

TACIT PERCEPTION OF THE ACCOUNTANTS AND ACCOUNTING PROCEDURES IN DIFFERENT CULTURAL ENVIRONMENTS

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Abstract

This study aims to reveal different patterns of thinking in different national backgrounds which can be a reason for obstacles causing different results in the process of IFRS implementation. Patterns of thinking have tacit character, i.e. conscious or learned practices do not underpin them. They reflect only the experience of day-to-day practice under specific conditions in any particular country. The history and specific nature of the economic system condition this experience. To verify this hypothesis, we applied the questionnaire survey method to gather real data. Our respondents were the students of the first-year international studies of the Czech University of Life Sciences in Prague.

The results confirmed the validity of our hypothesis. Different groups of students responded differently to particular questions - depending on their specific cultural backgrounds. We found that there are differences in opinions on both the role of accountants and the use of financial reporting in business and solutions of selected accounting situations. We can conclude that there exist differences in the examined aspects that have tacit character depending on the different national environment from which the respondents arrive. The main limitation of our study stems mainly from the questionnaire design and a limited number of respondents. Despite these limitations, the outcomes can be a stimulus for further research.

Keywords: Financial reporting, harmonisation, cultural differences, tacit knowledge

JEL Code: M41, G41, F60

Introduction and motivation

The process of implementation of International Financial Reporting Standards (IFRS) both in the EU countries and in the nations around the world has to face many obstacles. The original intention to create transnational rules which would produce unified, transparent, comparable and reliable information that would be useful for the economic decisions has to take in consideration the specifics of the social conditions and national economic system. As a result

of the implementation into national environments, the originally supranational standards take over the elements and specific features of national surroundings. And the resulting information is far away to meets the requirements of either comparability or reliability.

Specifics of national accounting systems in different countries were identified and described as a part of the harmonization process in the 1970s and the 1980s. The core of this effort was to determine the different characteristics of the national accounting systems and, based on this, to classify them into particular groups with similar features. Classification of such a complex phenomenon as the accounting and financial system has led to many different taxonomy systems according to different dominating criteria and various groups. The early stage of the classification was based on the view that the accounting systems are a part of the cultural and social environment, resulting from the values, traditions and customs as a part of socio-economic development. This approach tries to define the criteria according to which accounting systems could be classified into groups with similar features. In this stage four criteria were determined: a) the professional accounting degree of dependence on the state regulation b) the degree of flexibility of an accounting system c) the degree of conservatism and d) the extent of openness of information for a user. These criteria led to the definition of 10 different groups to which the accounting systems were assigned. Later on, the classification was simplified and - based of the most common and frequent features - five distinctive models of accounting systems were defined: the UK, Latin American and Southern Europe, Northern and Central Europe, Spheres of influence of the USA and a separate group of Chile. After the political changes in the Central and Eastern Europe in 1989, this classification was aggregated in three models: the Anglo-Saxon, Continental and South American models. As a new type of accounting model with specific features one new model was defined: the one in the transforming economies, which was marked as a “mixed model”. Later on, the classification was simplified and based on the primary specifics (the structure of capital flows and the type of legal system) two models were defined: Anglo-Saxon and Continental model.

All these attempts to classify accounting systems indicate that this is a complicated task. The accounting system is a part of the socio-economic system of the country. The differences thus lie in quite a vast amount of aspects of both the economic and social surroundings and cultural specifics together with the accounting systems characteristics. Most of them can be seen, measured, described or defined and compared, but the combination of them is very often unique and non-recurring. The area of cultural specifics and tacit perceptions and approaches

as a part of them is an area that can contribute to the explanation of the causes of difficulties in the process of accounting harmonization.

1. Tacit knowledge and accounting harmonization

The design of national accounting systems reflected the specific conditions of the country in which it has developed over the centuries. According to some researchers, the differences lie and operate not only in the institutional and legal framework. With the same intensity, the differences work residing in the minds of people. They then apply through the use of accounting rules and other economic decisions. This form of national specifics does not exist in the written form and cannot be found in the wording of legal regulations or procedures. It exists in the mind of people, everyday decisionmaking and assessment of the daily economic reality. It transpires through the approach to professional and personal situations and their solution. It is a part of national culture. Due to this form, they can be described as „tacit knowledge“ or „tacit (implicit) perception“, and in this way, they form a part of the cultural characteristics.

Tacit knowledge is described variously: „...practical know-how that rarely is expressed openly or taught directly“ (Oxford English Dictionary, 1933). Tacit knowledge „...emerges and develops through closeness to the work processes“ (Johannessen et al., 2001, p. 103). „Tacit knowledge is highly personal and hard to discover and formalize. It is created by explicit knowledge and intuition, mental models, experience, crafts and skills. It is deeply rooted in action, procedures, routines, commitment, ideas, value and emotions. It is strongly related to its owner, the human.“ (Mládková, 2007).

2 Previous Literature

To the concept of „tacit“ knowledge, the interest of researchers in various disciplines turns since the start of Millenium (however the idea of „tacit knowledge“ is older). The influence of the tacit knowledge was discussed as a part of knowledge management, which is assessed as a key strategic resource for increasing of the firm’s capacity to create value (Levy et al., 2008) or within the economic geography and industrial economics (Gertler, 2003). Some researchers point out the origins and social context of tacit knowledge and the relationship between tacit knowledge and institutions (Lam, 2000).

In the past, the research of different perceptions and solutions of selected accounting situation was conducted by Tsakumis (2008), Strouhal et al. (2014), Jindřichovská and Kubíčková (2017), Kubíčková (2019), Roman et al. (2019) and others. At present, the research concerning the role of national culture in International Financial Reporting Standards

adoption was conducted (Moataz et al., 2020). The results confirm that differences in national culture had a significant role in countries' reaction to the introduction of IFRS adopted across different jurisdictions. Based on these studies, it can be proposed that national specifics, in explicit and implicit form, affect the international rules and their application in the national surroundings and are the reason for its nationalisation.

3 Aim of the research and used methodology

Our study aims to reveal if there are different patterns of thinking in different national locations which are or can be a reason for the obstacles and can cause incorrect results in the process of IFRS implementation. These patterns of thinking have tacit character - any conscious or learned practices do not underpin them. They reflect only the experience of day-to-day practice and the social and family life under specific conditions in every country as a result of its historically conditioned economic system. To achieve this aim, we examine whether there are any differences in the perceived status of financial information in the business management and in the approach to dealing with basic accounting situations based on different national backgrounds. The solutions of simple accounting situation can be assessed as having its roots in different national conditions and with tacit character.

The method used for this purpose was based on the comparison of solutions of selected situations. These situations were designed to reflect the differences between the accounting systems' models. The reason for questioning the young people-students of the universities was the supposition they are the most representative of the national way of thinking traditions and common views.

The respondents were students from various foreign countries, studying the second year at the Faculty of Economics and Management of the Czech University of Life Sciences in Prague (Czech Republic). The total number of respondents was 96, 46 % male and 54 % female. The respondents were mainly between 17-25 years old (90 %). The previously completed education was most often secondary comprehensive (about 55 %) and secondary vocational education of non-economic orientation (16 %) and economic direction (11%). Most of the respondents have lived in the Czech Republic for less than two years (57 %) or 3-5 years (38 %). It was, therefore, plausible to assume that the respondents have their views formed mostly in their home country. The sample of respondents was divided into three groups representing three different territories: 1st group – Eastern and Central Asia (36 students), 2nd group – the Continental Europe and related spheres (28 students), 3rd group Eastern Europe (European Russia and Ukraine – 32 students). Concerning the accounting

models classification, these groups can be assessed as representing three different accounting models: the continental model, the model in developing countries and the mixed model.

The questionnaire contained four parts: The first part included the identification questions (their age, education, including their economic and financial reporting experience). In the following part we examined the perception and evaluation of accounting data in business management. At the last section, we tested the approach to the solving of selected accounting situations and the attitude of respondents to some elements of earnings management and tax optimization. In the construction and formulation of the questions and model situations, we used the findings of the researches presented in the articles by Tsakumis (2003), Ryan (2006), Procházka (2006) and Strouhal (2014).

4. Results

In the first question, the perception of the role of financial information was investigated: *“What are - according to your view - the main importance of accounting and financial statements” (select one of the five levels where 1=Exclusive importance to 5=No importance).*

The proposed answers and the average values reached in the three groups of students are presented in Table 1.

Tab. 1: The main goal of financial statements’ information

		1 st group	2 nd group	3 rd group
a	Providing information about processes in the company for its management and administration	1,61	1,50	1,96
b	Providing information on the company’s financial situation for the stock exchange transactions and other investors activities	1,75	1,36	1,86
c	Providing information for determination of the amount of tax liability	1,69	2,25	2,18
d	Providing information for staff evaluation and remuneration	2,42	2,79	2,71
e	Providing information for managers’ evaluation	2,31	2,50	2,36
f	Providing information for banks and other creditors for the purpose of assessing the borrowers’ creditworthiness	1,97	2,11	2,00
g	Providing information to increase the effectiveness of the internal operations of the company	1,83	1,79	1,89
F-test		0,230	0,224	0,987

Source: own investigation

The results are the same in the second and the third group – the main goal of the financial statements’ information is seen in serving the needs of investors in the capital market. In the first group, the main goal of the financial statements information is perceived as targeted for company management and administration. These results can be assessed as the reflection of the position of the capital market in any particular country of East Asia.

The next question was a simple model situation focused on the approach in the solution

of simple reporting situation. The suggested solutions represent different tacit perceptions of financial reporting in business management. The model situation was as follows (the solutions differed not only in the procedure selection but in the reason of this selection):

”You are in a position of company’s accountant, and you have to solve the following issue:

The customer has to pay to your company for product delivery. However, the customer got into an uneasy financial position and asked you for a payment extension. Their financial situation is becoming complicated, and they will not be able to pay the full amount. The end of the reporting period is approaching, and the value of related receivable will be reported in your balance sheet. What accounting treatment of this situation you suggest?” (chose one of the solutions a), b) or c)).

The results of the groups are presented in Table 2:

Tab. 2: The accounting rules of reporting and their compliance

		1 st group		2 nd group		3 rd group	
		Abs.	%	Abs.	%	Abs.	%
a	You reduce the amount of Receivables (creating adjustment), because the original amount of Receivables would be improperly expressed the volume of firm’s assets concerning to the risks that emerged.	7	19,4	8	36,4	6	18,8
b	You reduce the amount of Receivables (creating adjustment), because the reduction in the amount (adjustments) can reduce the tax base and tax obligations.	15	41,7	4	18,2	17	53,1
c	You do not reduce the amount of Receivables because the reduction in the item did not occur and only future development will show what will have to be recorded in the books.	14	38,9	16	72,7	9	28,1
F-test			0,322		0,580		0,210

Source: own investigation

In this model situation, the answers in the group EU+ were quite different from the other two groups. The solution reflects a low level of understanding the financial reporting principles. In the EU+ group the rate of this solution was more than 70 percent. In the other two groups the results were similar – most often solution was the one which reflects the tax aspect in the accounting solutions. The rate of this answer was lower in the group of East and Middle Asia group, while in the group East Asia the portion of this answer was higher and exceeded 50 percent. It can be explained by the development of economic situation and its history in these countries and its actual situation.

In the next question, we investigated the perception of the social character of accounting data and their possible misuse, i. e. position of accounting data in the economic system as is reflected in the mind of people. The respondents had to choose one of the suggested statements

about the nature of financial information:

*“The information in financial statements - in your opinion” (mark one of the solutions a) – e))**

The offered responses a) – e) and results reached in the three groups are presented in Table 3.

Tab. 3: The character of financial information (FI)

		1 st group		2 nd group		3 rd group	
		Abs.	%	Abs.	%	Abs.	%
a	FI is strongly private and should be used only for the owners and managers.	14	38,9	10	35,7	18	56,2
b	FI is public, available for everyone who wants to collaborate with the company	0	0,0	2	7,1	9	28,1
c	FI is sensitive and its publishing exposes the company to danger	20	55,6	13	46,4	21	65,7
d	FI presents a picture of the of company’s performance and should be publicly available	2	5,6	2	7,1	5	15,6
e	FI presents the information important for public authorities and national economic statistics and should only be provided to these institutions.	5	13,9	1	3,6	2	6,2
F-test			0,731		0,616		0,873

Source: own investigation

*) in some cases the respondents marked more than one solution

The results show a similar assessment of the financial information in all three groups. All of them assess the financial information as sensitive and that their publishing exposes the firm to danger. The reason can be seen in the similar characteristics of East Asia developing societies and in the conservatism and secrecy as the cultural dimensions of EU society. Very interesting is to compare the results of all these groups with the results of the group from China. In this group the most often solution was the last one: the information is targeted for the state authorities (Kubíčková, Nulíček, 2018). It confirms that the results can reflect the specifics in tacit perception of the accounting, which is common in the national area.

The following model situation focused on the issue of earnings management. The reason for the solutions should reflect the perception of the role and reliability of the accounting data in the economic system. The respondents should solve this model task:

“The chief accountant of the company has decided to use all available opportunities given within the accounting rules to report the lowest possible earnings. You consider his efforts to report the lowest profit as: ... (mark the most appropriate suggestions in table below). “

Offered solution and answers in all three groups are presented in table 4.

The responses in the three groups are entirely and unequivocally different. In the group of East Asia, the most frequent answer is the one which include the consideration of the

assessment of banks. In the EU+ group the aspect of keeping a good reputation in the eyes of stakeholders prevailed. In the East EU group, the connection to the tax obligation prevailed. The reason can be seen again in the specifics and characteristics of the economic systems.

Tab. 4: The earnings management (EM) and its justifications

		1 st group		2 nd group		3 rd group	
		No	%	No	%	No	%
a	EM is reasonable, because he company will not need to pay large dividends,	4	12,1	1	3,6	3	9,4
b	EM is reasonable, because he company will not have to pay high taxes,	7	21,2	4	14,3	11	34,4
c	EM is unwise because it decreases the share price of the company on the stock exchange,	7	21,2	5	17,9	7	21,9
d	EM is unwise because it will worsen the company's credibility in the eyes of banks and lower credit availability,	12	36,4	7	25,0	3	9,4
e	EM is unwise because it will worsen the company's reputation in the eyes of all stakeholders.	3	9,1	8	28,6	2	6,3
F-test			0,873		0,728		0,850

Source: own investigation

The responses in the three groups are entirely and unequivocally different. In the group of East Asia, the most frequent answer is the one which include the consideration of the assessment of banks. In the EU+ group the aspect of keeping a good reputation in the eyes of stakeholders prevailed. In the East EU group, the connection to the tax obligation prevailed. The reason can be seen again in the specifics and characteristics of the economic systems.

In the latter situation, we have examined the perception of the financial statements: *What is - according to your view - the main importance of accounting and financial statements (the degree mark by selecting one of the five levels: 1= exclusive importance, 5 = no importance).* The results in all three groups are in table 5.

Tab. 5: The importance of the accounting statements (AS)

		1 st group	2 nd group	3 rd group
		Average	Average	Average
a	<i>AS provide the information about processes in the company for its management and administration</i>	1,61	1,50	1,96
b	<i>AS provide the information on the company's financial situation for the stock exchange transactions and other investors activities</i>	1,75	1,36	1,86
c	<i>AS provide the information for determining the tax liability</i>	1,69	2,25	2,18
d	<i>AS provide the information for staff evaluation and remuneration</i>	2,42	2,79	2,71
e	<i>AS provide the information for evaluation of managers</i>	2,31	2,50	2,36
f	<i>AS provide the information to banks and other creditors for the purpose of assessing the borrowers' creditworthiness</i>	1,97	2,11	2,00
g	<i>AS provide the information to increase the effectiveness of the internal operations of the company</i>	1,83	1,79	1,89
F-test		0,237	0,223	0,967

Source: own investigation

The results are different in the first group in comparison to the second and third group, while in the first group, the importance of financial information is to provide information for business management, in the second and third group, the main importance is seen as information targeted for the operations on capital market and investors decision making. This solution reflects the weaker position of capital markets in the eastern Asia economies.

Conclusion and limitations

Based on the obtained results it can be concluded that the hypothesis was confirmed: the differences in the perception, assessment of the role of financial statements as well as the willingness to moderate the financial information were different in all three groups of respondents. The explanation can be by the fact of different specifics of the countries, and the national perception of accounting information that the respondents have in mind and that it has a tacit (implicit) character.

However, the results of this research have some limitations. Most of them lie in a low response rate in the conducted questionnaire survey and also the selection and wording of questions and model situations. For future research, we would like to enlarge the research sample to other countries both from the CEE region and from the other part of the world.

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