

THE INFLUENCE OF CULTURE ON MANAGEMENT AND ACCOUNTING PRACTICES IN THE UAE

Dr. Saeed Askary
Abu Dhabi University

Dr. Sanjoy Bose
Abu Dhabi University

Key Words: National Culture, Accounting Values, UAE Corporate Reporting

JEL Classification(s): M41, M42, Z13

Abstract

This paper examines the Hofstede-Gray model of the influence of culture on accounting practices in United Arab Emirates (UAE). Our study provides some evidences of how socio-cultural values are related to accounting values such as professionalism, financial reporting, uniformity, and accounting measurements in UAE. The contribution of this study is to measure accounting qualities in UAE by considering the influence of cultural values. This study used Hofstede-Gray model of culture and accounting to test present accounting practices in UAE. This theory predicts that accounting practices in UAE should have a propensity toward statutory controls in accounting authority, secrecy in regard to disclosing financial statements, and using uniform but conservative accounting methods in measuring financial statement elements. Our results totally reject Gray's

prediction of almost all accounting values in UAE except for uniformity.

INTRODUCTION

Many studies have confirmed that cultural factors, such as customs, ritual, norms, languages etc., influences accounting practices within national boundaries as much as in global dimension (Archambault and Archambault. 2003; Chanchani and Willett 2004; Doupnik and Salter, 1995, Hamid, Craig, and Clarke 1993; Radebaugh and Gray 2002; Salter and Niswander 1995). According to Perera (1989), each accounting system is a product of its specific culture and environment. Mueller et al. (1994) have also noted, "Accounting is shaped by the environment in which it operates"(p.6). In other words, different patterns of accounting are associated with a range of the cultural factors such as societal values, religion, political systems, historical background, etc. Culture is a powerful influence underlying human behaviour and social values, and its impact on accounting practices cannot be underestimated.

The main objective of this study is to examine and understand how cultural values shape management and accounting practices in UAE by using Gray's (1988) study. The UAE economy is growing rapidly and is estimated to be to be one of the best growing business-focused economies within the Middle East region and all Arab countries in the world. Therefore, an understanding of its cultural values and how the values can influence on management and accounting practices should be regarded as an emerging and important issue.

HOFSTEDE ANALYSIS OF UAE

Greet Hofstede's cultural theories are widely used as a reference for understanding the influence of culture on different business issues such as accounting. Hofstede (1980) definition of culture as *a collective programming process by a society, which distinguishes the belief systems of its members from other societies*

is quite well known. From Hofstede's view, there are four attributes of cultural values: *individualism*, *power distance*, *uncertainty avoidance*, and *masculinity*.

Hofstede's analysis of the Arab World covered Egypt, Iraq, Kuwait, Lebanon, Libya, Saudi Arabia and the United Arab Emirates. Table 1 shows Hofstede Analysis of the cultural dimensions in the Arab Worlds.

As almost all of the countries consists of a majority Muslim population, Islamic values predominantly affects the social values of the countries. As the table 1 shows, large power distance (80) and uncertainty avoidance (68), which demonstrate rule-oriented laws shows a rule-oriented laws, regulations and controls and a wide spread of wealth within people in those societies. With high power distance and uncertainty avoidance, leaders have ultimate power, authority, and their own leadership and control systems, the people of such societies have accepted as their cultural heritage. If it is a factor of uncertainty avoidance, the score is high, indicating that societies do not tolerate any uncertainty; thus strict rules, laws, and regulations are adopted and implemented (International Business Center.org, 2007).

The Arab countries are slightly higher than average in the masculinity index (52, as compare with an average of 50.2) which possibly indicate limited rights for women in these societies, which may which may be a reflection of Islamic values. Low index in respect of individualism also indicates conservative societies, reflecting group based cultures as compared with individualist cultures (International Business Center.org, 2007).

GRAY'S THEORY FOR UAE

Gray (1988) decoded Hofstede's cultural and societal values into accounting values and postulated certain relations between them. Gray reasoned that national accounting policies are established based on cultural values that maybe explicable in the terms of the Hofstede study (Salter and Niswaner, 1995). Gray's justification of that framework closely follows Hofstede's

explanation of cultural dimensions. Essentially, it entailed the substitution of accounting terminology for Hofstede's cultural rhetoric.

Professionalism is defined as a preference by accountants for exercising individual professional judgement in undertaking accounting tasks. (Gray 1988). In contrast *statutory control* stands for the imposition or force on accountants to comply with prescriptive legal requirements with the backing of legal sanctions for noncompliance. From Gray viewpoint, high individualism and low uncertainty-avoidance and power distance in a society mesh tightly with accounting professionalism.

Secrecy is taken in the culture/accounting debate to manifest a preference for confidentiality. Gray's hypotheses suggest that of the four Hofstede values, uncertainty avoidance and individualism are the most influential in relation to the accounting values. It is to be expected that small power distance and weak uncertainty avoidance may evoke positive effects on transparency.

Enforcement in respect to accounting, in the context of the cultural debate, is a preference for either insisting on uniform accounting practices or, its opposite, flexibility in accordance with the perceived circumstances of individual companies (Gray, 1988). The disclosure of financial data in general purpose financial statements is a particular setting in which uniformity, or otherwise, is an issue (Askary, 2001).

Conservatism does not take on any special meaning in the context of the accounting /culture debate. As in the conventional focus on accounting, conservatism is a preference for a cautious approach to measurement of accounting elements such as the monetary amounts of assets and liabilities, revenues, expenses and the calculation of profit or loss, calculated with uncertainty of future events in mind. In contrast, optimism can be regarded a laissez-faire, risk-taking approach in accounting measurements.

HYPOTHESIS DEVELOPMENT

We use the Hofstede's study of UAE cultural attributes and Gray's hypotheses to determine how accounting practices in UAE are influenced as a result of the UAE cultural values. These values can be seen to affect the accounting practices (AP) in UAE as formulated in Table 2. The relationship between the accounting-function and cultural values can be representing as follows:

$$AP = f(PD, UA, MAS, IND)$$

PD, *UA*, *MAS*, and *IND* stand for power distance, uncertainty avoidance, masculinity, and individualism respectively. APs, as Perera (1989) explained, are demonstrated in four different aspects: accounting *authority*, *disclosure*, *enforcement*, and *measurement*.

Table 4 is a combination of the Hofstede's (1980) scales and Gray (1988) hypotheses about accounting authority in UAE which is seen to have more *statutory controls* and less professionalism. If this initial prediction for the accounting authority holds good, then the first hypothesis of this study is:

H₁: In UAE, professional bodies are under a *statutory control* domain rather than professionalism.

Accounting Disclosure

The Hofstede-Gray model of financial-information disclosures in UAE reveals a *low* level of transparency, in other words, *high* secrecy, as the 5 table illustrates.

If we consider Table 5 to be an initial prediction of financial disclosures in UAE, then the following hypothesis is plausible:

H₂: Listed companies in UAE are secrecy-oriented than being transparent in disclosing financial information.

Accounting Enforcement

Uniformity, as defined by Gray (1988, p.8), is a preference for applying similar accounting practices within companies and for the consistent use of such practices over time periods. This definition covers two dimensions. First, there is inter-temporal consistency in accounting practices and; second, there is uniformity in application of accounting policies and procedures.

Similar to previous tables, Table 6 is derived from the Gray's (1988) study, showing the normative accounting enforcement in UAE, that is, a desire for a uniform approach in applying accounting methods because of high power distance and uncertainty avoidance and low individualism.

If we assume Table 6 to be an initial predictor about accounting enforcement in UAE, then the following hypothesis should be testable:

H₃ : Listed companies in UAE are uniform rather than flexible in applying diverse accounting methods.

Accounting Measurement

Conservatism is defined as “a preference for a cautious approach of measurement to cope with the uncertainty of future events as opposed to a more optimistic, laissez-faire, risk-taking approach” (Gray, 1988, p. 8). The opposite situation to conservatism is optimism, based on Gray (1988). In the end, conservative accounting methods are applied to revenue and asset recognitions so as to recognise losses sooner than gains. This is the most fundamental accounting concept and probably the most pervasive principle in accounting valuation. (Watts, 2003).

Cultural values and its effects on choosing a preference for conservatism was an important matter for the Gray (1988) study, and has a bearing on this investigation. Table 7 shows the preference of accounting measurements. The table implies a low level of *optimism*, or a highly conservative approach.

Therefore, hypothesis four is an initial deduction about accounting measurement in UAE:

H₄: Listed companies in UAE apply conservative rather than optimistic accounting measurement methods when they prepare their financial statements.

METHODOLOGY

To test the hypotheses and collect the relevant data, various sources were targeted by this study. The main dataset was the annual reports of the listed industrial companies in the Abu Dhabi and Dubai Stock Exchange and information about how the professional accounting bodies were actively involved with accounting and auditing development in UAE. The annual reports were utilized as sources on accounting disclosures and measurement methods used by the companies. The extent of applied uniformity in the form and content of the reports was examined. The data comprised the financial reporting information contained in the annual reports for the years ended 2006-2008, of only domestic companies. The data was collected by downloading annual reports of the companies from the internet. Total numbers of listed industrial companies were eight industrial companies.

Authority Variables

To measure accounting authority, we focus on this question: how do professional accounting bodies operate in UAE? We developed seven variables by looking at Askary's (2001, 2006) study. These variables are dummy variables (1 if answer is yes, otherwise 0) to measure *professionalism* in UAE. That is, if we suppose all answers to these variables are *yes*, then we conclude that the accounting authority is considered to have a professionalism orientation. An average of less than one means the accounting authority lies midway between statutory controls and professionalism.

Financial Disclosure Variables

For the purposes of this study, a disclosure index is taken from the study of Askary (2001) and Askary and Jacking (2005). Using a dummy variable approach, for every item disclosed in the financial statements of listed industrial companies the value is one, otherwise zero.

Uniformity Variables

Seven variables developed to measure the *uniformity* attribute are based on the Gray (1988) and Perera's (1989) studies in term of accounting *enforcement*. The method of scaling for this variable, the same as for the other variables, is to use dummy variables methods. In that sense, if answers are 'yes' to all of the variables, then it shows a uniform approach of applying accounting methods and policies - consistency in disclosure of accounting information in the financial reports, otherwise zero, to imply a flexible approach.

Measurement Variable

Historical cost accounting is founded on the basis of conservative accounting measurements. The study examines how accounting measurements can be ranked from *conservative* to an *optimism* alternative. The dummy variables are used by assigning one if conservative, otherwise zero. Therefore, if all answers to the questions are 'yes', then the accounting measurement is scaled to be completely in a *conservatism* style.

RESULTS

Table 12 summarizes all actual averages of the seven variables applied respectively to each accounting practice.

Accounting Authority

The actual average of the seven variables described at Table 12 equal to 0.71 or 71%. Basically, the result implies that 'accounting authority' is relatively strong in terms of

‘professionalism’. Therefore, the first hypothesis is rejected by the actual information about the accounting practices in UAE.

Financial Disclosures

The actual average of the seven variables described at Table 12 equal to 0.87 or 87%. Basically, the result implies that ‘financial disclosure’ is substantially transparent to the public. Therefore, the second hypothesis is also rejected by the actual information about the accounting practices in UAE.

Enforcement

The actual average of the seven variables described at Table 12 equal to 0.67 or 67%. Basically, the result implies that accounting enforcement is substantially uniform. Therefore, the third hypothesis is confirmed by the actual information about the accounting practices in UAE.

Accounting Measurements

The actual average of the seven variables described at Table 12 equal to 0.65 or 65%. Basically, the result implies that accounting measurements has conservative attributes in UAE. Therefore, the fourth hypothesis is also rejected by the actual information about the accounting practices in UAE.

Conclusions

This study provides some evidences of how socio-cultural values are related to accounting values such as professionalism, financial reporting, uniformity, and accounting measurements in UAE. The contribution of this study is to measure accounting qualities in UAE by considering the influence of cultural values. This study used Hofstede-Gray model of culture and accounting to test present accounting practices in UAE. This theory predicts that accounpractices in UAE should have a propensity toward statutory controls in accounting authority, secrecy in regard to disclosing

financial statements, and using uniform but conservative accounting methods in measuring financial statement elements. Our results totally reject Gray's prediction of almost all accounting values in UAE except for uniformity.

The limitations of this study are that the findings should be interpreted with some caution, particularly in terms of the generalization of results. Second, the study did not perform further statistical tests. Third, the study used by the Hofstede (1980) has been widely used by more than six hundred investigations, but should also be viewed within the perspective of the criticisms by Baskerville (2003). Future investigations could use statistical tests over a larger sample to corroborate or challenge the findings of this paper.

REFERENCES

- Archambault, J. J., and Archambault, M. E. (2003) "A multinational test of determinations of corporate disclosure", *The International Journal of Accounting*, 38, pp.173-194.
- Askary, S. (2006), "Accounting Professionalism – a cultural perspective of developing countries", *Managerial Auditing Journal*, Vol. 21, No. 1 and 2, pp.102-111.
- Askary, S. (2001) *The Influence of Islamic Culture on the Accounting Values and Practices of Muslim Countries*. Ph.D Thesis, The University of Newcastle, Newcastle, Australia.
- Askary, S. and Jackling, B. (2005), "Corporate financial disclosure practices in Asian and Middle East Countries", *Asian Review of Accounting*, Vol. 13, No.1, pp.45-72.
- Baskerville R.F., (2003), "Hofstede never studied culture", *Accounting, Organizations and Society*, Vol. 28, No. 1 (14), pp. 1-14.
- Chanchani, S., and Willett, R. (2004). An empirical assessment of Gray's accounting value constructs. *International Journal of Accounting*, 39(2): pp.125-154.
- Douppnik, T. S., and Salter, S. B. (1995). External Environment, Culture and Accounting Practices: A Preliminary Test of A

- General Model of International Accounting Development. *The International Journal of Accounting*, 30: pp.189-207.
- Hamid, S., Craig, R., and Clarke, F. (1993). Religion: A Confounding Cultural Element in the International Harmonization of Accounting? *Abacus*, 29(2): pp.131-148.
- Gray, S. J. (1988). Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally. *Abacus*, 24(1): pp.1-15.
- ofstede, G. (1980). *Culture's consequences: international differences in work-related values*. Beverly Hills, California, USA: Sage Publications.
- Mueller, G. G., Gernon, H., and Meek, G. (1994). *Accounting: An International Perspective*. New York: Business One Irwin.
- Perera, M. H. B. (1989). Towards a Framework to Analyse the Impact of Culture on Accounting. *The International Journal of Accounting*, 4(1), pp.42-56.
- Radebaugh, L. H., and Gray, S. J. (2002). *International Accounting and Multinational Enterprises* (5th Edition ed.). New York: John Wiley and Sons.
- Salter, S., and Niswaner, R. (1995) Cultural Influence on the development of accounting systems internationality: A test of Gray's (1988) theory. *Journal of International Business Studies*, 26(2): pp.379-398.
- Watts, R., (2003), Conservatism in accounting Part I: Explanations and implications, *Accounting Horizons*, 17, 3, pp.207-221.

Table 1: Hofstede's scaling of national cultures for Arab Countries.

Individualism		Power Distance		Uncertainty Avoidance		Masculinity	
Index	Rank	Index	Rank	Index	Rank	Index	Rank
38	27	80	8	68	27	53	23

Low	High	High	≈High
-----	------	------	-------

≈ approximately

Table 2. Matrix of Relationship of Accounting Values with Societal Values

Cultural values	Accounting Values							
	<i>Professionalism</i>	<i>Statutory Control</i>	<i>Uniformity</i>	<i>Flexibility</i>	<i>Conservatism</i>	<i>Optimism</i>	<i>Secrecy</i>	<i>Transparency</i>
Individualism	+	-	-	+	-	+	-	+
Collectivism	-	+	+	-	+	-	+	-
Large Power Distance	-	+	+	-	N/A	N/A	+	-
Small Power Distance	+	-	-	+	N/A	N/A	-	+
Strong Uncertainty Avoidance	-	+	+	-	+	-	+	-
Weak Uncertainty Avoidance	+	-	-	+	-	+	-	+
Masculinity	+	N/A	N/A	N/A	+	-	-	+
Femininity	-	N/A	N/A	N/A	-	+	+	-

Table 4. Cultural values and Gray’s hypothesis of financial disclosures in UAE

Hofstede Societal Values	UAE’s Values	The Predicted Accounting Value Under Gray’s Theory
Power Distance	High	Financial Disclosures in UAE should have a <i>Secrecy</i> attribute in <i>disclosure of financial information</i>
Masculinity	High	
Uncertainty Avoidance	High	
Individualism	Low	

Source: Tables 1 and 2.

Table 5. Cultural values and Gray’s hypothesis of uniformity in UAE

Hofstede Societal Values	UAE’s Values	The Predicted Accounting Value Under Gray’s Theory
Power Distance	High	Accounting practices in UAE should flow <i>Uniformity</i> in applying accounting policies and methods
Masculinity	High	
Uncertainty Avoidance	High	
Individualism	Low	

Source: Tables 1 and 2.

Table 6. Cultural values and Gray’s hypothesis of accounting measurements in UAE

Hofstede Societal Values	UAE’s Values	The Predicted Accounting Value Under Gray’s Theory
Power Distance	High	Accounting measurements in UAE should be used by more Conservative than optimistic methods
Masculinity	High	
Uncertainty Avoidance	High	
Individualism	Low	

Source: Tables 1 and 2.

Table 7. The variables to scale professionalism

No.	Descriptions of the variables
1	Do accounting and auditing professional bodies exist in UAE? ⁱ
2	Are the bodies involved in developing national accounting and auditing standards? ⁱⁱ
3	If not, are annual reports based on International Accounting Standards? ⁱⁱⁱ
4	Should the annual reports be accompanied with the auditors’ report? ^{iv}
5	Are the professional accounting and auditing bodies independent of their governments? ^v
6	Accounting and auditing regulations are not controlled or developed predominantly by the State. ^{vi}
7	The base of financial statements preparations is not restricted to the statutory business laws. ^{vii}

Source: Askary (2006; 2001, p. 107).

Table 8: Financial Disclosure Variables

No.	Descriptions of the variables
1	Willingness of firms to be open (transparent) to the public
2	Disclosures of fundamental accounting assumption and general information about entity ^{viii}
3	Disclosures required by IFAC for Balance sheet
4	Disclosures required by IFAC for Profit and Loss Statement
5	Disclosures required by IFAC for Cash flow statement
6	Disclosures required by IFAC for accounting policies
7	Disclosures of notes to financial statements as required by IFAC.

Source: Askary and Jacking (2005, p. 54)

Table 9. The variables to measure of accounting uniformity

No.	Descriptions of the variables
1	No accounting changes within the firms during 2006-8. ^{ix}
2	Uniformity in using accounting policies across firms. ^x
3	Not using other statements instead of Cash Flow Statement (CFS). ^{xi}
4	Uniformity in presenting Balance Sheet items.
5	Uniformity in presenting Income Statement items.
6	Uniformity in presenting CFS.
7	Uniformity in presenting notes to the financial information.

Source: Askary (2001, p. 208)

Table 10. The variables to measure of accounting conservatism

No.	Descriptions of the variables
1	Historical cost accounting used for the measurement of assets ^{xii}
2	Lower of cost or net realisable for inventories ^{xiii}
3	Measuring fixed assets or property, plant and equipment at cost less depreciation
4	Receivables, net of provision for doubtful debts ^{xiv}
5	Conditional or contingent loss disclosed in Income Statements ^{xv}
6	Other reserves in addition to general and statutory reserves
7	Intangible at net of amortisation.

Source: Askary (2001, p. 213)

Table 11: Actual measures of the accounting practices in UAE

Accounting values	1	2	3	4	5	6	7	Average
Authority	1	0	1	1	1	1	0	0.71
Disclosure	0.8	0.8	0.8	0.6	0.6	0.6	0.6	0.66
Enforcement	0.80	0.40	1	0.80	1	.080	0.80	0.80
Measurement	1	0.60	1	0.25	0.50	0.20	1	0.65

ⁱ Existence of the professional bodies in a society implies demand for the professional accounting and auditing services.

ⁱⁱ Evidence of self-regulation power by the professional bodies.

ⁱⁱⁱ Evidence of association with the international professional bodies such IFAC.

^{iv} Evidence of applying professional judgements based on the professional standards such as accounting and auditing standards.

^v This variable is measured as an evidence of controls exercised by the professional bodies - *professionalism*.

^{vi} Evidences of the extent to which accounting bodies have self-regulation attributes or high level of professionalism

^{vii} If yes, that means professionalism is practised at a low level.

^{viii} As these requirements are necessitated by IFRS 1, item 13, 5 items 7 and 9, and IFRS 14, item 9.

^{ix} Accounting changes result in a less uniformity and consistency.

^x Similar accounting policies result in more comparable financial reports.

^{xi} Applying either “Changes in Financial Position” or “Fund Flow Statement” instead of Cash Flow Statement imply diversity or flexibility.

^{xii} Historical Cost Accounting supposes to be a criterion for conservative accounting methods.

^{xiii} Inventories should be measured at the lower of cost and net realisable value which is a conservative accounting practice.

^{xiv} Trade and other receivables expected to be realised within one year of the balance sheet date. Trade receivables may be include in their entity in current assets, provided that the amount not expected to be realised within one year is disclosed.

^{xv} The amount of a contingent loss should be recognised as an expense or a liability.