



THE IMPACT OF CULTURE ON ACCOUNTANTS'
PROFESSIONAL JUDGMENTS IN THE BANKING
INDUSTRY : THE CASE OF TUNISIAN AND
MALAYSIAN ACCOUNTANTS

BY

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ABSTRACT

The purpose of this study is to examine the influence of national culture on accountants' application of financial reporting rules. In particular, this study examines the extent to which Malaysian and Tunisian accountants differ in applying their professional judgments to contingencies. In the light of the IAS 37: '*Provisions, Contingent Liabilities and Contingent Assets*' accountants directly involved in the financial reporting process in commercial banks in Tunisia and Malaysia were asked to make an accounting professional judgment related to contingent assets and contingent liabilities recognition and disclosure. Based on Gray's (1988) accounting and culture framework, this study developed two hypotheses to test the conservatism and secrecy levels of the two groups of participants. This study hypothesized that Malaysian accountants would be more likely to recognize contingent liabilities and less likely to recognize contingent assets (more conservative) than Tunisian accountants (H1). It also hypothesizes that Malaysian accountants would be more likely to disclose the existence of contingent assets and contingent liabilities in the notes of the financial statements (more secretive) than Tunisian accountants (H2). Based on responses of 56 Tunisian accountants and 49 Malaysian accountants, the study performed a univariate regression analysis to test the two hypotheses. The study found partial support for the conservatism hypothesis (H1). This is where Malaysian accountants were more likely to recognize both contingent assets and contingent liabilities than Tunisian accountants. The results do not support the secrecy hypothesis H2. Contrary to expectations, Tunisian accountants were less likely to disclose contingent assets and contingent liabilities (i.e., were more secretive) than Malaysian accountants. Overall, the study did not find that culture has a strong impact on Malaysian and Tunisian accountants' professional judgments related to contingency recognition and disclosure. Furthermore, an evaluation of participants' mean of recognition and disclosure judgments revealed that no significant difference existed between the two sample groups' decisions. This is considered as good news for the implementation of an international financial reporting standard which promotes the international accounting harmonization. This may also support the IASB's objective of enhancing a greater cross-cultural financial statements' comparability.

خلاصة البحث

الغرض من هذه الدراسة هو دراسة تأثير الثقافة الوطنية على إعداد المحاسبين التقارير المالية. على وجه الخصوص دراسة مدى اختلاف المحاسبين التونسيين و الماليزيين في أحكامهم المهنية المطبقة على حالات الطوارئ. في ضوء المعايير الدولية للمحاسبة 37 "المخصصات، المطلوبات المحتملة والموجودات المحتملة" المحاسبين المعينون مباشرة باعداد التقارير المالية في المصارف التجارية في تونس وماليزيا وطلب منهم اخذ حكم مهني على الأصول والخصوم الطارئة. استنادا إلى نظام غراي المحاسبة والثقافة (1988) ، وضعت هذه الدراسة فرضيتين لاختبار مستويات المحافظة والسرية للمجموعتين من المشاركين. تفترض هذه الدراسة في الفرضية الاولى أن المحاسبين الماليزيين سوف يكونون أكثر عرضة للاعتراف بالمطلوبات المحتملة وأقل عرضة للاعتراف باصول الوحدات (أكثر تحفظا) من المحاسبين التونسيين في حين ان الفرضية الثانية فتفترض أن المحاسبين الماليزيين سوف يكونون أكثر عرضة للكشف عن وجود أصول الوحدات والمطلوبات المحتملة في الملاحظات على البيانات المالية (أكثر سرية) من المحاسبين التونسيين. وجدت الدراسة دعم جزئي لفرضية المحافظة. ذلك ان المحاسبين الماليزيين هم أكثر عرضة للاعتراف بكل من الموجودات والمطلوبات من المحاسبين التونسيين. النتائج لا تدعم فرضية السرية . على عكس التوقعات ، المحاسبين التونسيين هم أقل عرضة للكشف عن الأصول والخصوم (أكثر سرية) من المحاسبين الماليزيين. عموما ، لم يتم العثور على أن الثقافة المحلية للبلد لها تأثير قوي على الأحكام المهنية للمحاسبين التونسيين و الماليزيين ذات الصلة في الاعتراف والكشف عن حالات الطوارئ. علاوة على ذلك ، تقييما لتعرف للمشاركين على الأحكام والكشف لم يتم العثور على اختلاف كبير بين المجموعتين من المشاركين في القرارات يمكن اعتبار هذا الخبر بشرى لتنفيذ معيار التقارير المالية الدولية التي تشجع على المواءمة المحاسبية الدولية. قد يكون هذا أيضا دعم لهدف مجلس معايير المحاسبة الدولية لتعزيز المزيد من تقاطع الثقافات البيانات المالية .

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Accounting.

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DECLARATION

I hereby declare that this dissertation is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Eljammi Jihen

Signature

Date.....

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

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**THE IMPACT OF CULTURE ON ACCOUNTANTS' PROFESSIONAL
JUDGMENTS IN THE BANKING INDUSTRY: THE CASE OF TUNISIAN
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Affirmed by Eljammi Jihen.

.....

Signature

.....

Date

Dedicated to
My beloved parents
Ali Eljammi and Sihem Ksouri
to my brother Wajdi and sister Eya,
To my husband Mohamed Sofiene Ayadi
and to my daughter Lina Soufia

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LIST OF ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
BCT	Banque Centrale de Tunisie
BVMT	Bourse des Valeurs Mobilières de Tunisie
BNM	Bank Negara Malaysia
BT	Banque de Tunisie
CICA	Canadian Institute of Chartered Accountants
e.g.	(<i>exempligrantia</i>) : for example
Et al.	(<i>et alia</i>) : and others
EU	European Union
FASB	Financial Accounting Standard Board
FRF	Financial Reporting Foundation
FRS	Financial Reporting Standards
GAAP	Generally Accepted Accounting Standards
GDP	Gross Domestic Product
IAH	International Accounting Harmonization
IASB	International Accounting Standards Board
IAS	International Accounting Standards
IASC	International Accounting Standards Committee
IC	Intellectual Capital
i.e.	(<i>id est</i>): that is
IFRS	International Financial Reporting Standard
MASB	Malaysian Accounting Standard Board
MAS	Masculinity
IMF	International Monetary Fund
IND	Individualism
ITFC	International Islamic Trade and Finance Corporation
MICPA	Malaysian Institute of Certified Public Accountants
MYR	Malaysian Ringgit
NC	Norme Comptable
NPL	Non-Performing-Loans
OIC	Organization of Islamic Corporation
PD	Power Distance
PERS	Private Entity Reporting Standards
PLR	Provision to Liability Ratio
RO	Research Objective
ROSC	Reports on the Observance of Standards and Codes
RQ	Research Question
SEC	Securities and Exchange Commission
SIC	Standards Interpretation Committee
SME	Small and Medium size Entities
TAS	Tunisian Accounting Standards
TICA	Tunisian Institute of Chartered Accountants
TND	Tunisian Dinar

UIB	Union Internationale des Banques
UA	Uncertainty Avoidance
VSM	Value Survey Module

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

This study was carried out to examine the effect of culture on accountants' application of financial reporting rules. In particular, to find out the extent to which Malaysian and Tunisian accountants working in the banking industry differ in applying their professional judgments toward non-performing loans contingencies. The term "culture" as used in this study refers to national culture (Malaysian vs. Tunisian).

Environmental factors including legal systems, sources of external finance, taxation systems, representation by professional accounting bodies, historical inflation, economic and political events are used to help explain international differences in accounting practices (see, for example, Nobes and Parker, 2004, pp. 17-31). Another environmental factor that is considered as an important feature affecting international accounting practice and financial reporting is culture.

Culture has been defined by Hofstede (2001) as "a collective programming of the mind that distinguishes the members of one group or category of people from another" and it could be the most studied factor in the attempt to explain the diversity or harmony in accounting practice at the international level. Each human group shares its own societal norms, consisting of common characteristics, such as a value system which is adopted by the majority of constituents. Values are defined by Hofstede (1980, p. 19) as 'a broad tendency to prefer certain states of affairs over others'. It is these definitions that have been widely adopted in accounting research to develop a cultural framework to investigate international accounting differences. Besides,

culture represents “all those social, political and other factors which influence individual’s behaviour”. Thus, culture is a more complex factor with the potential to transcend national boundaries, while often has “less than universal acceptance within national boundaries” (Hamid et al., 1993).

It is believed that all actions have intentions and meanings, and grounded in social and historical practices. Hence, accounting as a social science is the output of accountants’ thinking, interpretation and application of its rules, that need to be studied from a social and cultural viewpoint in order to be able to distinguish each country’s financial reporting practices from all others. This need is triggered by the fact that accountants’ application of financial reporting rules is affected by their countries’ societal and cultural values. In fact, human beings are unique and their behaviours reflect their beliefs, their cultural backgrounds and their traditions. Therefore, accounting as practiced in every country is a reflection of its cultural characteristics that are imbued in the way accountants from different cultural areas interpret and apply accounting standards. Then, the manner accounting is used as a tool that differs from a society to another, and is affected by every society’s cultural attributes that define accounting practitioners’ backgrounds.

Many areas where accounting is used have been subject to research in order to highlight its relationship with the social and cultural aspect. In the early 1980’s, it was found that budgeting is influenced by organizational, political and social environment (e.g., Hopwood, 1983; Jonsson, 1982; Covalski & Dirsmith, 1986) and Berry et al. (1985) showed the significance of tradition and culture of the organization on management control systems. Ansari et al. (1987) investigated the use of cost accounting in the U.S public sector organizations and found out that financial data was of little use in the technical-rational perspective but data was most used according to

either the social, political or institutional perspective. Accounting has also been studied in religious organizations through a case study of accounting practice in the Church of England by Laughlin (1990), which found out that understanding of accounting practices requires the understanding of the social dynamics of the church, specific local factors and historical contexts. Dent (1991) studied accounting and organizational culture in a British railway public enterprise and argues that accounting can be implicated in organizations' cultural systems and can enter organizational settings to constitute cultural knowledge. Therefore, accounting needs to be studied in terms of its cultural context which can vary between different countries. Loft (1986) argues that the relationship between accounting and society is not simply accounting as a passive reflection of the society, but rather a proactive tool in determining social and economic directions.

Hofstede's (1980) work on culture represents the most extensive research on national cultural differences to date (Doupnik & Tsakumis, 2004). From attitude surveys collected from approximately 116,000 IBM employees across 39 countries, Hofstede (1980) identified four underlying value dimensions along which each country can be positioned. These societal values are: individualism versus collectivism; large versus small power distance; strong versus weak uncertainty avoidance, and; masculinity versus femininity. Across these dimensions, Hofstede's framework provides quantitative measures for each of the sample countries. This broad sample of quantitative data has attracted many researchers studying cross-cultural differences. Later, from the literature and practice, Gray (1988) identified four accounting value dimensions that can be used to define a country's accounting sub-culture: professionalism versus statutory control; uniformity versus conformity; conservatism versus optimism, and; secrecy versus transparency. The first two

dimensions relate to authority and enforcement of accounting practices at a country level, and the second two relate to the measurement and disclosure of accounting information at a country level. Gray (1988) extends Hofstede's model by overlaying accounting values and systems, and their links to societal values and institutional norms. Gray posits that accountants' value systems are related to and derived from the unique societal values in each country. Essentially, accounting values, in turn, affect accounting systems, therefore cultural factors directly influence the development of accounting and financial reporting systems at a country level (Doupnik & Tsakumis, 2004).

The importance of culture in explaining these differences can be found in various previous studies which tried to investigate its impact on accounting in different cultural areas. In fact, the Hofstede-Gray framework was used as a theoretical reference in order to examine its applicability and truthfulness in different cultural contexts (Iskander & Pourjalali, 2000; Chanchani & Willet, 2004; Doupnik and Richter, 2004; Tsakumis, 2007; Noravesh et al., 2007; Askary et al., 2008; Kung et al., 2008; Tsakumis et al., 2009). Meanwhile, other studies have examined the relationship between accounting practices and cultural characteristics without referring to this framework, but with the emphasis on a country's cultural characteristics at different levels (e.g., Hope, 2003; Williams, 2004; Qu & Leung, 2006; Gruning, 2007; Yee et al., 2008; Houriasi & Davey, 2009; Zaman Mir et al., 2009). Besides, most of the previous studies have investigated the relationship between cultural values and accounting values at the country level using financial statement data (e.g., Eddie, 1990; Gray & Vint, 1995; Zarzeski, 1996; Jaggi & Low, 2000; Hope, 2003). However, fewer studies have done so at the individual level using

questionnaire survey (e.g., Tsakumis, 2007, Tsakumis et al., 2009), which is the method of data collection in this study.

The participants in this study are accountants who are working in Tunisian and Malaysian commercial banks and are involved in the financial reporting process. Several reasons are behind the choice of carrying out this study in the banking sector. First, Hooi (2004) argues that it is considered to be the most important industry for the country's economic and financial stability. Furthermore, the International Accounting Standards Board (IASB) recognizes its significance by issuing unique accounting standards (i.e. IAS30, IAS32 and IAS39). In addition, with national banking systems being non-homogenous, it is important to investigate the effects of national culture on it because few prior studies have investigated the relationship between culture and accounting practices in this field (e.g., Gray and Vint, 1995; Hooi, 2007; Hui, 2008; Maali & Napier, 2010).

Besides, the 2008 financial crisis triggered the attention of the economic, political and governmental forces to the banking activities and circuits. In fact, this crisis originated from these financial institutions and affected the banking industry dramatically. According to the International Monetary Fund (IMF), the cost of credit-default protection for financial institutions has increased, reflecting higher tensions in the banking industry due to this crisis. The main causes of these crises were poor banking practices and lack of revenue diversification, inadequate capital, shortcomings in the assessment of credit risk, lending to connected enterprises, excessive maturity or currency mismatches, and rapid rise of non-performing loans, which is the contingency issue adopted in the questionnaire' scenarios that are addressed to the participants in this study. The financial crisis has affected the Tunisian as well as the Malaysian banking systems, especially, with regards to the

increasing amounts of non-performing loans (NPLs) faced by banks in both countries. According to a Malaysian rating agency, the NPL ratio for financial institutions in 2009 has reached 6.5% while it was only 4% in 2008. The IMF declared that, for Tunisia, the NPL ratio was 15% in 2009 as a result of the financial crisis and the local central bank aimed at reducing this ratio below this number as well as increasing the coverage of delinquent exposures by loan-loss reserves in the next year. The thesis continues by discussing the motivations of the study in the next section.

1.2 MOTIVATIONS OF THE STUDY

The motivation behind this study was to examine the extent in which Malaysian and Tunisian accountants, with different cultural characteristics, differ in their professional judgments based on the same accounting rules to be applied. In fact, The international accounting harmonization (IAH) has almost eliminated the boundaries between countries by trying to bring the world to the same accounting standards framework that needs to be applied consistently across countries. In the Malaysian accounting context, the financial reporting foundation and the Malaysian Accounting Standards Board announced on 1 August 2008 their plan to bring Malaysia's Financial Reporting Standards to full convergence with International Financial Reporting Standards (IFRS), by 1 January 2012, Malaysia has been adopting IFRS standard-by-standard, so this step is but a progression. According to the Malaysian Accounting Standards Board (MASB), the global harmonization of accounting has practically eliminated the borders between countries, especially, with the adoption of the IFRS which are used by more than 100 countries around the world as the applicable accounting standards (MASB, 2009).

Regarding the Tunisian side and according to the World Bank, the accounting conceptual framework in Tunisia is largely based on the International Accounting Standards Board's framework for the preparation and presentation of financial statements. The World Bank points out that following the 1997 accounting reform, a radical change has been set in the Tunisian Accounting System (TAS) which was considered as a massive step toward the harmonization with IFRS. It is then admitted that the demand to have a common set of global financial reporting standards has been recognised for a long time. As both the business and financial markets become global, a single set of international accounting standards can help in the understanding of financial information and IFRS will indeed become the global language for financial reporting in the world.

However, certain obstacles still persist against the consistent application of the IFRSs across countries. In fact, each country is characterised by its own cultural framework that may hinder the process of harmonization. Therefore, the national cultural characteristics may have an impact on the way accountants from different countries apply the same accounting standards. As a consequence, the same accounting standard's guidelines might be interpreted and applied differently by accountants from different cultural backgrounds. This could make the application of the IFRS in one country different from the way it is applied in the other which is not the objective of the convergence to IFRS. Prior studies reached mixed findings on this matter and have given evidence that a common set of financial reporting rules is not always applied in the same way by accountants from different countries, since culture does affect the way they interpret and apply financial reporting rules (e.g., Hussein, 1996; Cable & Patel, 2000; Schultz & Lopez, 2001; Doupnik and Richter, 2004; Chanchani & Willet, 2004; Tsakumis, 2007; Kung et al., 2008; Chand et al., 2009 ;

Tsakumis et al., 2009). Therefore, this study aims at investigating to what extent Tunisian and Malaysian accountants differ in their professional judgments based on the interpretation and application of the same international accounting standard (IAS 37) and how culture affects their decisions.

1.3 OBJECTIVES OF THE STUDY

The study's first major objective is to examine the influence of the cultural attribute on accountants' application of financial reporting rules. This major objective implies two specific objectives. The first one is to examine to what extent Tunisian and Malaysian accountants differ in their recognition decisions, due to cultural differences, related to the issue of contingencies in the light of IAS 37, which clarifies about their level of conservatism. According to Gray's (1988) conservatism proposition, accountants from more conservative cultures are more likely to recognize contingent liabilities and less likely to recognize contingent assets than accountants from a less conservative culture. In the context of this study, Malaysian accountants are expected to be more conservative than Tunisian accountants given their cultural scores¹ according to Gray's conservatism proposition. This Means that they would be more likely to recognize contingent liabilities and less likely to recognize contingent assets than their Tunisian counterparts.

The second specific objective is to examine to what extent Tunisian and Malaysian accountants differ in their disclosure decisions related to the issue of contingencies in the light of IAS 37, which clarifies about their level of secrecy. Indeed, accountants from more secretive cultures are less likely to disclose the

¹ Cultural scores have been identified for this study using Hofstede's (2008) VSM questionnaire. The new scores related to uncertainty avoidance, collectivism, masculinity and power distance have served in developing the study's hypotheses based on Gray's (1988) proposition of conservatism and secrecy.

existence of both contingent assets and contingent liabilities as a cautious approach to financial reporting than accountants from less secretive cultures. Therefore, they seem to be more prudent in terms of disclosing “confidential” information about the company. Based on the newly identified cultural scores, this study expects that Malaysian accountants would show more secrecy in disclosure decisions than Tunisian accountants, meaning that they (Malaysians) would be less likely to disclose the existence of both contingent liabilities and contingent assets in the notes to the financial statements than their Tunisian counterpart.

This study employs IAS 37 as the accounting standard that is interpreted and applied by the participants since it includes both recognition (to measure conservatism) and disclosure (to measure secrecy) requirements that are related to contingencies. Therefore, accountants’ professional judgements will be based on the same standard’s guidelines and differences that could emerge in this matter will be issued from a cultural standpoint.

The study’s second major objective is to investigate about the likelihood of adopting the IFRS in Tunisia and Malaysia in the context of the international accounting harmonization (IAH) given that cultural differences may persist between the two countries. Actually, both countries have made efforts, with different degrees, in order to follow the path of IAH which aims at bringing the world to the same level of accounting practices, and to reduce or ideally eliminate, substantial differences that could exist between countries’ financial reporting practices (as explained in section 1.2). In fact, a number of benefits accompany IFRS adoption across countries. In particular, IFRS provides better financial information for shareholders as well as regulators. In addition, IFRS as a universal financial reporting language, enhances the accounting information comparability and improves the transparency of results