RESEARCH ARTICLE

CULTURE, AN IMPORTANT FACTOR IN DETERMINING THE ACCOUNTING SYSTEM

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Abstract
This paper addresses some of the cultural aspects that affect the accounting system in Albania and its implementation’s quality. Many authors have studied and observed cultural dimensions and their impact on the accounting system. A nation's culture affects every life aspect consequently accounting is included. Accounting system is not a subject affected only by the culture but by all economic, political and legal background elements in which it is fitted. Accounting system is simultaneously influenced by the background in which entities operate and by the organizational culture of each of the units. Observing the Albanian financial reporting and its implementation quality will be discussed how cultural differences affect the harmonization of accounting and financial reporting. In the first part of the paper will provide a literature review that constitutes the theoretical framework in which will be later made the findings analysis. The paper’s methodology will be based on a qualitative model which will elaborate the findings from the interviews and questionnaires with the preparers of the financial statements and a group of their users. The outcomes from the analysis will provide the conclusion and recommendations of the paper.

Key words: cultural dimensions, organizative culture, accounting standard, accounting practices, economic units.

Introduction
In the development of the accounting system is very necessary the preliminary assessment of the respective country's cultural dimensions. The culture sets the individual’s standards, behavior and attitudes, accountants and auditors included, a very important part of the accounting system. In Albania, from '90 up to 2004 have been made two large transitions in terms of accounting school model and therefore the accounting system. In the 90s with the socialist regime falling, the eastern accounting model followed the same direction. In the 93 it was transferred to the Continental model, later collapsed/failed in 2004. With the change in the accounting law in 2004, Albania moved towards the British-American accounting model and financial reporting. These breakthroughs do not pass without a trace and it is worth understanding if the transition from one model to another has improved accounting practices or not. Nor professional disputes the quality of international standards and their efficiency. The problem is whether the cultural dimension allows or prevents their successful implementation. To understand this the sections below will provide a review of the literature concerning the relationship between the culture and accounting and in the next chapter is made an analysis of the accounting standards implementation status in Albania, interpreting its findings in the cultural context.

Review of the literature
Definition of Culture
Culture is a studied and controversy concept during centuries. It is impossible to gather in a single paper what is said by each culture researcher, therefore this paper will make reference only to two studies of the late 80s, Hofstede's (1984) and Gray's (1988 ). The first author has developed an advanced study on the ways a culture manifests itself while the second author focused his study on understanding the connection between culture and accounting system implementation and its quality.

Hofstede Research (1984)
According Hofstede's (1984) culture is "the collective programming of thinking which distinguishes the members of one group or society from another” (p. 82). Based on the study of this author are made dozens of other works, among which are studies that seek to explain how culture affects a country's accounting system. "Culture makes a nation unique by nature; culture is inherent in writing the unwritten; culture influences the norms, values and interactions between and among social systems and forms of individual perspective; a nation's culture is crystallized in institutions and tangible or intangible assets of a company (Hofstede , 1984 , p . 82). In order to study, evaluate and understand the culture of a nation it is essential to further understand how much different the functions and aspects of the society in everyday life, including accounting, are. In his
quest Hofstede's (1984), offered researchers on issues of culture, four kinds of "cultural manifestation" (pg 93). His study was conducted in 60 offices of IBM Company, with headquarters in different countries of the world. By organizational variables held constant sought to understand the impact of culture on variable values of employees. Four dimensions of culture that led to the end of the research were:

**Individualist cultures versus collectivist cultures** - the first manifestation of culture was that of individualist culture versus the collectivist one. This event has to do with the fact how an individual lives and belongs to a society. Individualist culture is the one where the individual is deeply oriented on his vested interests or on a very narrow band around it, usually family. This culture is characterized by an attitude of loyalty and self fidelity, ambition and personal achievements. In contrast, collectivist cultures is where individuals put general interests over personal ones, tend to do what is ahead for the team and not for themselves, are loyal to each other. In simple words in the individualistic culture prevails "I" and in the collectivist culture prevails "We" (Hofstede, 1984).

**Comparing great and small distance towards the government** - the second manifestation is that of the distance from power. The latter is the way power is distributed, influencing the hierarchy of power from the first to the last. In a society with greater distance from power, power is not distributed evenly, concentrated on the hands of a small group of individuals. This culture is hierarchical, where the orders of a superior are of absolute importance. The order applies and is not considered under this crop. While in a society with little distance from power, the latter is distributed evenly and in the hands of a large number of people. Even in this culture, there is no hierarchy principle of balancing the power (Hofstede, 1984). You have to obey a superior also, in a much lower scale and on reasonable basis.

**Avoidance of strong versus weak uncertainty** - the third manifestation is the attitude towards uncertainty. Avoidance of uncertainty has to do with the fact that how a culture rejects and hardly manages the unknown. In a culture with a strong avoidance of uncertainty, there is a strict code of beliefs and tolerance for new ideas and solutions is almost null. This approach relates to the fact that everything new is placed in the terms of uncertainty they want to avoid. This culture sees and appreciates things in black and white and requires certainty, clarity and conformity (Hofstede, 1984). The unknowns are reduced to relying on technology, law and religion (Cohen, Panta, & Sharp, 1993). In contrast, the members of a society with a weak culture of uncertainty avoidance, tend to be more relaxed and rely more on principles than on strict rules. They feel better when they exhibit their ideas and take risks unknown opera. This culture does not try to control the future, but it leaves things to happen (Hofstede, 1984).

**Masculinity versus femininity** - the latest form of manifestation of culture is masculine versus feminist. This culture defines the role of the sexes in a society. A society prefers masculine achievement, success and heroism. A feminist society prefers good relations, care and quality of life. In some societies have very strong social differences between the sexes, where men are those who offer safety and care for women. In other societies, there are very minimal differences between the sexes because both are considered as sources of security and precautions. This form of culture is known as "social welfare" where the care of people is important for all members of society (Hofstede, 1984).

**Gray Research (1988)**

These four events described in the study of Hofstede (1984) are the basis for understanding the impact of culture on the accounting system and its implementation. This is not a very old issue, it has been studied for 40 years in different perspectives from different authors but despite this, a modest number of works seek to understand the impact of culture on accounting developments today. Gray (1988) decided to explore this relationship by carrying out four different accounting values from the accounting literature and linking them with the cultural dimensions of Hofstede (1984).

**Professionalism versus legal control** - Gray (1988) finds the first value is professionalism versus statutory control. This division puts professional judgment and self-regulation as opposed to strict legal regulations. This concept is very important in accounting for it is the duty of an accountant in daily practice, to take legal and ethical decisions. There is a tendency toward professional judgment observed in individualistic cultures and weak uncertainty avoidance. Professional judgment is better accepted in a culture with little distance from power as the fear of punishment by the authorities is lower. Legal control, in contrast, is more important in situations where the law should be followed strictly but prevents accountant professional development (Gray, 1988).

**Uniformity versus flexibility** - the second value detected by Gray (1988) is uniformity versus flexibility. This has to do with the preference for uniform accounting practices and solid between entities compared with other position where it is estimated that different practices better serve in certain situations (Gray, 1988). The desire for uniformity is easily identified in FASB accounting standards. Uniformity is a very supported position today that speaks of internationally harmonized financial reporting. However, it is good to reserve some place to the flexibility in order to be able to adapt international reporting with cultural dimensions of different countries. The uniformity suggests a culture that tends to go towards strong uncertainty avoidance hoping on eliminating any possibility that creates the difference by implementing standardized accounting policies ([Baydoun & Willett, 1995], (Gray, 1988]). Uniformity is also preferred in societies with large power distance as codes and regulations more easily accepted (Gray, 1988).

**Conservatism versus optimism** - The third set of values derived from conservative versus optimistic attitude. This approach suggests a preference for being careful on the measurement in terms of an uncertain future compared with being optimistic in reasoning (Gray, 1988). Perspective conservative accounting is easy to understand its principles such as objectivity, verifiability, reliability and practice of choosing the smallest cost and market value (Baydoun & Willett, 1995). So, the mind of an accountant tends to be more conservative than someone else's mind, like that of entrepreneurs tends to be riskier. Conservatism also suggests a strong approach to avoid uncertainty in order for the
Confidentiality versus transparency - the last value in the study of Gray (1988) is the secret towards transparency. This means a tendency to confidentiality and restriction of information for those who are close to the entity openness and accountability to the public. This is a hard link cause the accounting business is keen and wants to keep hidden from the competition as much information while today it is more than necessary transparency and public accountability (Gray, 1988). The entity with secrecy or transparency can be understood in the disclosures of financial statements, how much and how detailed are these explanations (Baydoun & Willett, 1995). A culture with tendency of secrecy has a large power distance. The information is kept hidden in order to have an unequal power relation. Transparency Culture are more of feminin nature as they tend to care more and are much reliable in being more opened to the third parties (Gray, 1988).

Cultural influences in different accounting practices
Accounting practices, for example, finding mistakes, preparing disclosures to the financial statements and other activities seem to be the same since the same standards are implemented. Besides the differences that are apparent between the standards applicable in different countries, for example, different accounting policies between full IFRSs and USA GAAP, everything else should be the same. But such a thing does not happen and the reason is behind the culture and its impact on reporting.

Zarzeski (1996) provides an in-depth observation of how the accounting practices vary between different cultures. Accounting standards and rules are written principles of practices implemented. These rules are actually implemented differently in different cultures, due to different ways business relationships develop. Business relationships are built differently in different countries due to external factors and internal different from one country to another. Laws vary between countries, economic and political climate. So at a time when accounting standards and accounting practices formalize the latter developed and influenced by the culture of business relationships, then accounting is highly influenced and guided by the culture in which is practiced (Zarzeski, 1996).

Two schools of accounting
Western accounting schools are divided into Anglo-American school and Continental School. The first model, is regulated by Anglo-American standard-setter professional bodies, it is oriented on capital markets and rely on debt financing and equity provided by the public. This school emphasizes the importance of transparent and reliable financial statements. This school is the basis of the development of financial reporting standards in America and UK (Oluku & Ojeka, 2011). The second model is the Continental one, shaped in a different culture from that mentioned above. This culture put less emphasis on honest and transparent financial statements and more to support the government. The financial information provided to the users is more oriented towards creditors rather than investors as entities in these countries receive financing from lending agencies (Oluku & Ojeka, 2011).

Auditing and Misstatement
A very important accounting practice is audit. The Public Oversight Board is the institution that establishes the auditors responsibilities to express an opinion on the authenticity of the entity's financial statements. In order to build a reliable report, the audit should stand and be careful to avoid all forms of interest conflicts by external or internal pressures (Cohen, Panta, & Sharp, 1993). The above is a problem in countries where the culture has a great distance from the power. In such a culture, when formulating its opinion, the audit is under pressure from the power or wealth of the client that he audits (Cohen, Panta, & Sharp, 1993). Although accounting standards require a practice of professional judgment, in such a culture auditor feels obliged to maintain good relations with higher authorities than to respect professional rules. Consequently auditors in a distant culture from the power, build their relationships on different beliefs from those in countries with lower distance from power and this cultural difference should be considered by the financial statements users (Cohen, Panta, & Sharp, 1993).

Audits should, through their opinions provide a reasonable assurance that the financial statements are free of material misstatement. Since culture has a significant impact on the likelihood and location the errors in the entity financial statements are found, such a thing helps the audit a lot. Studies have shown that accounting errors are affected by the distance to the power and manifestation of individualism versus collectivism Hofstede (1984) (Chan, Lin, & Lai Lan Mo, 2003). In societies with a large power distance between culture and power, entities tend to be centralized, therefore the power is focused in few hands. Centralised management, through accounting tries to offer a more optimistic view of the entity’s financial position and performance. Such a disposition means skipping the accounting rules, at the same time higher risk for material misstatement. Also in this kind of culture dependents are not very qualified and educated, increasing the possibility in implementation errors, professional judgment and classification. Societies with low power distance are typically decentralized, characterized by an uniform power and knowledge in different levels of the organization. In this type there is more precision and control, deriving from the general trainings for each level of employees. Thus the possibility of material misstatements in such a culture is lower (Chan, Lin, & Lai Lan Mo, 2003). In an individualistic society, people act in their own interests and seek to climb the entity’s stairs at any cost. This brings a higher circulation of the staff that in itself creates more
opportunities for material misstatements and at the same time increases the willingness and desire to manipulate the financial public values in favor of a better public image. Also, individuals in this culture, decided at any cost to make their way through, fulfill every user demand without worrying about the following material errors. Entities operating in collectivist cultures, give priority to the group interests and aim these goals over the personal ones (Chan, Lin, & Lai Lan Mo, 2003). Having priority these types of interests, trust between individuals is very strong and the tendency to distort values is not present. In individualistic cultures was found that errors with receivable and payable accounts are encountered as these accounts tend to be manipulated. Other studies have shown that US economic units which operate under a culture of low power distance versus individualism, have less material misstatements in their statements (Chan, Lin, & Lai Lan Mo, 2003). These findings are helpful when auditing entities statements from different cultures, to focus their procedures in the right direction, but based on the culture where is practiced the entity’s accounting.

**Disclosures**

The disclosures accompanying the financial statements are largely influenced by the country’s culture where they are prepared. Cultures with strong uncertainty avoidance try to publish less information to the public and more to financial agencies such as banks or insurance companies, hoping that they will provide safer relations. Cultures with a small uncertainty deviation tend to publish their statements since they are not interested to such “safer” relations. In collectivist societies, entities focus more on internal relations, which creates a kind of privacy, hereupon fewer disclosures. Entities operating in individualistic cultures are more public with their information as they don’t have the spirit of the group and internal relations (Zarzeski, 1996).

A culture which presents a great distance to power feels discouraged to share its financial information with the public so the notes will be less. While cultures with smaller power distance, tend to create more open relations with the users of financial information and encourage numerous explanatory notes. Masculine societies seek to compete hard and achieve success by building good relations with other entities. Therefore entities with a masculine culture try to share more information with the public. This tendency is found mainly to operating units operating within the same territory and not the international ones (Zarzeski, 1996). As above, financial statements users must be careful and show attention to the culture of the country where the entity operates.

Other research has shown that the disclosures also change whether the entity operates in international or national levels. Local entities provide explanatory information which is seen as necessary in the context of local culture and is not necessarily as it would be required by foreigners. Since these entities provide their fundings locally, they give disclosures for these users and find the appropriate accounting language for them.

On the other hand, entities that operate internationally tend to provide disclosures required for the global market and not for their country or their culture, because they have provided their funds by foreigners (Zarzeski, 1996). These units require their statements “speak the international language”.

But anyway, although international, their statements have a "taste" of the culture of the origin country, ends Gray in his study, Gray (19 880).

**Organizational culture and accounting**

Culture is seen not only related to accounting but with all entity’s daily activities. Organizational culture defines the employer – employee relations. Consequently organizational culture affects the employees behavior, motivation and performance, but also affects other practices of the organization as an auditor's judgment or independence in accounting (Choe, Harrison, McKinnon, & Eu, 2002), (Maali & Napier, 2010).

**Management**

Management "is limited by the context of the culture, because it is impossible to coordinate people’s actions without understanding the depth values, beliefs and attitudes" (Hofstede, 1984, p. 82). The type of management practiced in each entity affects every aspect of its life. Interactive Management is a rewarding or punishing style where, when an employee works well or correctly, in some way he will have benefits, but if he works bad or wrong, he will definitely get the appropriate punishment. Transformation Management, in turn, encourages growth and motivates employees to work harder and grow more (Worth, 2012).

Cultural dimensions of an entity and the way its management operates have a huge impact on the quality of the accounting implementation. Organizational culture defines the accountants attitudes whether being or not professional in their judgments. Also it defines their willingness to follow the law or to divert if they see fit. Also, if accountants decide such reports to managers; when submitting high scores they receive rewards, such a thing leads to wrong values and abusive practices. Whereas, if accountants are motivated to do the right thing based on their personal values, as it happens in transformational management, accountants will focus to provide the public with reliable and complete information.

**International accounting applied in the context of local culture**

Defenders of international accounting harmonization and financial reporting, assert that such a thing will increase the consistency and comparability of the financial statements. This would enable investors to assess the financial statements in the same way regardless of where these statements are generated. Consequently investors will make better economic decisions and therefore the economy will flourish (Zarzeski, 1996). Asking the adoption of international standards worldwide is a step towards this economic goal but it’s not enough to achieve it (Oluku & Ojeka, 2011).

As seen above, the culture affects the way the individual sees the world, including the standards they must obey. Similar is the case of accounting standards and financial reporting. As accountants come from different cultures, they interpret and apply those standards in different ways. Muller concluded that accounting "must respond to the society changing needs and should reflect social political, legal and economic conditions, of the country where is developed" (Oluku & Ojeka, 2011, p. 917).

Countries have built their economic and financial markets based on accounting standards that are developed by their
cultural values (Zarzeski, 1996). Therefore it’s difficult to achieve a maximum effectiveness of the same accounting standards located towards a world with many cultural differences.

Another issue of accounting standards convergence is the fact that the western world standards should be applied in all other countries. These standards are developed by British-American accountants affected by a certain culture of their countries and this would be insulting to many other cultures that do not share common or similar principles. It seems as if it is accepted without comments the fact that Western culture is superior to other cultures (Hamid, Craig, & Clarke, 1993).

In conclusion, the significant impact of culture on accounting is more than evident. This makes very difficult the effective implementation of international standards worldwide since different countries have different cultures. Culture starts internally and external factors can hardly change it. It would be worth if all the standard setter boards took into consideration the cultural influences in the standards and accounting rules development because this is the only chance to chase with dignity profession and to maintain intact its mission. This guarantees economic growth in the future

Findings, analysis and discussion
Albania, the status of implementation of accounting standards and its connection with the culture.

Albania after the ‘90 switched from a centralized economy to a market economy. Such a transformation also asked accounting adjustment. By socialist accounting model was passed in continental model school. For this purpose it was drafted a new law on accounting and accountants, preparing a general accounting plan, a manual with accounting rules. For its implementation was drafted the mandatory list of accounts.

In 2004, it is redrafted a new accounting law, which among other things made it mandatory The International Accounting Standards for commercial banks, insurance companies and many large entities. For other entities made mandatory the national accounting standards developed by the National Accounting Council, consistent with international standards.

With the entry into force of this law, in 2008, Albania has moved from continental schools toward British-American accounting. This passage was made as a result of political will but also encouraged by international organizations such as the World Bank. How successful can this conversion result towards a British-American school?

One of the authors of the paper, in the framework of the doctoral thesis, conducted a search on the degree of recognition and enforcement of accounting standards in Albania and their efficiency to users of financial statements. Part of that research findings will be used in this paper too. The findings showed that the standards were recognized under the average level, ie below 50% of them. Among questions directed at the sample of preparers of financial statements, a group were the same questions with fiscal regulation and another group of questions had a different answer from fiscal adjustment. Findings showed that average under 50% was a result of two averages far removed from each other to each group of questions.

Answer questions as fiscal adjustment in response had an accuracy of about 73% and another group of questions had a degree of accuracy about 27%. The weighted average of the groups was about 50%. This finding indicates that accountants tend to comply with the regulations, not the professional ones. As above is one of the four values detected by Gray (1988) - Professionalism versus statutory control. In support of the first finding comes the next too. Asked about the set that the preparers respect to financial reporting, respondents (132 in total) are distributed: 61% refer to fiscal adjustment, 31% refer to arrangements under the National Accounting Standards and only 8% support the owners interest. The analysis of the sample shows that 61% support the legal control. This was an expected outcome as well as our culture regards the strong dimension of uncertainty avoidance, which means that individuals tend not to practice their personal and professional judgment but follow the safest ways, specifically written rules.

While the stand that this representative sample of preparers of financial statements has towards the standards philosophy, the distribution of 137 reactions is: 66% are in favor of rules-based standards and 34% are in favor of principles-based standards. This means that they are inclined towards uniformity and not flexibility that allows and requires professional judgment. This question was given another answer that goes back to the accounting rules and the auditors group interviewed since their conception of an accounting rule would create a more peaceful climate between the parties, the auditor and the client.

Among other findings, there was one developed from interviews with representatives of commercial banks. Their main concern was actually the autheticity of the values shown in the financial statements. They judged that this was the main reason why the statements were not accompanied by disclosures. Banks were forced to seek for more explanations and additional information by the entities because there is no disclosure statement accompanying the financial statements of the applicant for the loan. While interviews with the owners of the entities indicated that the disclosures were not considered an element of the entity’s social responsibility but only a statement enforceable by law. For this reason they prepare it formally and briefly. They think that the disclosures and additional information are given to interested parties at their request as not everything serves to everyone. This finding leads on Gray’s conclusion that a culture aspect that affects accounting is the secret toward transparency.

Conservatism versus optimism - In only 18% of the cases, the financial statements preparers have answered correctly if the fair value or other valuation model has been allowed by the standard model. In 82% of the cases responses have considered historical cost as a permitted alternative. This indicates a conservative culture, not at all in favor of optimism, but also a strong uncertainty avoidance.

Weak result from the questionnaire assessment for questions related to the understanding and applicability of accounting standards can best be explained culturally. We are a society that fall within these frames:

Individualist versus collectivist cultures – Maybe as a consequence of the past regime, Albania has a collectivist
Culture. Generally, people tend to create social relationships and also try to preserve them.

Great distance compared to the small one towards the government - Albania has a culture orientated to large power distance. Mainly power is concentrated in a small number of people hands, whose authority is beyond question. This constituent culture is transmitted in organizations business culture. Overall the power is centralized and employees have no freedom of judgment or making decisions.

Strong avoidance versus weak avoidance and uncertainty - Mainly Albanians are individuals who seek to avoid the unknown and like having some rules to follow. “Scared” by the force of law and government, they do not like to take over risks.

Vendimet e kontabilitëve priren të respektojnë vullnetin e pronarëve (që në përgjithësi rezultojnë të pashkolluar) dhe më së shumti rregullimet fiskale të cilat shoqërohen me ndëshkime materiale.

Masculinity versus femininity - In general Albanian culture is a masculine culture as seen in the private management structures or other regulatory public bodies. Although in the accounting profession the gender issue is exceeded, this does not mean that decisions are taken by women accountants. Accountants decisions tend to respect the will of the owners (which generally result illiterate) and mostly the fiscal adjustments which are associated with material penalties.

Conclusions and recommendations
In conditions where Albania has a very different culture from the British-American, it will be difficult that accounting standards developed by international standards will be applied with full effectiveness. As long as our culture tends towards legal regulations, written rules and uniformity, it is not the best choice adopting international standards.

Albania must keep its local standards. These standards have to be improved and updated with international news but always in context of the local culture. Given that the culture is a hereditary dimension and it’s not easily impressionable and changeable, at least regarding the accounting, it should start introducing a new spirit to the texts of the lowest school years.

References