International Journal of Multidisciplinary Research and Growth Evaluation

International Journal of Multidisciplinary Research and Growth Evaluation
ISSN: 2582-7138
Received: 03-06-2021; Accepted: 17-06-2021
www.allmultidisciplinaryjournal.com
Volume 2; Issue 4; July-August 2021; Page No. 311-316

The effect of harmonization and cultural differences on international accounting

Nazla Aminy [1], Sanni Rolina Sipayung [2], Iskandar Muda [3]
[1-3] University of North Sumatera, Medan, Indonesia

Corresponding Author: **Nazla Aminy**

Abstract
Accounting standards and accounting practices will change depending on economic growth, government policies, cultural differences, inflation and others because accounting is a social science. In terms of accounting, the differences that occur regarding international standards need to harmonize international accounting with convergence. This paper contains about the influence of cultural differences between countries in terms of accounting standards, the need for harmonization, the factors that encourage the necessary harmonization, and the extent to which the development of convergence of accounting standards is carried out.

Keywords: Harmonization, Cultural Differences, Convergence, International Accounting

1. Introduction

The applicable financial reporting in a country is usually determined through government regulations, or other authorized private bodies. Financial reporting rules are accounting standards and in Indonesia are Financial Accounting Standards (SAK) set by the accounting professional organization, namely the Indonesian Institute of Accountants. From several observations made, it can be seen that there are differences in accounting standards that apply in each country. This becomes even more important when a company can or sell its shares in another country through the capital market. Which accounting standards should be followed in financial reporting? What are the factors that affect the accounting system and ultimately affect the company's financial reporting system in each country? Do cultural differences in each country cause differences in accounting systems between these countries?

Globalization marked by the operation of multinational companies in various countries has played a role in bridging the meeting of different accounting practices from various countries, both between developed countries and other developed countries, as well as differences between developing and developing countries, even between developing countries. Developed countries with developing countries. This difference is understandable considering that accounting science as part of social science will be greatly influenced by the social environment in which accounting practices exist. Accounting will only be useful if it is in accordance with the demands of the people who are part of the accounting environment.

The existence of differences in accounting practices caused by differences in accounting standards can result in reduced accounting comparability or even disappearance altogether. A financial report which is the result of the accounting process in a company in a country that shows a profit or describes a good performance, may show the opposite difference if the financial report is made based on accounting standards in countries that have different standards from the financial statements. This condition, of course, creates serious problems considering that the purpose of submitting financial reports by management is to be understood and trusted by all interested parties. However, with the fact that in this world there are various accounting standards that apply in each country, all of which can produce various financial reports, it can reduce the level of trust of external parties to the financial statements. This paper contains the factors that encourage the need for harmonization of accounting and the development of international accounting harmonization as well as differences in financial accounting standards.

2. Literature Review and Discussion

Definition of Culture

Culture is , "the collective programming of the mind which distnguishes the members of one group from another" (Hofstede, 1980) [5]; "...integrated system of learned behaviour patterns that are characteristic of the members of a society and that are not the result of biological inheritance. Culture is therefore acquired behaviour. But it is as much a part of the natural universe as the stars in the heavens, for it is a natural product of man's activities, and man is part of nature" (Violet. 1983) [24]; " the total pattern of human behaviour and its products embodied in thought, speech, action and artefacts and dependent upon man's capacity for learning and transmitting knowledge to succeeding generations through the use of tools, language and systems of abstract thought" (Bloom and Naciri, 1989) [3].

"Culture consists of patterns, explicit and implicit, of and for behaviour acquired and transmitted by symbols. constituting the distinctive achievements of human groups, including their embodiments in artefacts, the essential core of culture consists of traditional (historically derived and selected) ideas and especially their attached values; Cultural systems may on one hand be considered as products of `action, on the other as conditioning elements of further action" (Belkaoui, I992) [1].

From the several definitions above, it can be concluded that culture has the following characteristics: Collective (group, or community); Is a social product that arises naturally; It can be in the form of actions, thoughts, language, or historical background, either explicit or implicit; and can be used as a characteristic of one group to another.

Culture in Accounting Practice

Harmonization of international accounting and financial reporting, confirms that uniformity will improve the consistency and comparability of financial statements. This will allow investors to value financial statements in the same way regardless of which report is generated. As a result, investors will make better economic decisions and the economy will develop (Zarzeski, 1996) [25]. The worldwide adoption of international standards is a step towards that economic goal. Culture influences the way individuals view accounting and financial reporting standards that they must comply with. Some accountants come from different cultures, they interpret and apply these standards in different ways. Muller concluded that accounting must respond to the changing needs of society and must reflect the political, legal and socio-economic conditions of the developed country (Oluku & Ojeka, 2011) [19]. At the micro level, culture has been shown to influence individual risk-taking behavior. Tse *et al*. (1988) [23] showed that culture was predicted to have a significant effect on executive decision making. Graham *et al*. (2010) [9], using survey data in the US, also show that CEOs are also affected by the cultural effect. Breuer *et al*. (2011) [4] found individualism associated with overconfidence has a significant positive effect on individuals' financial risk taking and stock ownership decisions. They found that CEO decision-making is strongly influenced by cultural values such as uncertainty avoidance.

At the macro level, culture has been linked to corporate governance, investor protection, creditor rights, bankruptcy protection, judicial efficiency, accounting transparency, and corruption. Lee and Peterson (2000) [18] point out that only countries with certain cultural tendencies (eg, countries that emphasize individualism) tend to have a strong entrepreneurial orientation, hence more entrepreneurship and global competitiveness. Claessens *et al*. (2000) [5] show that firms in common law countries and market-based financial systems have low-risk financing patterns, and stronger protection of equity and creditor rights is also more associated with financial risk. Overall, while the literature is relatively small, national culture has been indirectly related to corporate decision risk taking in formal studies, although most of them only analyze the banking sector. Culture has also been directly linked to corporate risk-takers, although most studies have focused on the finance or manufacturing sector separately. Getz and Volkema (2001) [8] and Robertson and Watson (2004) [22] link cultural differences to levels of corruption. In addition, recent research has also linked cultural variables to economic and market development. Hope (2003) [13] points to evidence that legal and cultural origins (as pointed out by Hofstede) are important in explaining corporate disclosure practices and investor protection. In fact, he finds that although legal origin is a major determinant of the level of disclosure, it decreases with the information environment of a firm's wealth, while culture still remains a significant determinant. On the other hand, Pryor (2005) [20] argues that cultural variables do not appear to be related to levels of economic development and are not useful in understanding economic growth or differences in levels of economic performance across countries. Radenbaugh *et al*. (2006) found that countries in the Anglo cluster have accounting systems that are more transparent and less conservative than German or Latin accounting systems. Kwok and Tadesse (2006) [16] find that culture explains cross-border variation in financial systems, with high uncertainty avoidance countries being dominated by bank-based financial systems, not by the stock market.

Doidge *et al*. (2007) [6] find that cross-cultural differences explain more of the variance in corporate governance than observed firm characteristics. In addition, Herger *et al*. (2008) [11] also argue that cultural beliefs do not seem to support or hinder financial development. Evidence suggests that national culture may only indirectly influence economic and market development through its impact on legal and institutional contexts. Laeven and Levine (2009) [17] show that risk taking by banks varies positively with the comparative strength of shareholders in each bank. In addition, they show that the relationship between risk-taking banks and capital regulation, deposit insurance mechanisms, and restrictive bank activity, is highly dependent on the bank's ownership structure. Kirca *et al*. (2009) [15] show that the impact of implementing market-oriented national cultural practices and internalization of market-oriented values and norms (i.e., innovation, flexibility, openness of internal communication, speed, emphasis on quality, emphasis on competence, inter-functional cooperation, and responsibility). Beraho *et al*. (2010) [2] show that cross-cultural variables have a direct influence on the propensity to file for bankruptcy and bankruptcy law. Kanagaretnam *et al*. (2011) [14] show that banks in high uncertainty avoidance societies tend to take less risk, while banks in high individualism societies take more risks. However, they do not control for institutional variables such as corporate governance, bankruptcy protection, judicial efficiency, transparency, and corruption, which have been shown to be influenced by national cultural norms and can influence firms' risk taking. Griffin *et al*. (2012) [10] studied the impact of culture on companies in the manufacturing sector in the period 1997-2006. They show that individualism has a positive and significant direct effect, while uncertainty avoidance has a significant and negative direct effect on firms taking risks. Cultural norms remain important in determining a firm's risk-taking behavior even after taking into account its impact on the institutional, economic and industrial environment.

Factors Encouraging the Need for Harmonization of Accounting

Accounting standards and practices in each country are the result of complex interactions among economic, historical, institutional, and cultural factors. In detail Choi and Meek

(2005) [7] mention eight factors that influence the development of accounting. Given that in each country the eight factors are of course not uniform, then these eight factors can also be a driving force for the need for accounting harmonization.

1. Source of Funding
Shifts or changes in the company's funding sources will affect changes or increases in the parties with an interest in the company. Companies with a small capital scale and only use sources of funding from the owner only means that they are not or have not been bound to creditors or investors. Meanwhile, large-scale companies that require external funding from both creditors and investors mean that they are bound by the interests of creditors and investors. In countries with strong equity markets such as the United States and the United Kingdom, accounting has a focus on how well management is running the company and is designed to help investors analyze future cash flows and the associated risk level. Disclosure is carried out very completely to meet the requirements of broad public ownership. In contrast to a credit-based system where banks are the main source of funding, accounting has a focus on protecting creditors through conservative accounting measures. Since financial institutions have direct access to whatever information they want, extensive public disclosure is deemed unnecessary. Examples are Switzerland and Japan.

2. Legal System
The western world has two basic orientations, namely code law (civil) and general law (case). In code law countries, law is a complete group that includes provisions and procedures. Codification and accounting procedures are reasonable and appropriate there. Thus in code law countries, accounting rules are incorporated into national law and tend to be very complete and include many procedures. In contrast, common law develops on a case-by-case basis without any attempt to cover all cases in a complete code. In most common law countries accounting rules are set by private sector professional organizations. This allows accounting rules to be more adaptive and innovative.

3. Taxation
In most countries, tax regulations effectively define accounting standards because companies must record revenues and expenses in their accounts to claim them for tax purposes. Examples for this case are in Germany and Sweden. In other countries such as the Netherlands, financial accounting and taxation are different: taxable profit is basically financial accounting profit adjusted for differences with tax law. If there is a difference between financial accounting and tax law, companies usually have to comply with tax law. An example in Indonesia is the recording of inventory, which in taxation provisions only allows the first-in, first-out (FIFO) and average methods.

4. Political and Economic Ties
The spread of accounting ideas and technologies was often done through conquest, trade, and other powers. The double entry system, which originated in Italy in the 1940s, slowly spread in Europe along with other reform ideas. Britain and Germany exported accounting to the countries under their control. The United States imposed American-style accounting practices on Japan. Developing countries use accounting systems developed elsewhere (eg India), while others use accounting systems of their own choosing. So the development of the accounting system in a country is highly dependent on political or economic ties to other countries.

5. Inflation
Inflation causes distortions in historical cost accounting and affects the tendency of a country to apply price changes to company accounts. Financial reports submitted by management at the time of inflation can mislead interested parties. This can be caused by recording costs that are too low due to the calculation of depreciation costs of fixed assets that are recorded too low in value. The profit or loss recorded by the company may not reflect the change in ownership of assets that should be because the profit or loss in nominal terms is not followed by a corresponding increase or decrease in wealth.

6. Level of Economic Development
The development of a country's economic level will encourage innovations both in transactions and the emergence of new investment instruments, payment systems and other things that are needed with economic developments that occur. Today many economies are changing from an industrial to a service economy. Accounting issues regarding the valuation of fixed assets and depreciation which are very relevant in the manufacturing sector are becoming less and less important. New accounting challenges such as valuation of intangible assets and human resources are growing.

7. Education Level
Complicated and very complex accounting practices will only be produced by those who have a high level of education. While on the other hand, accounting information that is so complex will only be useful if it is read by those who have adequate education so that they are able to understand what is presented in accounting reports. So in a society where most of the population is still low educated, simple accounting would be more useful when compared to very complicated and complex accounting.
8. Culture Hofstede in Choi and Meek (2005) [7] explains that culture is described in four dimensions, namely: individualism versus collectivism, large power distance versus small power distance, strong uncertainty avoidance versus weak uncertainty avoidance, and distinguishing masculinity. Man and woman. These four dimensions will affect the accounting system and practice in a country.

Development of International Accounting Harmonization
Efforts to harmonize accounting internationally have started long before the International Accounting Standards Committee (IASC) was founded in 1973. In 1959, Jacob Krayenh of, founding partner of an independent European accounting firm, was the main push for the creation of international accounting standards. In 1976, the Organization for Economic Cooperation and Development (OECD) issued a Declaration on Investments in Multinational Enterprises containing guidelines for “Disclosure of Information”. In 1978 the European Community Commission issued its Fourth Decree as the first step towards harmonization of European accounting. In 1981 the IASC established a consultative group of non-member organizations to broaden inputs into international standard-setting. In 1984, the London Stock Exchange stated that it hoped that companies

listed but not incorporated in the UK and Ireland would conform to international accounting. In 2001 the International Accounting Standards Board (IASB) replaced the IASC and took over responsibility on April 1, 2001. The IASB standards are called International Financial Reporting Standards (IFRS) and include the IAS issued by the IASC. In 2002 the European Parliament approved the European Commission's proposal that virtually all listed EU companies must comply with IASB standards starting no later than 2005 in their consolidated financial statements. In the same year the IASB and FASB signed the "Norwalk Agreement" which contained a joint commitment to the convergence of international and United States accounting standards.

In 2008, the Indonesian Institute of Accountants (IAI) on Tuesday, December 23, 2008 in the framework of its 51st anniversary declared Indonesia's plan to converge to International Financial Reporting Standards (IFRS) in setting financial accounting standards. The accounting treatment arrangement that converges with IFRS will be applied to the preparation of the entity's financial statements starting on or after January 1, 2012. This is decided after going through an in-depth review and review by considering all the risks and benefits of convergence to IFRS. Compliance with IFRS has been carried out by hundreds of countries in the world including Korea, India and Canada which will converge to IFRS in 2011. Data from the International Accounting Standard Board (IASB) shows that currently there are 102 countries that have implemented IFRS with varying degrees of obligation. Different. A total of 23 countries allow the voluntary use of IFRS, 75 countries require the use of IFRS for all domestic companies, and four countries require the use of IFRS for certain domestic companies. Compliance with IFRS provides benefits for comparability of financial statements and increased transparency. Through compliance, the financial statements of Indonesian companies will be able to be compared with the financial statements of companies from other countries, so it will be very clear which company performance is better. In addition, the convergence program is also useful for reducing the cost of capital, increasing global investment, and reducing the burden of preparing financial reports. International Financial Reporting Standards (IFRS) are used as the main reference for developing financial accounting standards in Indonesia because IFRS is a very strong standard. Its preparation was supported by experts and international consultative councils from all over the world. They provide sufficient time and are supported by literary input from hundreds of people from various disciplines and from various jurisdictions around the world. With the declaration of the convergence program on IFRS, in 2012 all standards issued by the IAI Financial Accounting Standards Board will refer to IFRS and be applied by the entity.

Comparison of Financial Accounting Standards: Indonesia, United States, and International

To see the differences in accounting practices in various countries in the world, the following are examples of Financial Accounting Standards (SAK) that apply in Indonesia, the United States (Financial Accounting Standard Board/FASB) and International Accounting Standards (International Accounting Standard/IAS) or International Financial Reporting Standards (IFRS).

1. Indonesian Financial Accounting Standards

Indonesia as a developing country is of course very much different when compared to developed countries such as the United States and other developed countries, both in business practices and accounting standards and practices. Business practices that have developed in developed countries and have made accounting standards but these business practices have not developed in Indonesia of course do not require accounting standards. While business practices are developing in Indonesia but not developing in other countries, including developed countries, accounting standards are made such as accounting standards for Islamic banking.

2. United States Financial Accounting Standards

America is one of the developed countries in the world that has a very strong political, economic, socio-cultural influence including accounting against fellow developed countries and developing countries. It can be likened to what is happening in America now slowly or quickly will be imitated in other countries. Especially regarding business practices in America, growing so rapidly that in the end requires accounting standards and practices that also develop in accordance with business developments that occur. When compared with Indonesian Financial Accounting Standards and International Accounting Standards, the financial accounting standards in America are far more numerous due to business practices that are indeed more diverse.

3. International Accounting Standards (IAS/IFRS)

International Accounting Standards/ International Financial Reporting Standards are issued by the International Accounting Standards Board or the International Accounting Standards Board. Given the purpose of preparing these accounting standards to be used by as many countries in the world as possible, in preparing accounting standards, of course, the International Accounting Standards Board considers the conditions of most countries so that it suits their needs. When we compare it with American accounting standards, in terms of the number of standards issued by the International Accounting Standards Agency, it is much less because they do not refer to business developments and accounting needs in America alone but in most countries so that the accounting standards they issue can be adopted either partially nor completely.

The three accounting standards are both applicable in Indonesia, the United States, and international standards, so there is a clear difference in quantity. When viewed in terms of the number of standards, accounting standards in Indonesia when compared to the United States are only about a third, while compared to international accounting standards, accounting standards in Indonesia are more. The difference in the number of accounting standards in America, which is far more than Indonesia, can be explained that the level of economic development in America is far more advanced than Indonesia, so that in America, various types of instruments have been developed that can be categorized into assets, liabilities, or equity accounts.

Meanwhile, if in Indonesia there are accounting standards that have been applied in America but not yet in Indonesia, it shows that for Indonesia it is still considered not urgent or important considering the frequency of occurrence is still low or even has not arisen at all. While international accounting standards are fewer when compared to America and even Indonesia, it can be explained that international accounting standards are trying as much as possible to adopt a variety of accounting standards diversity in various countries in the world. It is hoped that international accounting standards will be adopted by many countries to adopt or use existing standards to be enforced in their respective countries. The increasing number of countries that use international accounting standards means that there has been a uniformity of accounting standards, although not yet fully, considering that as in America, it means that there are other accounting standards that have not been covered by international accounting standards.

3. Conclussion

The implication of this research is that the cultural aspect of accounting can influence the role or outcome of the interaction between accounting information and the behavior of financial statement presenters. In other words, with regard to the relationship between human behavior and accounting systems both in the field of financial accounting, it is important to include cultural understanding in accounting teaching. Research on the disclosure of errors that occur in the organization or the ethical decision making of internal accountants, with cultural considerations. One of them is that the collectivist culture may influence pro-social behavior, even though the behavior is actually detrimental to the organization. Research on the influence of culture on organizational performance by looking at the comparison between multinational and local companies.

The difference in the application of the accounting system will face a problem if the company starts to develop a business that involves other companies located in a country that has a different accounting system. In order to overcome this problem, the IASC, one of the independent international bodies, has developed harmonization, by issuing several accounting standards that are in accordance with topics that are in accordance with the emergence of different accounting systems applied by countries that have relations with other countries.

Although efforts have been made to harmonize accounting internationally, the diversity of accounting practices in the future will still occur. This matter given that the existence of accounting is strongly influenced by the environment in which accounting exist, and each country will continue to experience differences even though there are trends towards uniformity. That in the future accounting practices will be more uniform in various countries around the world, of course, will be able to increase the quality of international accounting, especially regarding comparability. The more uniform accounting practices mean the performance between companies in various countries will be easily compared through the financial statements they make. To better harmonize international accounting, it is necessary to build communication from various parties who have an interest in accounting from various countries, so as to reduce differences in establishing accounting standards and practices in each country.

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