

An Analytical Comparison of United States and French Culture and Accounting Values:  
Applying the Hofstede-Gray Framework

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### Abstract

The Securities and Exchange Commission (SEC) has recently released a statement supporting the convergence of US Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS), and countries all around the world are moving towards a more uniform global set of standards. Over the years many theories have been formed concerning the influence culture has on accounting practices in different countries. This study is focused on supporting the Hofstede-Gray framework presented by Sidney J. Gray in explaining how social values contribute to accounting systems.

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In 2010 the Securities and Exchange Commission (SEC) released a statement in support of convergence towards global accounting standards, also known as International Financial Reporting Standards (IFRS). The United States currently operates under a set of Generally Accepted Accounting Principles (GAAP) set through the Financial Accounting Standards Board (FASB) whereas, other European countries, such as France, operate under variations to IFRS. The core of standardization is understanding how accounting practices vary from to country to country and more importantly what has led to the drastic differences in accounting systems around the world. Obtaining a better of understanding of what affects these differences is critical in realizing the difficulties of convergence. One theory that has gained widespread support in recent years suggests that cultural and societal values are an important influence on the development of accounting systems.

In 1988 S. J. Gray published a framework incorporating Geert Hofstede's widely accepted societal dimensions and his own proposed accounting values as a way to explain the differences in accounting systems around the world. There as been some studies of the relevance of this framework but there is not a lot of empirical evidence supporting his claims. The sample for this study consisted of university students in the United States and France, countries proposed to have opposite rankings of accounting values. Surveying students in two different countries will determine whether or not Gray's value constructs are still relevant in accounting education today.

## **US and French GAAP**

The United States has operated under a set of Generally Accepted Accounting Principles (GAAP) since the 1940s. US GAAP is an extensive listing of principles that provides highly detailed and industry specific standards. Four policy-setting boards determine GAAP: Federal Accounting Standards Board (FASB), Securities and Exchange Commission (SEC), American Institute of Certified Public Accountants (AICPA), and Government Accounting Standards Board (GASB). FASB is primarily in charge of developing accounting standards and they release a variety of standards, interpretations, and statements that vary in level of authority. The SEC is generally in charge of enforcing accounting practices and has final say on the establishment of accounting principles. This year the SEC will determine whether or not the United States will incorporate International Financial Reporting Standards (IFRS), which are a more principle-based. This difference gives companies a greater amount of autonomy in preparation of financial reports. IFRS does not include as detailed of standards and will allow for more interpretation.

A large part of the world, including France, currently operates under a customized version of IFRS (Newman). However, just as with America, there is a long list of differences between French GAAP and IFRS. These differences range everywhere from how revenue is recognized, the elements of the financial statements that are required, and how assets are capitalized. The term GAAP does not have an official meaning in France because accounting standards are decreed through government. The biggest difference between US and French GAAP is that the all businesses in France are required to use standardized formats for the general ledger of accounts and key financial statements

(KPMG, p. 5). Companies such as PricewaterhouseCoopers and KPMG publish documents yearly depicting the specific differences between IFRS and the accounting systems in different countries. Due to the vast differences in accounting practices around the world, many theories have been proposed to explain the reasoning behind. One theory that is gaining more support is that factors concerning a society's culture influences the accounting principles in each society. One such theory is known as the Hofstede-Gray framework.

### **Hofstede's Research**

In the 1970s, Geert Hofstede did extensive research on how cultural differences affect governments and institutions across nations. He developed five empirically measurable societal dimensions on which country's cultures differ: power distance, uncertainty avoidance, individualism versus collectivism, masculinity versus femininity, and long-term versus short-term orientation. Hofstede's definitions for the four dimensions relevant to the framework are given below:

**Power distance** is the extent to which the less powerful members of organizations and institutions accept and expect that power is distributed unequally. The basic problem involved is the degree of human inequality that underlies the functioning of each particular society.

**Uncertainty avoidance** is the extent to which a culture programs its members to feel either uncomfortable or comfortable in unstructured situations. Unstructured situations are novel, unknown, surprising, different from usual. The basic problem involved is the degree to which a society tries to control the uncontrollable.

**Individualism versus collectivism** is the degree to which individuals are supposed to look after themselves or remain integrated into groups, usually around the family. Position itself between these poles is a very basic problem all societies face.

**Masculinity versus femininity** refers to the distribution of emotional roles between the genders, which is another fundamental problem for any society to which a range of solutions are found; it opposes “tough” masculine to “tender” feminine societies. (2001, p. xix)

Hofstede then assigned a value index to each country for each of the dimensions and classified the countries surveyed into ten different cultural areas (See Figure 1). For the purposes of this study, the United States is placed into the “Anglo” category and France is considered is in the “More developed Latin” area. The index scores were given to each country as a way to place them between the two poles of each dimension and can be used for comparisons. Figure 2 displays the given index scores for France and the United States for the four relevant dimensions.

**Figure 2: Index Scores for France and the United States**

	<b>Power Distance</b>	<b>Uncertainty Avoidance</b>	<b>Individualism</b>	<b>Masculinity</b>
<b>France</b>	68	73	71	43
<b>United States</b>	40	36	91	62

Figure 1

## Hofstede's Cultural Areas

More developed Latin	Less developed Latin	More developed Asian
Belgium	Colombia	Japan
France	Ecuador	
Argentina	Mexico	
Brazil	Venezuela	
Spain	Costa Rica	
Italy	Chile	
	Guatemala	
Less developed Asian	Panama	African
Indonesia	Peru	East Africa
Pakistan	Portugal	West Africa
Thailand	Salvador	
Taiwan	Uruguay	
India	Near Eastern	Asian colonial
Malaysia	Arab countries	Hong Kong
Philippines	Greece	Singapore
	Iran	
	Turkey	
	Yugoslavia	
Germanic	Anglo	Nordic
Austria	Australia	Denmark
Israel	Canada	Finland
Germany	Ireland	Netherlands
Switzerland	New Zealand	Norway
	United Kingdom	Sweden
	United States	
	South Africa	

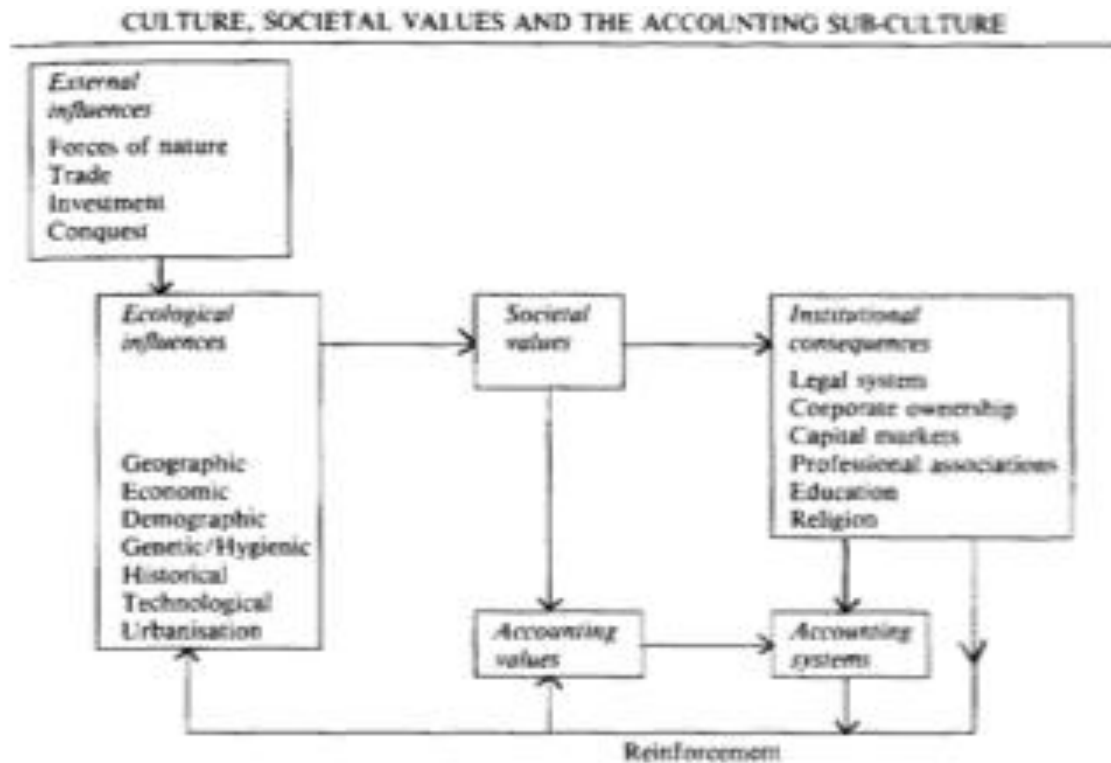
Source: G. Hofstede, *Culture's Consequences* (Beverly Hills: Sage, 1980), p. 336.

### Gray's Value Constructs

In 1988 Sidney Gray published an article "Towards a theory of cultural influence on the development of accounting systems" in the journal *Abacus*. This article outlined Gray's theory that Hofstede's societal dimensions could explain differences in international accounting reporting systems. After a review of Hofstede's dimensions,

Gray proposed a system in which societal values can be linked into the accounting subculture (See Figure 3).

**Figure 3**



(Source: Gray *Abacus* 1988, p. 7)

Gray derived four “accounting values” through a review of accounting literature and practice. His definitions for these values are shown below:

**Professionalism versus Statutory Control**— a preference for the exercise of individual professional judgment and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control.

**Uniformity versus Flexibility**—a preference for the enforcement of uniform accounting practices between companies and for the consistent use of such practices over time as opposed to flexibility in accordance with the perceived

circumstances of individual companies.

**Conservatism versus Optimism** — *a preference for a cautious approach to measurement so as to cope with the uncertainty of future events as opposed to a more optimistic, laissez-faire, risk-taking approach.*

**Secrecy versus Transparency** — *a preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open and publicly accountable approach (1988, p. 5).*

Although these are the only values that have been identified, there is the possibility that there are additional unknown values. The purpose of this study is to validate the accuracy of Gray's values, and therefore there will not be any attempt to discover any other factors that may shape international accounting systems.

An analysis of the four accounting values and Hofstede's four societal dimensions led Gray hypothesize the following:

H1: 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.

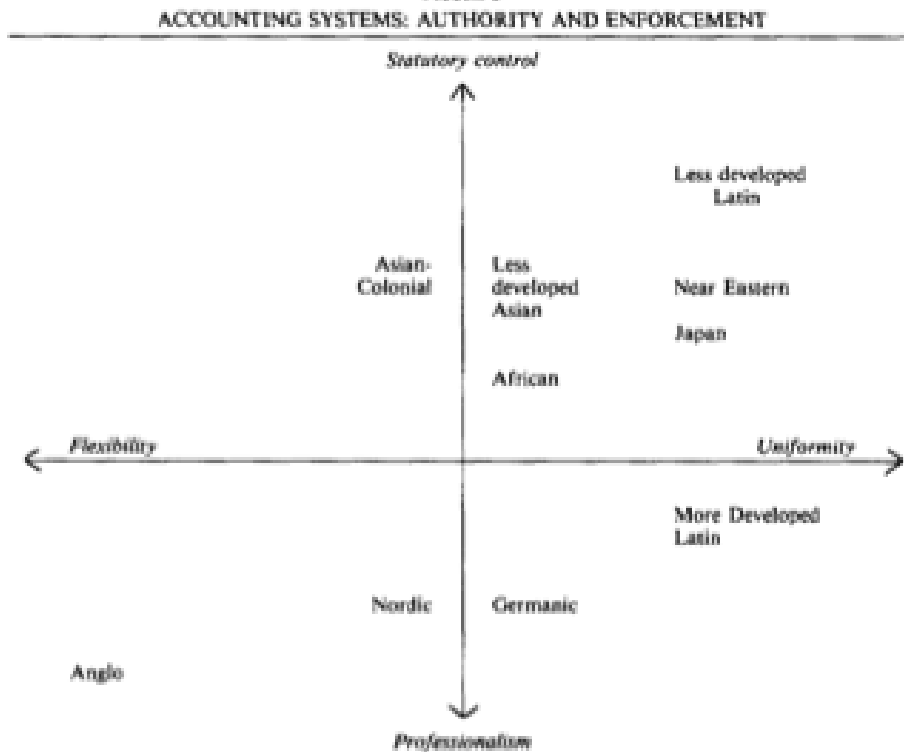
H2: The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism then the more likely it is to rank highly in terms of uniformity.

H3: 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: 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 (1988, p. 9-11).

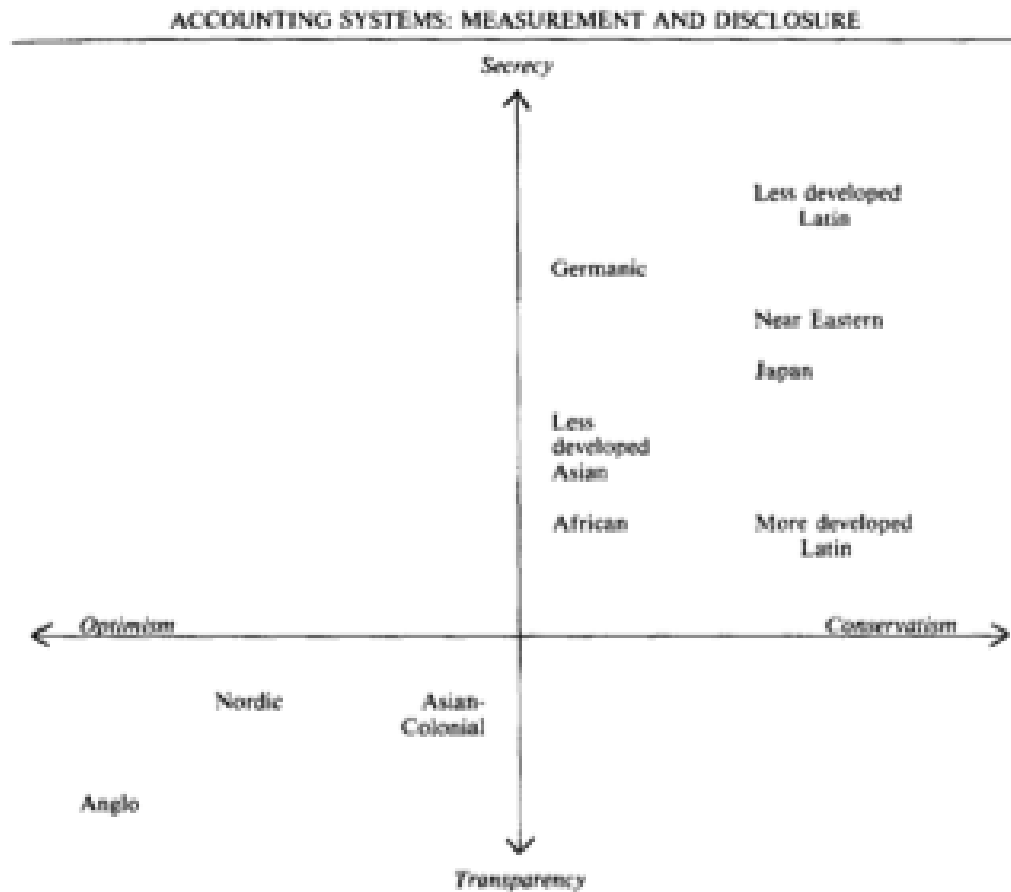
Based on these hypotheses, it can easily be predicted how France and the United States should compare on their ranking of the accounting values. The United States should rank Professionalism higher than France and the French should rank uniformity, conservatism, and secrecy higher than the US. Gray placed each of Hofstede’s ten cultural areas on graphs depicting the differences in authority and enforcement (See Figure 4) and measurement and disclosure (See Figure 5). As noted earlier, France would be considered a “More developed Latin” country and the United States is under the “Anglo” heading.

**Figure 4**



(Source: Gray *Abacus* 1988, p. 12)

Figure 5



(Source: Gray *Abacus* 1988, p. 13)

### The Accounting Values Survey (AVS)

In 2004 Shalin Chanchani and Roger Willett published an article in the *The International Journal of Accounting* providing empirical evidence in support of Gray's accounting value constructs. They constructed a survey to give to users and preparers of financial statements in New Zealand and India from 1995-1996. The survey, referred to as the Accounting Value Survey (AVS), consisted of 16 questions testing measurement and disclosure principles on a 7-point Likert scale. There were four questions for each of the four value constructs that were designed to test the fundamental values behind each of the constructs. The AVS was used for this study with the addition of a question about the

implementation of IFRS (See Figure 6). My survey was distributed in hard copy to business students at Missouri Southern State University (MSSU) in Joplin, MO and then the survey was translated into French and distributed electronically through [surveymonkey.com](https://www.surveymonkey.com) to students at the Universite de Savoie in Chambéry, France.

A small selection of demographic questions was sampled from Hofstede's survey that can be found in the appendix to *Culture's Consequences: International Differences in Work-Related Values*. These questions were used to get an idea of the survey respondents. Seven three students completed the AVS from MSSU and eight responses were received from the Universite de Savoie. From the 73 US respondents, 10 of those were international students from China, Brazil, Honduras, Chile, Ukraine, and Bulgaria. The data was analyzed with those students included and not included but no significant difference could be found by omitting the international students. Therefore, all responses received from MSSU students were used during the analysis including the international students' answers.

The data was analyzed by separating the questions out into groups of four based from the value constructs. Each question is designed to test a different concept behind a value construct. How much the respondent agrees or disagrees with the statement corresponds with how the respondent ranks the value. Then the percentages of students who agreed, disagreed, and were not sure from each question were figured. By comparing the percentages, I was able to determine which country ranked each value higher than the other.

**Figure 6**  
**The AVS**

To what extent do you agree or disagree with the following accounting statements and practices Please only circle one.

	Strongly Agree			Not Sure			Strongly Disagree
	1	2	3	4	5	6	7
1. Profits and assets should be valued downwards in case of doubt.	1	2	3	4	5	6	7
2. Depreciation rules should be set externally, specifically for separate groups of assets.	1	2	3	4	5	6	7
3. Financial statements should be available to the general public rather than just to shareholders and managers.	1	2	3	4	5	6	7
4. Accounting profession should be self-regulated.	1	2	3	4	5	6	7
5. Market values are generally less relevant than historic costs.	1	2	3	4	5	6	7
6. Financial statements of all companies should have standardized formats.	1	2	3	4	5	6	7
7. Only a minimum amount of detailed data should be included in financial statements.	1	2	3	4	5	6	7
8. Professional accountants are the best judges of how to measure a firm's financial position and performance.	1	2	3	4	5	6	7
9. Market values should be generally used instead of historic costs.	1	2	3	4	5	6	7
10. Accounting policies once chosen should not be changed.	1	2	3	4	5	6	7
11. Information about management and owners should not be included in financial statements.	1	2	3	4	5	6	7
12. Professional accountants are the best judges of what to disclose in financial statements.	1	2	3	4	5	6	7
13. In times of rising prices LIFO instead of FIFO should be used in calculations as estimates.	1	2	3	4	5	6	7
14. The level of detailed standardization in financial statements should be increased.	1	2	3	4	5	6	7

15. Management forecasts should be included in financial statements.	1	2	3	4	5	6	7
16. Professional accountants should maintain high standards of ethical conduct.	1	2	3	4	5	6	7
17. Do you think adopting an international set of accounting rules will be beneficial to companies in your country?	1	2	3	4	5	6	7

(Source: Chanchani 2004, p. 151)

### **The Results**

After analyzing the responses, this study found that France ranked Conservatism and Uniformity higher than the United States and there was not a significant difference in responses for the Secrecy and Professionalism values. Although France was still higher in Conservatism, the US students ranked that construct much higher than predicted. This result could have been predicted due to the increasing regulations in the US. In 2002, the SEC passed the Sarbanes-Oxley Act (SOX), due to an increasing number of accounting frauds in companies such as Enron. These scandals led to an increased distrust of big business and the United States accounting profession has swung towards higher regulation and conservatism. A solid conclusion could not be formed on the Secrecy value but Uniformity followed very closely to the predicted hypothesis. Professionalism did not have a clear separation between countries but the US students did place a higher importance on question 16 about accountants having higher ethical standards and the French students placed higher importance on questions 4 and 8 that asked about whether or not accountants should be trusted to make professional judgments. This construct could also be heavily affected by accounting frauds and SOX regulation.

## **Conclusion**

For the most part, the data collected supported the validity of Gray's accounting value constructs. There did seem to be more similarity in responses from both countries that could be possible due to the changes both accounting systems are undergoing to conform to IFRS. However, there was a great disparity in the number of respondents from each country and the students were concentrated at one campus. Therefore, the conclusions made are not definitive. There was also an abnormal number of "Not Sure" answers given to a couple of the questions that could be explained by the fact that students have not yet become users and preparers of statements. However, this result supported the idea of using business students who have at least been exposed to accounting and financial statements. There could have a reduction of unsure responses by surveying professionals rather than students. In retrospect, I would have surveyed both students and professionals and looked for less homogenous groupings by looking into multiple areas throughout each country.

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## ENQUETE SUR LES CONNAISSANCES COMPTABLES

1. Merci de répondre aux questions suivantes.

<b>Domaine d'études:</b>	
<b>Ecole:</b>	

2. Etes-vous:

Homme	
Femme	

3. Quel âge avez-vous?

Moins de 20	
20-24	
25-29	
30-34	
35-39	
40-49	
50-59	
60 ou plus	

4. Quelle est votre nationalité?

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5. Quelle était votre nationalité de naissance (si différente de ci-dessus)?

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6. Combien d'heures de comptabilité avez-vous étudié?

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**7. Dans quelle mesure êtes-vous d'accord avec les affirmations suivantes. Merci de choisir une seule réponse.**

	Totalement d'accord			Pas sure			En total désaccord
	1	2	3	4	5	6	7
1. Les bénéfices et actifs doivent être évalués à la baisse en cas de doute.	1	2	3	4	5	6	7
2. Les règles d'amortissement doivent être externalisées, spécialement pour séparer les groupes d'actifs.	1	2	3	4	5	6	7
3. La situation financière doit être disponible au public et pas uniquement aux managers et actionnaires.	1	2	3	4	5	6	7
4. La profession de comptable doit être autorégulée.	1	2	3	4	5	6	7
5. Les valeurs de marché sont généralement moins pertinentes que les couts historiques.	1	2	3	4	5	6	7
6. La situation financière de toutes les entreprises doit avoir un format standardisé.	1	2	3	4	5	6	7
7. Seul un minimum de données détaillées doivent être inclus dans les états financiers.	1	2	3	4	5	6	7
8. Les comptables sont les meilleurs juges pour mesurer la situation financière et la performance d'une entreprise.	1	2	3	4	5	6	7
9. Les valeurs de marché doivent être généralement utilisées à la place des couts historiques.	1	2	3	4	5	6	7
10. Une fois la méthode comptable choisie, elle ne doit pas être changée.	1	2	3	4	5	6	7
11. Les informations sur le management et les propriétaires ne doivent pas être inclus dans l'état financier.	1	2	3	4	5	6	7
12. Les comptables sont les meilleurs juges de ce qu'il faut divulguer dans les états financiers.	1	2	3	4	5	6	7
13. En période de hausse des prix, LIFO doit être utilisé à la place de	1	2	3	4	5	6	7

FIFO pour les couts d'estimations.

14. Le niveau de normalisation des états financiers doit être augmente. 1 2 3 4 5 6 7

15. Les prévisions managériales doivent être incluses dans l'état financier. 1 2 3 4 5 6 7

16. Les comptables doivent maintenir un haut niveau de conduit éthique. 1 2 3 4 5 6 7

17Pensez-vous qu'adopter une série de règles internationales de comptabilité serait bénéfique aux entreprises de votre pays? 1 2 3 4 5 6 7

**8. Dans quelle mesure êtes-vous familier avec le International Financial Reporting Standards (IFRS)?**

Pas familier	
Quelque peu familier	
Très familier	