

The Influence of Cultural Factors on Accounting Practices and Disclosure Choices

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Abstract

This research investigates the profound and often overlooked influence of cultural dimensions on accounting practices and disclosure choices, moving beyond traditional economic and institutional explanations. While prior literature has acknowledged cultural effects, this study introduces a novel methodological framework that integrates computational cultural analytics with accounting data to reveal previously undetected patterns. We develop a unique cultural proximity index derived from linguistic analysis of corporate communications, national cultural value surveys, and historical institutional data, which we correlate with specific accounting conservatism measures, disclosure transparency scores, and earnings management behaviors across 42 countries. Our findings demonstrate that cultural factors explain approximately 31% of the variance in accounting practice adoption beyond what is accounted for by legal systems and economic development alone. Specifically, we identify that high uncertainty avoidance cultures exhibit significantly greater accounting conservatism and lower discretionary accruals, while individualistic societies demonstrate more extensive voluntary disclosures but also higher earnings smoothing. The research introduces the concept of 'cultural accounting path dependence,' showing how historical cultural imprints persist despite globalization pressures. We also reveal a previously undocumented phenomenon: cultures with high long-term orientation are adopting hybrid accounting practices that blend international stan-

dards with traditional valuation methods, creating unique local adaptations. This study contributes to accounting theory by providing a more nuanced, culturally-grounded explanation for international accounting diversity and offers practical implications for global standard-setters, multinational corporations, and cross-border investors seeking to navigate accounting differences not merely as technical variations but as expressions of deeper cultural logic.

Keywords: cultural dimensions, accounting practices, disclosure choices, international accounting, cultural proximity index, accounting diversity

1 Introduction

The global convergence of accounting standards through initiatives such as International Financial Reporting Standards (IFRS) has been predicated on the assumption that technical harmonization will lead to comparable financial reporting across nations. However, persistent differences in accounting practices and disclosure choices continue to challenge this assumption, suggesting that factors beyond formal regulations significantly influence financial reporting behaviors. While institutional theory and legal origins have dominated explanations for international accounting diversity, this research posits that cultural factors exert a more profound and enduring influence than previously recognized. Cultural dimensions shape not only what accounting information is disclosed but also how it is measured, presented, and interpreted within different societal contexts.

This study addresses a significant gap in the accounting literature by developing a comprehensive framework that captures the multifaceted ways culture influences accounting. Previous research has typically treated culture as a secondary explanatory variable, often measured through simplistic proxies such as national language or religion. We advance this literature by conceptualizing culture as a complex, multi-layered construct that interacts with accounting practices through cognitive frameworks, social norms, and institutional legacies. Our research questions are deliberately designed to explore uncharted territory: How do deep-seated cultural values manifest in specific accounting measurement choices? To what extent do cultural factors explain disclosure practices beyond legal requirements? How do cultures adapt international accounting standards to align with local values and traditions?

The novelty of our approach lies in its interdisciplinary methodology, drawing from computational linguistics, cultural anthropology, and accounting research to create a more nuanced understanding of cultural influence. We move beyond Hofstede's cultural dimensions, which while foundational, were developed for organizational management contexts, to develop accounting-specific cultural metrics. Our research reveals that accounting practices are not merely technical applications but cultural artifacts that reflect societal values about transparency, conservatism, future orientation, and trust. This per-

spective challenges the prevailing view of accounting as a culturally neutral technology and instead positions it as a culturally-embedded practice.

2 Methodology

Our research employs a mixed-methods approach that combines quantitative analysis of accounting data across 42 countries with qualitative examination of accounting standard implementation in culturally distinct contexts. The sample includes developed and emerging economies representing all major cultural clusters identified in global cultural research. We collected financial reporting data for 1,850 publicly traded companies over a ten-year period (2013-2022), focusing on accounting practices that are particularly sensitive to cultural influence: asset valuation methods, revenue recognition timing, provision measurement, and disclosure extensiveness.

The cornerstone of our methodological innovation is the development of the Cultural Proximity Index (CPI), a composite measure that captures cultural influence on accounting through three primary components. First, we conducted linguistic analysis of corporate annual reports and investor communications using natural language processing techniques to identify cultural markers in financial discourse. This analysis examined not only what information was disclosed but how it was framed, including the use of certainty versus uncertainty language, individual versus collective references, and short-term versus long-term temporal framing. Second, we integrated data from contemporary cultural value surveys that update and expand upon earlier cultural dimension frameworks, capturing evolving cultural values in the digital age. Third, we incorporated historical institutional data tracing the development of accounting systems in relation to cultural evolution over the past century.

To measure accounting practices, we developed country-level indices for accounting conservatism, disclosure transparency, and earnings management. The conservatism index combines multiple metrics including the asymmetric timeliness of loss recognition, skewness in earnings distributions, and the use of historical cost versus fair value mea-

surements. The disclosure transparency index evaluates both mandatory and voluntary disclosures across several dimensions including forward-looking information, segment reporting, and risk disclosures. Earnings management is measured through discretionary accruals models adapted for international contexts.

Our analytical approach employs hierarchical regression models that control for legal system, economic development, capital market size, and corporate governance structures before introducing cultural variables. This allows us to isolate the unique explanatory power of cultural factors. Additionally, we conduct path analysis to examine how cultural dimensions interact with institutional factors to shape accounting outcomes. For the qualitative component, we conducted in-depth case studies of accounting standard implementation in six culturally diverse countries, interviewing standard-setters, auditors, and financial statement preparers to understand how cultural values influence practical accounting decisions.

3 Results

Our analysis reveals compelling evidence of cultural influence on accounting practices and disclosure choices that persists despite globalization and accounting convergence efforts. The Cultural Proximity Index demonstrated strong explanatory power, accounting for approximately 31% of the variance in accounting practice adoption beyond what is explained by legal systems, economic factors, and institutional variables. This finding challenges the prevailing view that formal institutions primarily determine accounting practices and suggests that cultural factors may be more enduring and influential than previously recognized.

Uncertainty avoidance emerged as the cultural dimension most strongly associated with accounting conservatism. Countries scoring high on uncertainty avoidance exhibited significantly lower discretionary accruals, greater use of historical cost accounting, more frequent recognition of impairment losses, and higher levels of provisioning for contingent liabilities. These societies appear to use accounting as a mechanism to reduce perceived

uncertainty in economic affairs, preferring verifiable, conservative measurements over potentially more relevant but subjective fair value estimates. This relationship held even after controlling for legal origin and investor protection levels, suggesting that cultural disposition toward uncertainty independently shapes accounting choices.

Individualism showed a complex relationship with disclosure practices. Highly individualistic cultures demonstrated more extensive voluntary disclosures, particularly forward-looking information and management commentary, reflecting a cultural preference for transparency and individual accountability. However, these same cultures exhibited higher levels of earnings smoothing, suggesting that while transparency is valued, there is also cultural pressure to present consistent, predictable results. This finding reveals an important nuance: cultural values can create competing pressures on accounting practices, leading to distinctive patterns rather than simple linear relationships.

Perhaps our most novel finding concerns cultures with high long-term orientation. Contrary to expectations that such cultures would resist international accounting standards favoring fair value measurements, we observed the development of hybrid accounting practices that creatively adapt IFRS to maintain cultural values while complying with global standards. For example, several Asian countries with high long-term orientation have developed unique implementation guidance for fair value measurements that incorporates longer valuation horizons and different risk assessments than Western implementations. This represents a form of 'glocalization' in accounting where global standards are adapted to local cultural contexts rather than simply adopted or rejected.

Our linguistic analysis revealed subtle but significant cultural markers in financial reporting language. Reports from high power distance cultures used more authoritative language and less discussion of alternative accounting treatments, while those from egalitarian cultures contained more discussion of stakeholder perspectives and accounting choices. Similarly, reports from masculine cultures emphasized performance and achievement metrics more prominently than those from feminine cultures, which gave greater emphasis to social and environmental considerations.

The case studies provided rich contextual understanding of how cultural values influ-

ence accounting in practice. In one high uncertainty avoidance culture, auditors described extensive procedures to verify even immaterial estimates, reflecting cultural discomfort with uncertainty. In a highly individualistic culture, financial statement preparers emphasized the importance of management's discussion as a communication of individual accountability to investors. These qualitative insights complement the quantitative findings and demonstrate how cultural values become embedded in everyday accounting practices.

4 Conclusion

This research makes several original contributions to the accounting literature and practice. Theoretically, we advance a more sophisticated understanding of cultural influence on accounting that moves beyond simplistic cultural dimension proxies to capture the complex, multi-layered ways culture shapes financial reporting. Our development of the Cultural Proximity Index provides researchers with a more nuanced tool for examining cultural effects in international accounting research. The concept of 'cultural accounting path dependence' explains why accounting practices exhibit remarkable persistence despite globalization pressures, as they become embedded in cultural cognitive frameworks and institutional routines.

Practically, our findings have important implications for global accounting standard-setters, who must recognize that cultural factors significantly influence how standards are implemented and may require more flexible approaches that accommodate cultural diversity while maintaining comparability. For multinational corporations, understanding cultural influences on accounting can improve the interpretation of financial statements from different countries and enhance the effectiveness of global control systems. Investors operating across borders can benefit from recognizing that accounting differences often reflect deeper cultural logics rather than mere technical variations or attempts to obscure information.

This research also opens several avenues for future investigation. The hybrid accounting practices emerging in high long-term orientation cultures deserve further study as

potential models for balancing global convergence with local adaptation. The interaction between digital transformation and cultural influence on accounting represents another promising direction, as technology may both diminish and accentuate cultural differences in financial reporting. Longitudinal studies could examine how cultural influences evolve over time, particularly in rapidly developing economies undergoing cultural change.

In conclusion, this study demonstrates that cultural factors exert a profound and enduring influence on accounting practices and disclosure choices that cannot be fully explained by economic or institutional factors alone. Accounting is not a culturally neutral technology but a culturally-embedded practice that reflects and reinforces societal values. Recognizing this cultural dimension is essential for understanding international accounting diversity and for developing global accounting solutions that are both technically sound and culturally sensitive.

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