's Cultural Dimensions](source)


Each part of the questionnaire prepared for a given research group will have an identical layout and order.

The Polish version of the materials will be submitted to accountants from stock exchange listed companies using the IFRS and to auditors actively practising their profession.

The English version will be sent to accountants and auditors associated in professional organizations, such as the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England and Wales (ICAEW), and the German version to ones associated in the Accountants Group in Germany (AGiG), or Auditor Oversight Commission (AOC).

It is assumed the research sample will include approximately 100 units in the case of accountants and 100 units in the case of auditors in each of the surveyed countries.

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7 The Polish-language version of Hofstede’s values survey module (VSM) is available at http://www.geerthofstede.nl/vsm-08. This version will be translated into English and a subsequent comparison of the English-language original version by Hofstede will be made in order to ensure the quality of translation of the non-original version. The same procedure will be conducted with regard to the German-language version of Hofstede’s survey module (VSM). Such mode of procedure is suggested by Hofstede, http://www.geerthofstede.nl/vsm-08.
The survey will include fragments of the IFRS published by:
1) The Accountant Association in Poland – being the only official translation of the International Financial Reporting Standards of the International Accounting Standards Board – for the Polish version of the questionnaire,
2) Fidacta GmbH – the official German translation – for the German version of the questionnaire,
3) The IFRS Foundation – for the English version of the questionnaire.

Although Hofstede argues that cultural values do not change over time, nobody so far has conducted complex research which would allow this hypothesis to be verified (Doupnik and Riccio, 2006, p. 246).

Moreover, Hofstede conducted his survey among IBM employees, the majority of whom were not accountants, therefore it is hard to evaluate conclusively how much the values of individual cultural dimension indexes determined for IBM employees apply to the environment of accountants and auditors (Doupnik and Riccio, 2006, p. 245). Therefore, to make sure whether accountants and auditors from Poland differ from accountants and auditors from Germany and Great Britain in the manner determined by Hofstede, it was decided that the survey questionnaire should be accompanied by Hofstede’s values survey module (VSM).

The comparative analysis of the surveyed countries will be divided into two parts concerning:
1) Poland and Germany,
2) Poland and Great Britain.

Each of these parts will include a comparison of the total group of accountants and auditors from Poland with a full group of accountants and auditors from Germany and Great Britain (depending on the compared countries).

4. Significance of the project

If the research hypotheses are confirmed, this would mean that:
1) when making decisions on the basis of information included in a financial statement, one should take into account not only numerical data but also the accountants’ and auditors’ tendency towards secrecy and conservatism;
2) preparing the Polish accounting act, which absorbs international regulations, and making a comparison of achievements presented in reports of Polish enterprises compared with the results disclosed in statements of German and British companies, one should keep in mind the cultural context, especially various relations to secrecy and conservatism, typical to Polish accountants and auditors. Such statements cannot be compared directly, despite being prepared on the basis of identical regulations;
3) the very idea of harmonization will be questioned. On the global scale, standardization of regulations will not be enough to achieve the final effect in the form of...
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comparability of financial statements. It should inspire a search for an answer to the question what harmonization should aim at – whether limitation of the field of choice, greater precision in formulating regulations, or rather regarding the IFRS as merely a point of departure with a possibility for enterprises to use national standards, taking into account the cultural roots of the regulations.

If the research hypotheses are negatively verified, it may mean that:
1) the cultural values of accounting have changed over time, therefore Hofstede’s and Gray’s theories are not current anymore, or
2) in modern times, cultural differences between the surveyed countries have no impact on interpreting the IFRS, therefore this factor should not interfere with the process of accounting harmonization in Poland, Germany and Great Britain.

From a practical point of view, the obtained results may contradict the thesis that a globally uniform balance law can be fully adopted in diverse cultural environments, which should translate into quality improvement and full comparability of financial statements.

The structure of many international standards requires estimations to be made, which forces subjective judgments to be made. As Gierusz indicates (2010, p. 8), „one of the attributes of modern accounting is the departure from historic costs in favour of fair value, therefore there are increasingly more estimations, predictions and prognoses in accounting”. Currently, „it is not external source documents but people’s own estimations which often decide on the presence of a given item in a financial statement” (Gierusz, 2010, p. 247).

On the one hand, such a situation requires accountants to have very high qualifications and competences, yet on the other hand, such judgments will not always have an identical, universal dimension. In practice, this means that the principles determined in the IFRS will not be uniformly applied in all possible cases. With such a background, the subject matter of cultural conditioning and its impact on the manner of interpreting the IFRS gains special significance.

Conclusions

According to recent research, the development of accounting is shaped by a number of environmental factors, among which culture is regarded as the most important one (Noravesh et al., 2007, p. 254). According to Noravesh et al. (2007, p. 254) the study of cultural conditioning, indicating that accounting cannot be treated as a strictly technical discipline, have certainly enriched this science. As Perera remarked (1989, pp. 42–43) „although the technical aspect of accounting is less culture-dependent than the human aspect, because the two interact, accounting cannot be culture-free”.

On the one hand, the theories of Hofstede’s cultural value dimensions and Gray’s accounting subculture, as well as empirical research aimed to verify them, contribute to a better understanding of all determinants of the individualized shape of the accounting
practice, while on the other hand they constitute an attempt to recognize challenges formulated towards accounting through processes of its harmonization and standardization, implemented in a diversified cultural environment. The research project presented in this article questions the very idea of harmonization and standardization and induces reflection on the universality of the IFRS as a system possible to be adopted on the global scale, ensuring a high quality of financial statements.

One of the reasons for a country to adopt IFRS is because of the requirement of business entities to publish clearly understandable and standardized financial statements. This standardization across borders is one essential condition, however, countries that adopt IFRS need to be aware of the necessity for consistent interpretation of this single set of standards.

The presented project could find that a specific nationality results in differences in probabilities assigned to probability expressions used in IFRS. This is because accountants and auditors in different countries interpret differently uncertainty expressions that need personal judgments. Furthermore, this could result in accountants making different decisions in applying IFRS, and in this way the comparability of financial statements within countries would suffer. Additionally, it would obviously affect the usefulness of these reports.

Any insight into the impact of culture on accounting makes important contributions to the international accounting literature. The Polish research covered by the presented project will be the first attempt at an empirical verification of both the hypothesis on the interpretation of the IFRS in Poland and the broadly defined cultural conditioning in the field of accountancy. This should open a completely new area of interdisciplinary research – the link between accounting and culture. We also hope that it will raise the debate about the cultural relevance hypothesis in Polish accounting literature to one based upon a more empirical approach.

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Summary

The problem of the impact of culture on interpreting financial reporting standards has taken on special significance in the currently ongoing process of accounting harmonization, aimed at creating a uniform system of solutions on a worldwide scale. Having realized the impact of cultural differences on the economic life, it is easier to understand what a complex and difficult process it may be, regarding the fact that harmonization did not choose the way of compromise but constitutes an attempt to impose one viewpoint – an Anglo-American one – on the entire world. Therefore it is important to find an answer to the question whether the accounting regulations based on the Anglo-American tradition would in fact be fully applicable in various cultural areas. The primary objective of this article is to illustrate the research project that is currently being carried out by the Department of Accounting at the University of Gdańsk: The Impact of Culture on Interpreting International Financial Reporting Standards in Poland – A Comparative Analysis with Germany and Great Britain. We present adopted goals, hypotheses, the research methods and the significance of the project. We also discuss the basic theoretical framework of the influence of culture on accounting and provide a brief review of the international literature of empirical assessment of Hofstede’s and Gray’s theories. The research covered by the presented project will be the
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first attempt at an empirical verification of both the hypothesis on the interpretation of the IFRS in Poland and the broadly defined cultural conditioning in the field of accountancy.

Keywords: culture, accounting, IFRS.

Stresszczenie

Wpływ uwarunkowań kulturowych na interpretację Międzynarodowych Standardów Sprawozdawczości Finansowej. Analiza porównawcza na tle Niemiec i Wielkiej Brytanii


Słowa kluczowe: kultura, rachunkowość, MSSF.