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**THE ROLE OF CULTURE IN FINLAND'S ACCOUNTING  
SYSTEM AND ITS DEVELOPMENT**

Bachelor's Thesis

International Business Administration, Finance and Accounting

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## **ABSTRACT**

Accounting in Finland took its roots during their period as an autonomous part of Russia. Following Finland's independence and civil war, the first accounting acts were taken into use.

The aim of this thesis is to study the role of accounting on the accounting system and its development in Finland. To collect the necessary information, surveys were conducted.

There are many factors that affect accounting and its development, both internal and external. Most of the factors identified in the study have had significant influence over the development of accounting in Finland. Currently, the use of IFRS is required in the consolidated accounts of publicly listed companies in Finland.

Finland initially developed accounting during the period of being an autonomous part of Russia. The creation of Finland's first currency, the Finnish Mark. The independence of Finland followed by the civil war caused the country to be at risk, thus accounting acts were taken into use.

A survey was conducted, and the questionnaires were distributed to various types of workers in various companies. The survey showed that Finnish responders had high scores regarding individualism, and low scores regarding power-distance, masculinity and uncertainty avoidance, when compared to French responders. There were also differences in the four accounting dimensions. The data evidently shows that culture does influence the transparency and preference towards professionalism of Finnish accounting.

**Keywords:** Accounting, Culture, Development, Accounting values, Accounting practices

## INTRODUCTION

The International Financial Accounting Standard (IFRS) has been adopted in Finland, as well as every country in the European Union, since 2005. The IFRS represents a big effort towards combining an accounting system to be used globally. Before the IFRS, countries were influenced by other factors, which influenced the development of accounting into what it is today.

The subject of this thesis is “The influence of culture on the accounting system of Finland”. This subject was chosen to study the different factors that influenced the development of accounting in Finland, mainly the role culture played in the development. To study the role of culture in the development of accounting in Finland, it is important to study Finland with a broader approach.

The aim of the thesis is to understand the role of culture in the development of accounting and how it is formed today in Finland.

The following research questions are asked:

- What influenced the initial development of accounting in Finland?
- Do various factors influence accounting?
- Does culture influence accounting practices in Finland?

The study is separated into three chapters. The first chapter is about Finland and about the history of accounting in Finland. The history and how it helped develop accounting in Finland, through internal and external factors; Finnish political and economic factors that may also influence accounting and how it developed in Finland; and a short summary of the Finnish legal system and taxation in Finland.

The second chapter of the thesis will focus on accounting in Finland. It will start with some background of Finnish accounting, and how it differs from modern accounting. What caused the changes and whether they are beneficial or not.

The third chapter focuses on the study of culture and its influences on business management and accounting, using Hofstede’s and Gray’s studies. The chapter will aim to understand how culture affected accounting and accounting practices in Finland, and how it all influenced the development of accounting. The identification of Finland within Hofstede’s cultural dimensions and where they

stand within Gray's accounting classifications. Gray's accounting classification framework studies the influences of culture on accounting values and practices.

The fourth chapter will focus on the data collected from questionnaires to analyse what influences culture have had on accounting practices in Finland. This will be done by first analysing the data using Hofstede's dimensions, to further understand the impact of accounting on businesses. The analysis will be used to further analyse the data using Gray's framework to understand how culture has affected accounting values and practices in Finland. Since the Value Survey Model (VSM) of 2013 isn't for comparing individuals according to the VSM manual, France will be used as a comparison for reference. Both countries are part of the EU and require IFRS for listed companies, yet they both have different cultures and accounting systems. My French roots also played a role in picking France as a comparison country. Using France as a reference comparison will help study the role of culture's influence on accounting standards and values.

# **1. INFLUENCIAL FACTORS OF ACCOUNTING IN FINLAND**

## **1.1. Overview of Finland**

The Republic of Finland is located in northern Europe, situated between Sweden and Russia, also sharing a sea border with Estonia. Finland's capital is Helsinki situated in southern Finland. The official languages of Finland are Finnish, Swedish and Sámi, the last being the least spoken of the three. The land area which is occupied by Finland is 338,424 square kilometres and has a population of 5,520,535 (OSFa). Finland has a considerably low population density, averaging at 16 per square kilometer.

The geographical area which is now known as Finland, was a political vacuum until the 12<sup>th</sup> century, although the territory drew the interest of its Swedish and Russian neighbours. Sweden eventually gained control over Finland following the peace treaty between Sweden and Novgorod in 1323. Under the Swedish reign, the Swedish legal and social systems were introduced and gained influence. During that time, written Finnish was created by the Bishop of Turku, Mikael Agricola (1510-1557). The Swedish reign over Finland lasted until the 18<sup>th</sup> century, when Sweden lost its position of great power. Finland remained a Grand Duchy of Russia in 1809. Finland remained a Grand Duchy until 1917, when the parliament approved the declaration of independence.

## **1.2. Political system**

Finland is a representative democracy. It is a parliamentary republic in which the prime minister holds the most power. The Constitution of Finland is the foremost source of national law in Finland. The most recent version of the constitution was enacted on 1<sup>st</sup> of March 2000. Finnish citizens have the right to vote in parliamentary, municipal, presidential and European Union elections.

The Finnish head of state is the President of the Republic of Finland. The position is mainly seen as a ceremonial office, as the power of the Finnish president has diminished following the most



recent constitution amendments. The president still manages Finland's foreign politics alongside the Council of State and the Commander of the Defence Forces.

The unicameral parliament of Finland holds 200 members. Its most important function is being the supreme legislative authority in Finland. The parliament has the right to independently submit legislative proposals, however most of the decisions made are based on proposals made by the government (The Government and Parliament).

Finland has a Swedish-speaking autonomous island with a population of approximately 28 500 inhabitants.

### **1.3. Economy of Finland**

Finland has a highly industrialized, largely free-market economy. Its per capita GDP is slightly lower than that of Austria and the Netherlands, and slightly higher than that of Germany and Belgium. Agriculture represents 2,6% of GVA in Finland in 2015 (OSFb, 2019). Due to its cold and disadvantageous climate, the development of agriculture is restricted to the maintenance of self-sustainability in basic goods. Moreover, as a result of Finland joining the EU, the agriculture sector in Finland has further accelerated its downsizing. In 2017, Finland had a total of 50,500 farms that had applied for agricultural support. The number was about 1,150 farms higher the year before (Niemi, Väre, 2018).

The industry accounts for about 27,0% of GVA in Finland (OSFb, 2019). Forestry is known to be developed in Finland, as it exports various goods ranging from simple wood to paper, cardboard and packaging. Additional significant industry sectors include metals, mechanical engineering and electronics.

The service sector is the biggest of the three. Almost three quarters of the Finnish workforce are employed in the service sector (Statista, 2017) and according to the OSF (b, 2019) it accounted for 70.4 % of GVA in Finland. Additionally, the sector generates the majority of new businesses.

### **1.4. Legal system**

Finland is one of the few countries in Europe where the juridical administration of the courts is mainly organized by the Ministry of Justice. The Ministry has the responsibility for the drafting of legislation, the operation of the judicial system and enforcement of sentences. (Sarvilinna, 2010) The independence of courts is guaranteed by the constitution. To make sure the laws align with the constitution, they are examined in advance by the Parliament. The goal of parliamentary control is to prevent the possibility of laws being in conflict with the constitution from being enacted in ordinary legislative procedure. There are no constitutional courts in Finland, but the authorities responsible are under obligation to interpret legislation in a way that would adhere to the constitution.

## **1.5. Taxation**

Countries that have high levels of social securities are usually prone to high taxation. Finland is no exception in the matter. All income, goods and services are taxed. The Value-Added (VAT) is known as Arvonlisävero (ALV) in Finland.

Finnish residents are taxed on their income progressively in regards to national tax, and at a flat rate in regards to municipal and church taxes.

According to the constitution, the right of taxation belongs to the State of Finland, the municipalities, and the local communities of Evangelical-Lutheran and Orthodox churches. The tax legislation is structured along the lines of the other Scandinavian countries' tax legislations.

According to the OECD (2019), the main source of taxation in Finland in 2017 was mostly derived from three categories: taxes on personal income (29.15% of taxation), Tax on goods and services (32.83% of taxation), and social security contributions (27.90% of taxation).

Finnish companies are subjects to the Finnish corporate income tax (CIT) on their worldwide income. Finnish permanent establishments of non-local companies are also subject to the CIT on their worldwide income credited to the permanent establishment. The standard rate of Finnish CIT is 20%.

## **2. ACCOUNTING STANDARDS – FINLAND**

Accounting practices in Finland are subjected to the Finnish Accounting Act 1336/1997. The act stipulates duties and responsibilities of business owners, practisers of profession and other various entities.

## **2.1 History of accounting in Finland**

Virtanen (2009) summarized Finnish accounting history into 5 different themes. The first being the Entrepreneurship theme, which was mainly dominated by merchants. It emphasized the national identity and entrepreneurial struggle for independence in the early years of Finnish independence as a country. Virtanen's (2009) second theme was the Academic Theme, which took a role in Finnish accounting when formal education of accounting started in Finland. The first three accounting acts were developed by Finnish accounting professors. The third theme was the Governance Control Theme. As the name suggests, the theme represented the power of the government to issue rules on financial accounting. The theme took its roots when the first accounting act was issued. The first two accounting acts were passed during critical periods in Finland, the first being passed after Finland's independence and civil war, the second being passed under wartime conditions. During these times, the very existence of Finland was at stake. The fourth theme is the Professional Theme. The rapid urbanization and relatively carefree lifestyle of the youth turned the Finnish society into a more liberal one. The internationalization of Finland brought a number of accounting ideas from Europe and the USA. The purpose of accounting was to bring a fair and true view of accounting. The fifth and last theme from Virtanen's (2009) Study was the Financial Market Theme. It represented more of a need to serve the needs of the global economy. International entities have now gained influence over Finnish financial accounting. Since the legislation reform in 1992, accounting rules and values no longer come from Finland

## **2.2. Early 1800's**

In 1860 the Russian tsar allowed Finland its own currency: The Finnish Mark. Having their own currency stabilized the economy in Finland, as it was separated from the Russian Rouble. The birth of the new currency was vital for the development of the Finnish economy and society, and that is

when, two years after the birth of the Finnish Mark, the first accounting textbook was published. The book was called “The Practical Introduction to the Simple Accounting Especially for the Industry and Commerce Enterprises”. It was written by August Lilius and was published in 1862. The book was meant to help clearing up receivables, loans and amount of property. (Lilius 1862, Kettunen, Lilius 1983, Näsi 1990)

Lilius could be called one of the founding fathers of bookkeeping in Finland. His bookkeeping textbook was written to help merchants take care of their money and develop their businesses. He believed that it was the purpose of accounting was to maintain the business owner’s affairs in order. Registering receivables and liabilities in notebooks was needed, as not all transactions were paid in cash. The main purpose of accounting was “To show, who my creditors and who my debtors are, and how much my receivables and liabilities are.” (Lilius 1862) The entries were made using a simple, Italian accounting form. There were accounts for every creditor and debtor. Each account was titled under the name of creditor or debtor whose receivables or loans were being controlled. Behind every account, was a real person. The task of that person/ account was to control the amounts and changes of assets. The changes of assets were the profit or loss during an accounting period. The second task was to show the receivables and liabilities. (Kettunen, Lilius 1983)

### **2.3. The first accounting acts**

In the early 20<sup>th</sup> century, Finland was in disarray. Finland had been an autonomic part of the Russian Empire for over a hundred years, since the treaty of Fredrikshamn in 1809. Following the revolution in Russia, in 1917, Finland became an independent country for the first time in history. Following independence, great political and societal reforms were made. The legislation from the Russian period was revised. Becoming independent, meant creating a self-governing structure which is expensive. Following the independence, a civil war broke out in 1918 which also played a role in the political chaos. (Näsi 1990)

The first Accounting Obligation Act was passed in 1925. The act included simple rules regarding accounting obligation, valuation and matching, financial statements and technique of accounting.

The purpose of accounting was showing assets and liabilities, the changes of the assets and liabilities, and private consumption of goods (Laki Kirjanpitovelvollisuudesta, 1925). The primary accounting principle was the prudence principle, and the value that was to be used with either purchasing price or market price. The cheaper value of the two was to be used. Valuation of securities was an exception which had to be presented in the balance sheet using the market price or another fair value. Matching principles were still under debate, and the rules about the issue were minor. Accounting at this time had a great deal of freedom. The Accounting Act was supplemented by the Publication of Financial Statement Act, in 1928. Issues concerning accounting practices were still open, which was addressed in the act through the ethical code of good merchants' practice. (Laki Kirjanpitovelvollisuudesta, 1925; Laki Tilipäättöksen Julkisuudesta, 1928; Näsi 1990)

The second act was passed in 1945, following the second world war. In the years 1939–1944, Finland had been in two different wars against the Soviet Union, and a smaller war in 1945 against Germany in Lapland. The circumstances following these wars were the primary reasons for the legislation reforms in the 1940s. The new act was issued by the government, letting it tighten its control over firms. Valuation rules didn't see much change: Securities were now valued according to their historical value, freedom regarding depreciation ended as the act addressed it by specifying that depreciation had to be made according to plan (Kirjanpitolaki, 1945; Kirjanpitoasetus 1945; Näsi, Näsi 1997)

The following act was passed in 1973. The act was based on the expenditure-revenue theory, which was developed by Saario (1968). The expenditure-revenue theory would go to be unreplaced as the theoretical basis of Finnish financial accounting norms and practices until the 1990's.

## **2.4. Accounting in Finland**

Throughout the history of Finnish accounting, the legislation has been closely linked to taxation principles and its aim was to protect creditors and capital. This meant that the Finnish accounting standards had similarities with the German system. The Finnish accounting legislations underwent

reforms, which caused the Finnish accounting system to be adjusted closer to international standards.

Finland joined the European Union in 1995, which resulted in the Fourth and Seventh Company Law Directives to be included in the Finnish accounting legislation. During this time, the Finnish financial system shifted towards increasing dominance in the stock market from relationship-based debt finance. Moreover, the protection of shareholders was strengthened, whereas the protection of creditors weakened. (Hyytinen et al 2003)

High quality accounting standards does not guarantee high quality reporting, as incentives of the financial preparers may be influenced by political or economic factors. Ball (2006) supported this, arguing that “The notion that uniform standards alone will produce uniform financial reporting seems naïve, if only it ignores deep-rooted political and economic factors that influence the incentives of financial statement preparers and that inevitably shape actual financial reporting practice”. Nonetheless, the Finnish reporting environment has shown to be of high quality. Which is supported by the Transparency International’s Corruption Perception Index (2018). The index was made to measure corruption in the public sector and ranks countries accordingly on the level of corruption the country is perceived to show. The rankings are created through analysing various polls’ data which are gathered by reputable institutions all over the world. In Transparency International’s Corruption Perception Index from 2018, Finland was ranked third least corrupt country having scored 85 points.

## **2.5. Difference between FAS and IFRS**

Finland, as well as other European countries, has been following regulations from European Union Directives since 1990. Pirinen (2005) argues that the influence of EU Directives has been more impactful than the International Accounting Standard’s in regards of Finnish domestic accounting standards. However, the EU Directives weren’t a commanding force towards a common financial system in all European countries, but rather compatibility of the rules among the countries.

Finland adopted the IFRS into its accounting system in 2004, which greatly reformed the Finnish accounting system. The main differences between the FAS and the IFRS can be separated into two different categories. The first category being that certain rules regarding accounting issues were

mentioned by IFRS but didn't exist in the old Finnish accounting system. The second category involved both FAS and IFRS having different rules concerning the same accounting issues. Regarding the differences between the FAS and IFRS, Ding's (2007) research shows that as many as 22 new rules mentioned by the IFRS didn't exist in FAS. The study also showed that 31 rules which were mentioned in both FAS and IFRS had differences.



### **3. CULTURE DIMENSIONS**

#### **2.1. Culture**

In order to analyze how culture affects working habits, it is important to understand what culture is. The word culture comes from the old Latin word *cultura* and it meant growing, or cultivation. Nowadays, the word culture can have more than one meaning. One of the current meanings of the word culture refers to the attributes related to attitudes and behaviour of a specific social group (Oxford dictionaries). Still, culture and its influences are something that neither anthropology nor management has been able to explain consistently. (Adler, *et al.* 1986, 298). Another way of looking at the term is to think of it as an observable aspect of behaviour. The term cognitive map can be also used as every culture have their own respectful cognitive maps. This also means every culture will have different effects on business management practices. (Alder, *et al.* 1986, 299).

Hofstede (2001) defines culture as mental programming that differentiates people from different social groups.

There are many meanings to the term culture, as already mentioned. While all the meanings that researches have come up with are different, they are still significantly alike. They all refer to culture as mindsets, ideas, actions, and attributes that are considered as common in one social group but less common in other social groups. This is what differentiates the groups from one another. No matter how the term is described, it influences a person's norms, attitudes and the way he or she will behave. This, in turn, will define their culture as a collective.

Culture affects companies and organizations differently. The way it influences them is through laws, political systems, and their social structures. The values, goals, mindsets and overall cultural preferences of the employees, managers, and clients also have an impact on cultural influences (Alder, *et al.* 1986, 299-300).

#### **2.2. Hofstede's Dimensions**

##### **2.2.1. Individualism Vs. Collectivism**

Hofstede, Hofstede, and Minkov (2010) explained that individualism is the kind of societies where ties between individuals are loose whereas collectivist societies are put into close-knit, unified groups from birth and will keep aiming to be part of the groups.

One of the major attributes of collectivism is the fact that people from collective societies will rely on the societies for help and support in return for loyalty without hesitation. On the other hand, people from societies with individualist characteristics are taught to be more individual and not to rely on their societies as much. Instead, they are expected to look after themselves and their close relatives themselves. Collectivism considers the needs of the society or social group to of more importance than the need of an individual, whereas individualism aims to succeed at fulfilling their own goals without giving much regard to the collective. The index scores from the IBM surveys, conducted by Hofstede between 1967 and 1973, conveys that the majority of Asian and South-American countries lean towards collectivism and will tend to have higher power distances and lower GDP. On the other hand, countries that lean towards individualism will have lower power-distances and higher GDP. However, individualism doesn't necessarily correlate with economic growth significantly. Hofstede and Hofstede (2005) argue that wealth fosters individualism and not the other way around.

Hofstede, Hofstede and Minkov (2010) states that "In the large-power-distance situation, children are expected to be obedient toward their parents. Sometimes there is even an order of authority among the children themselves, with younger children being expected to yield to older children. Independent behaviour on the part of a child is not encouraged" (Hofstede, *et al.* 2010, p.67). This has significant similarity with the collectivism vs. Individualism dimension as children are expected to be obedient in both dimensions.

### **2.2.2. High Power-Distance Vs. Low Power-Distance**

Power distance is something that is distinguished with two main aspects that must be considered. Institutions that include the family, school, and community in a social surrounding, and the organization's aspect leans towards the workplace the people one works with. This means the power distance dimension will discuss how people are willing to accept the power distances and will, in fact, expect unequal power in both institutional and organizational levels. The relationship between a boss and his subordinate have important differences depending on whether the social surrounding has high power distance or whether it has low power distances.

According to Hofstede, Hofstede and Minkov (2010) societies that have small power distances aim to minimize inequalities, they aim to have employees and employers depend on each other more, parents will treat their children as equals and not expect special treatment as an elder, the children, in turn, will also treat their elders as equals. In societies with higher power distances, they explain that inequalities between people are expected and that status should be balanced with restraint. Employees should be dependant on their employers and families also have more of a hierarchical system. Children are taught from birth to be respectful towards elders and expect obedience. Teachers are also expected to be all-knowing and students must show the utmost respect.

### **2.2.3. Masculinity Vs. Femininity**

Hofstede, Hofstede and Minkov (2010) defined the masculinity-femininity dimension to be about stress on ego when talking about masculinity and stress on relationship with others, regardless of social group ties, when talking about femininity. Lamoraux and Marling (2012) suggest that masculinity's major attributes are influenced by competition, autonomy, forcefulness, and dominance.

This is supported by the fact that Hofstede's index for masculinity is scored similarly as the World Values Survey index for the survival versus wellbeing (Hofstede, 2001).

Hofstede, Hofstede and Minkov (2010) argue that in studying terms, there are differences for evaluating teachers and students. On the side of masculinity, the teacher's intellect and reputation are the most impactful criteria and when evaluating students, academic performances is what matters the most. On the femininity side, teachers are evaluated mostly based on their social skills and how friendly they are towards the students and for students, social adaptations are what will be held in higher regard.

In a survey conducted by Thowfeek and Jaafar (2012) concerning e-learning, the surveyors found that in a feminine culture, the major factor for accepting new systems of e-learning was mostly influenced by the people within the organization, whereas in masculine cultures the major factors that lead to accepting new e-learning systems was mostly influenced by rewards, recognition, training and the improvement of individuals. According to Hofstede (1986), in a feminine culture failure in school isn't a major incident. Boys and girls may study the same subjects without being

frowned upon. In masculine cultures, failure in school is considered to be a major incident that will bring major misfortune to the student. The typical student should be the best performing student and the subjects studied are different whether the student is a boy or a girl.

Hofstede (1986) Argues that femininity and masculinity are also differentiated in workplaces. In feminine societies, the boss will rely on intuition and will strive for consensus. Workplace objectives will often stress equality between workers, helping coworkers and will aim to improve the quality of life at work. Conflicts will be resolved by working out compromises and negotiating for a middle ground. In a masculine society, the boss is expected to be decisive and the boss will be expected to be decisive and have the capability of asserting authority. Work objectives will mostly stress on equity, they will aim to have competition between co-workers to achieve the best possible performance. Conflicts will usually be resolved through disputes until a decisive result is obtained.

#### **2.2.4 Uncertainty Avoidance**

Hofstede, Hofstede and Minkov (2010) suggest that uncertainty avoidance is defined as how uncomfortable a society may feel about situations that are unknown. The opposite of uncertainty avoidance can also be called ambiguity tolerance. If a society cannot tolerate ambiguity, they tend to avoid uncertainty at all cost. These people will hold planning and scheduling in high regard. Cultures who are ambiguity tolerant or have low uncertainty avoidance don't have the same kind of stress from unknown situations. They don't require superiors to know everything, vague plans and schedules are fine.

Another way to define uncertainty avoidance is that societies with high uncertainty avoidance tend to believe in a single absolute truth, whereas societies with high ambiguity tolerance believe that the truth depends on the situation, context and time. Hofstede, Hofstede, and Minkov (2010) argue that although it is called uncertainty avoidance, this doesn't mean they don't want to take risks. On the contrary, some uncertainty avoidant societies are ready to take risks to avoid ambiguities. Hoecklin (1996) explains that cultures with high level of uncertainty avoidance tend to have a lifetime job compared to societies that live with high ambiguity tolerance where moving between jobs is more common.

#### **2.2.5. Long Term Orientation**

Hofstede, Hofstede and Minkov (2010) define long-term orientation as the values a society hold towards the future, especially perseverance prudence, as opposed to the short-term orientation which means the society values traditions, reputation and fulfilling social obligations.

The dimension was originally called "Confucian Dynamism" but it was later renamed to Long/Short term orientation to make it related to the values it represents (Hofstede, Hofstede, Minkov, 2010, 497). According to Hofstede, Hofstede, and Minkov (2010) societies with short-term orientation tend to hold more pride towards their country, students connect success and failure to luck, they have shown to have fewer capabilities in the subject of mathematics and appeal to fundamentalism. On the other site, societies that are linked to long-term orientation tend to learn from other countries more, they expect their children to persevere, student's successes and failures are associated with lack of trying, they have shown better abilities at doing math, the countries that lean towards the long-term orientation have shown faster economic growth to countries with short-term orientation, and they appeal to pragmatism more.

#### **2.2.6. Indulgence Vs Restraint**

This new dimension was called the indulgence vs restraint dimension. Hofstede, Hofstede, and Minkov (2010) define the dimension: "Indulgence stands for a tendency to allow relatively free gratification of basic and natural human desires related to enjoying life and having fun. Its opposite pole, restraint, reflects a conviction that such a gratification needs to be curbed and regulated by strict social norms"(ibid, 2010, 281).

According to Hofstede, Hofstede, and Minkov (2010), Indulgent societies show higher percentages of happy people, the people part of the societies show better control of their lives, they value leisure and having friends. The societies tend to be loose and have less moral discipline. There are higher numbers of extroverted personalities, more people feel healthy and the countries that lean towards indulgence, in well-educated countries, have higher birthrates. The counterpart, restrained, dimension shows fewer percentages of very happy people, the people tend to have feelings of helplessness and do not feel like they have a grasp over their lives. The value leisure and having friends much less but place more importance in thrift. The societies are tight and tend to have more moral discipline. The personalities tend to be more neurotic and people show more pessimism. In well-educated countries the birthrates are much lower and the death rates from heart attacks are higher.

## **2.3. Gray's dimensions**

### **2.3.1. The impact of culture on accounting**

Gray's four dimensions are the starting point towards understanding the impact culture has in accounting practices.

Gray (1988) developed a model to research the influence of culture on modern-day accounting, basing four values and relating them to Hofstede's (1984) model involving cultural dimensions. To this day, most of the studies about the influences of cultures on accounting are based on Gray's (1988) and Hofstede's (1984) researches.

### **2.3.2. Professionalism vs statutory control**

Gray's (1988) first value is professionalism versus statutory control. This means the preference of conducting accounting practices using one's professional judgement and own regulations versus the use of statutory control and prescriptive legal requirements. This is an important value because accountants are expected to be able to make legal and ethical decisions in their field of work. This value can be connected to Hofstede's (1984) individualism versus collectivism and uncertainty avoidance dimensions. Societies that prefer a more self-regulatory approach tend to be connected to individualistic and weak uncertainty avoidance societies. It is also more common in societies with lower power distances since there will be fewer worries regarding how controlling superiors are.

### **2.3.3. Uniformity vs flexibility**

Gray's (1988) second value is uniformity versus flexibility. This suggests the preference of uniform and consistent practices of accounting, instead of accepting varying practices which may be needed in certain situations (Gray, 1988). Uniformity is growing in importance, as the internationalization of accounting between companies grows. Flexibility is still needed to ease the adaptation of different cultural dimensions. Uniformity is preferred in societies that have high power distances and strong uncertainty avoidance, as rules and standardized codes are more likely to be used (Gray, 1988).

### **2.3.4. Conservatism vs optimism**

The third value Gray (1988) studied, is conservatism versus optimism. The more conservative value is the "preference for a cautious approach to measurement so as to cope with the uncertainty of future events as opposed to a more optimistic, laissez-faire, risk-taking approach" (Gray, 1988). The conservative approach shows tendencies of strong uncertainty avoidance in order to be careful and to cope with the unknown (Gray, 1988).

### **2.3.5. Secrecy vs transparency**

The fourth and last of Gray's (1988) dimensions is secrecy versus transparency. This is the contrast between keeping business information strictly between people who work closely around the project in question, versus a more open and public tendency of sharing information to the public. It is a difficult task to balance out within the contrast of this dimension, as you do not want to overshare business secrets to have some security versus competitors, but in the modern days, there is a need to be public and accountable to the public (Gray, 1988). Cultures which tend to lean towards secrecy are related to cultures with higher power distances through the restriction of information to keep power distances unequal. Cultures that involve more transparency tend to be related to feministic cultures, because of their preference of being more open towards others (Gray, 1988).

### **2.3.6. The influence of culture on accounting practices**

Besides the obvious differences between IFRS and GAAP – most accounting activities, such as misstatement, may seem to be the same because they follow the same or similar accounting practices. As much as they may look the same or similar, cultural influences impact the practices in a way that shows "visible" differences between cultures.

Zarzeski (1996) conducted a research, in which she analyzed the evolution of accounting. Relationships between businesses often vary due to cultural differences, such as politics and law. Zarzeski (1996) suggests that accounting practices often become accounting standards. Therefore, "if standards come from practices (voluntary) and practices come from culture (through business relationships, government, capital markets, financial intermediaries, and the accounting profession), then accounting standards appear to be culture-driven through market forces" - (Zarzeski, 1996, p19).

## **3. DATA ANALYSIS AND STATISTICS**

### **3.1. Questionnaire Data**



The survey data received from Finnish responders is compared to Data received from French responders. The reason for this, is to show that the VSM (2013) isn't for comparing individuals. For that reason, the study will need a comparison for reference. France was chosen for the comparison because it is also a country which is part of the EU and requires IFRS for listed companies, and because although they are both EU countries, they have cultural differences. This will help to show that culture also has a role in the influence of accounting standards and values.

All initial data are presented in appendix 4. According to the responses received from the Value Survey Model questionnaire (VSM, 2013) sent the majority were female (76%,  $r = 34$ ) as opposed to male responders (24%,  $r = 10$ ). The majority of responders were of Finnish origin (56%,  $r = 24$ ), trailed by French (14%,  $r = 6$ ) and British (16%,  $r = 7$ ) responders. In respect of experience, the majority of the responders were 40 years old, or older ( 60%,  $r = 26$  ) and have had 15, or more, years of formal education (60%,  $r = 26$ ).

The data was collected using Hofstede's Value Survey Model questionnaire, in which the questions are asked on a 1-5 scale. The first 14 questions use the 1-5 scale based on importance, where 1 = of utmost importance, and 5 = of very little or no importance. The 15th to 17th, and the 20th, questions are scaled based on 1 = Always, and 5 = Never. The 18th question is scaled based a good/poor scale, where 1 = very good and 5 = Very poor. The 19th question is based on pride, where 1 = Very proud, and 5 = Not proud at all. The 20th to the 25th questions are scaled 1 = Strongly agree, and 5 = Strongly disagree.

To compare the scores between different countries, the mean of the 24 questions scores have to be calculated. The answers for each question give out a specific score and the mean will give us the average score each question has received. To achieve a comparative score, I will calculate the mean for each question based on the nationality of the responder. The mean is then used to calculate the indexes using Hofstede's (1986) formulas.

The formulas used for this study are as followed:

- 1) Power distance index -  $PDI = 35(m07 - m02) + 25(m20 - m23) + C(pd)$
- 2) Individualism index -  $IDV = 35(m04 - m01) + 35(m09 - m06) + C(ic)$
- 3) Masculinity index -  $MAS = 35(m05 - m03) + 35(m08 - m10) + C(mf)$
- 4) Uncertainty avoidance index -  $UAI = 40(m18 - m15) + 25(m21 - m24) + C(ua)$

The formulas are read as followed:  $m_{07}$  is the mean of question 7, and  $C(pd/ic/mf/ua)$  are the constant that is to be used for all countries to keep the value between 0 – 100. The variable doesn't affect the comparison between countries.

Table 2. The mean scores for the comparison between Finland and France

<b>RESPONDERS</b>	<b>PDI</b>	<b>IDV</b>	<b>MAS</b>	<b>UAI</b>
<b>FINLAND</b>	8	61	6	4
<b>FRANCE</b>	30	18	28	57

Source: Author's own compilation

- 1) The PDI shows that power distances are more acceptable to the French responders as opposed to the Finnish responders. This means that inequalities in power tend to be more questioned by the Finnish responders while the French are more willing to accept higher power distances.
- 2) The IDV index indicates that the rights of individuals is more prominent to Finnish responders (61) compared to the French (18). This means that the Finnish responders hold more importance towards individual care and than French responders.
- 3) The Masculinity index shows that French respondents (28) hold assertiveness and material success in more importance than the Finnish responders (6).
- 4) The UAI index is shown to be higher for French responders (57) compared to Finnish responders (4). This means the French responders will tend to avoid taking risks and avoid uncertainties.

Table 3. Hofstede's dimension's mean scores and relation with Gray's dimensions.

	French				Finnish			
	<b>PDI</b>	<b>IDV</b>	<b>MAS</b>	<b>UAI</b>	<b>PDI</b>	<b>IDV</b>	<b>MAS</b>	<b>UAI</b>
<b>Professionalism</b>	30	18		57	8	61		4
<b>Uniformity</b>	30	18		57	8	61		4
<b>Conservatism</b>		18	28	57		61	6	4

<b>Secrecy</b>	30	18	28	57	8	61	6	4
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Source: Author's own compilation

- 1) Professionalism versus statutory control is related to the PDI, IDV and UAI cultural indexes. According to Gray's (1988) first hypothesis, a higher ranking in IDV and lower ranking in PDI and UAI suggests that the responders have preferences towards professionalism over statutory control. The Finnish responders showed a high preference towards professionalism having scored a higher 61 IDV index and lower 8 and 4, for PDI and UAI indexes respectively. The French responders showed more preferences towards statutory control having a lower score of 18 in regards of the IDV index and higher scores in regards of PDI (30) and UAI (57). High uncertainty avoidance and Power distances suggest that French responders prefer having set rules and guidelines compared to Finnish responders. How is finnish accounting organinzez? – connect with real thing
- 2) Uniformity versus flexibility relates to the PDI, IDV and UAI cultural indexes too. Gray's (1988) second hypothesis suggests that a lower IDV score and higher PDI and UAI scores shows preferences of uniformity over flexibility. The French responders show preferences of uniformity having a lower IDV score (18) and higher PDI (30) and UAI (57) indexes compared to the Finnish responder who, in turn, have a much higher IDV index (61) and lower PDI (8) and UAI (4) indexes than the French.
- 3) Conservatism versus optimism is related to the IDV, MAS and UAI indexes. Gray's (1988) third hypothesis suggests that a higher UAI index and lower MAS and IDV indexes show preferences of conservatism over optimism. According to the data recieved, the French (18-28-57) responders showed more preference of conservatism compared to the Finnish responders (61-6-4), who showed preference towards optimism, although showing less interest towards materialistic success with a lower MAS index.
- 4) Secrecy versus transparency, in turn, are related to the PDI, IDV, MAS and UAI indexes. Gray's (1988) fourth hypothesis suggests that higher PDI and UAI indexes, and lower IDV and MAS indexes show more interest towards secrecy over transparency. The data recieved indicates that the French responders (30-18-28-57) have more preference towards secrecy compared to Finnish responders (8-61-6-4), although Finnish responders have shown to have much lower MAS indexes

### **3.2. Does Culture have significant influence on accounting?**

Culture has apparent influence on accounting practices and values. Factors ranging from cultural values to religion have had an impact on the development of accounting and the overall development of Finland. Culture as a significant influence on accounting has grown in interest towards accounting researches particularly after Hofstede's cultural dimension study. Researchers such as S.J. Gray (2008) who developed a model to study the influence of culture on modern-day accounting.

Finnish respondents showed more interest towards flexibility as opposed to uniformity. This can be seen in the differences between the FAS and the IFRS. The FAS allows more flexibility compared to the precise nature of IFRS (Farley, 2016). The IFRS requires substance and economic reality when presenting transaction, whereas FAS allows more flexibility in the matter.

The data suggests that Finnish responders lean towards transparency. Compared to the French responders, who are known to have high power distances, Finnish accounting has a more open and public culture of sharing information to the public. The claim can be supported by Transparency International's corruption index, in which Finland is currently ranked 3rd least corrupt country in 2018. The publication of accounting act adopted in 1928 also supports this.

Regarding professionalism and statutory control, Finnish responders showed more interest towards professionalism. For example, in annual reports – intangible assets can either be presented in the balance sheet, or as an expense in the profit and loss account.

It is evident, that culture is a factor that can be taken into account when studying the differences between accounting systems used in different countries. It would be too difficult to have different cultures adjust into implementing a single basic accounting standard that would be followed by everyone. The root of culture runs deep and an external factor influencing significant changes in cultural values would be very difficult.

Cultural, economic, social, political and several other factors are evidently influenced the accounting system and its development in Finland. For instance, Pajunen's (2010) study showed that the expenditure-revenue theory was still occupied in Finnish accounting professionals' mental

map, which affected some in a negative way. Although Pajunen (2010) also argued that some accounting professionals disagree with this theory, as the traditional Finnish accounting thought is also shown to act as an accelerator that generates enthusiasm towards the adoption of IFRS

## **CONCLUSION**

Finland is a Northern European country that shares borders with Norway, Sweden and Russia. Finland has a population of about 5.5 million , most of which is concentrated in the southern

regions of the country. Finland's largest sector of the economy is the service sector which holds 69.1% of Finland's gross value added (GVA).

The introduction included three questions this thesis aimed to answer to present the role of culture on the development of accounting in Finland. To achieve this the thesis was divided into three chapters. The second thesis question was: „Do various factors influence accounting?“. To answer this question, the first chapter studied factors that influence the accounting system in Finland. Internal factors, such as politics and law, evidently influences through the EU directives and the Finnish accounting legislation. Finland does, in fact, have many factors that influenced accounting and its development in the country. Political influences and Finland's economic system have influence accounting and its development in Finland. Different circumstances such as independence, and wars which brought chaos to the political and economic system of Finland. These circumstances influence the initial development of accounting in Finland. Being part of the EU was also a major influence on accounting in Finland, as it requires listed companies to use IFRS.

The second chapter of the thesis focused on accounting in Finland. The first thesis question was: „What influenced the initial development of accounting in Finland?“. It all began with Finland becoming an autonomous part of Russia. The Finnish Mark was introduced, which was the first time Finland had its own currency. Finnish accounting took its roots in 1862, when the first accounting book was written. A man called August Lilius wrote „The Practical Introduction to the Simple Accounting Especially for the Industry and Commerce Enterprises“. Lilius could be considered one of the founding fathers of bookkeeping in Finland. An important aspect of Lilius' accounting system, was that he didn't separate the owner and his property.

The third chapter was aimed at the third thesis question : “Does culture influence accounting practices in Finland?”. To answer the question, this chapter studied the influence of culture on business management and accounting. To explain the different cultural dimensions, the use of Hofstede and other researchers, such as Thowfeek and Jaafar were brought to be compared and to define the meaning of the dimensions and how they compared national cultures. While some of the definitions had variations, they always revolved around the same general definition. Gray's (1988) accounting classification framework was then studied to define the influence culture has on modern-day accounting. The data from the survey also showed that there are differences in preferences depending on the nationalities. The data showed that although the answers showed

similarities, as is to be expected from both countries being part of the EU, there were some differences in preferences of dimensions. It is quite evident that culture and traditions have influenced accounting in Finland. The expenditure-revenue theory had been used as the theoretical basis of financial accounting values and practices for a long time.

The information collected for the survey came from 5 different nationalities, but the data was limited to the two nationalities because of the small amount of data received from the other nationalities. The data collected showed that there were quite significant differences between Finland and France in regards of cultural dimensions. When the data was compared on the accounting dimensions, there were two differences that stood out. The first one being secrecy vs transparency, where Finnish responders showed significantly more interest towards transparency. The second one being the professionalism, which Finnish responders showed much more interest in, than French responders.

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## **APPENDICES**

### **Appendix 1: Value Survey Model 2013 Questionnaire**

### INTERNATIONAL QUESTIONNAIRE (VSM 2013)- page 1

Please think of an ideal job, disregarding your present job, if you have one. In choosing an ideal job, how important would it be to you to ... (please circle one answer in each line across):

- 1 = of utmost importance
- 2 = very important
- 3 = of moderate importance
- 4 = of little importance
- 5 = of very little or no importance

01. have sufficient time for your personal or home life	1	2	3	4	5
02. have a boss (direct superior) you can respect	1	2	3	4	5
03. get recognition for good performance	1	2	3	4	5
04. have security of employment	1	2	3	4	5
05. have pleasant people to work with	1	2	3	4	5
06. do work that is interesting	1	2	3	4	5
07. be consulted by your boss in decisions involving your work	1	2	3	4	5
08. live in a desirable area	1	2	3	4	5
09. have a job respected by your family and friends	1	2	3	4	5
10. have chances for promotion	1	2	3	4	5

In your private life, how important is each of the following to you: (please circle one answer in each line across):

11. keeping time free for fun	1	2	3	4	5
12. moderation: having few desires	1	2	3	4	5
13. doing a service to a friend	1	2	3	4	5
14. thrift (not spending more than needed)	1	2	3	4	5

**INTERNATIONAL QUESTIONNAIRE (VSM 2013) – page 2**

15. How often do you feel nervous or tense?
1. always
  2. usually
  3. sometimes
  4. seldom
  5. never
16. Are you a happy person ?
1. always
  2. usually
  3. sometimes
  4. seldom
  5. never
17. Do other people or circumstances ever prevent you from doing what you really want to?
1. yes, always
  2. yes, usually
  3. sometimes
  4. no, seldom
  5. no, never
18. All in all, how would you describe your state of health these days?
1. very good
  2. good
  3. fair
  4. poor
  5. very poor
19. How proud are you to be a citizen of your country?
1. very proud
  2. fairly proud
  3. somewhat proud
  4. not very proud
  5. not proud at all
20. How often, in your experience, are subordinates afraid to contradict their boss (or students their teacher?)
1. never
  2. seldom
  3. sometimes
  4. usually
  5. always

**INTERNATIONAL QUESTIONNAIRE (VSM 2013) – page 3**

To what extent do you agree or disagree with each of the following statements? (please circle one answer in each line across):

- 1 = strongly agree
- 2 = agree
- 3 = undecided
- 4 = disagree
- 5 = strongly disagree

21. One can be a good manager without having a precise answer to every question that a subordinate may raise about his or her work	1	2	3	4	5
22. Persistent efforts are the surest way to results	1	2	3	4	5
23. An organization structure in which certain subordinates have two bosses should be avoided at all cost	1	2	3	4	5
24. A company's or organization's rules should not be broken - not even when the employee thinks breaking the rule would be in the organization's best interest	1	2	3	4	5

Source: Geert Hostede, 2013, Value Survey Model 2013.

**Appendix 2. The mean scores for the comparison between Finland and France**

<b>RESPONDERS</b>	<b>PDI</b>	<b>IDV</b>	<b>MAS</b>	<b>UAI</b>
<b>FINLAND</b>	8	61	6	4
<b>FRANCE</b>	30	18	28	57

Source: Author's Calculations

### **Appendix 3. Hofstede's dimension's mean scores and relation with Gray's dimensions**



	<b>PDI</b>	<b>IDV</b>	<b>MAS</b>	<b>UAI</b>	<b>PDI</b>	<b>IDV</b>	<b>MAS</b>	<b>UAI</b>
<b>Professionalism</b>	30	18		57	8	61		4
<b>Uniformity</b>	30	18		57	8	61		4
<b>Conservatism</b>		18	28	57		61	6	4
<b>Secrecy</b>	30	18	28	57	8	61	6	4

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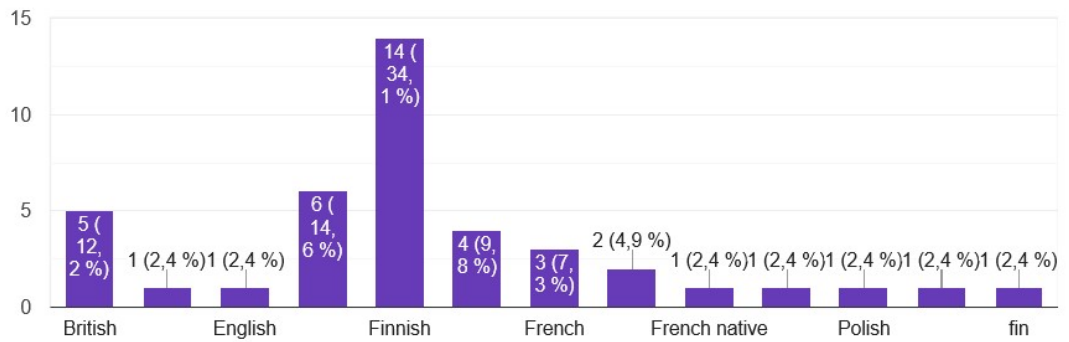
Source: Author's calculations

#### **Appendix 4. Result of Survey**

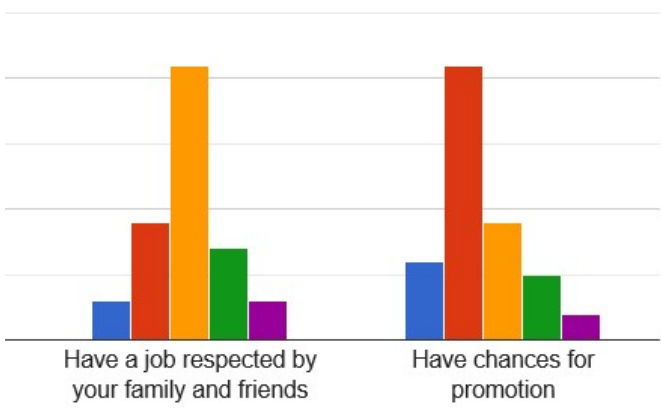
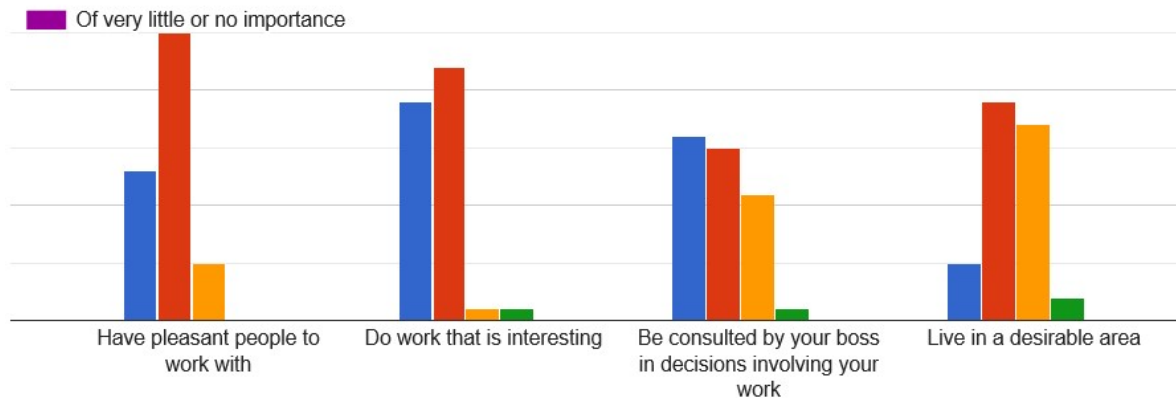
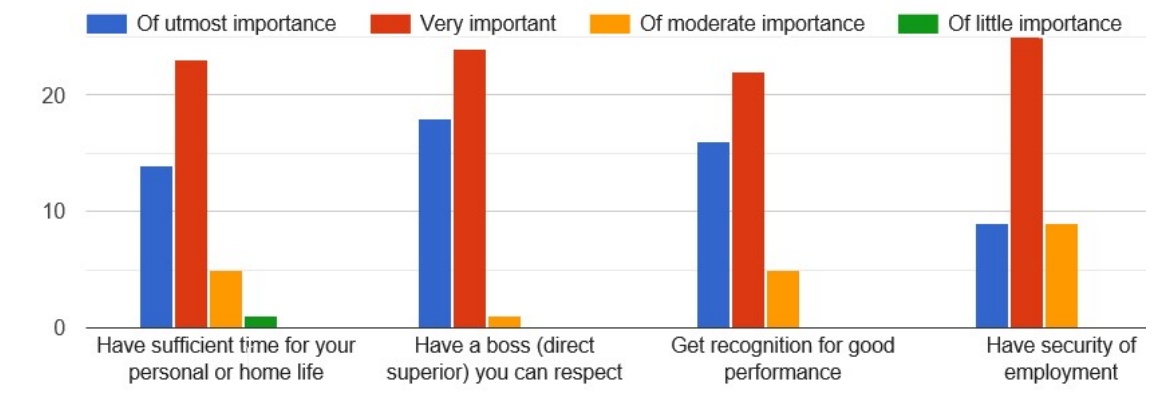
	Finland	France	Other	Total
Respondants	24	6	13	43

### What is your nationality?

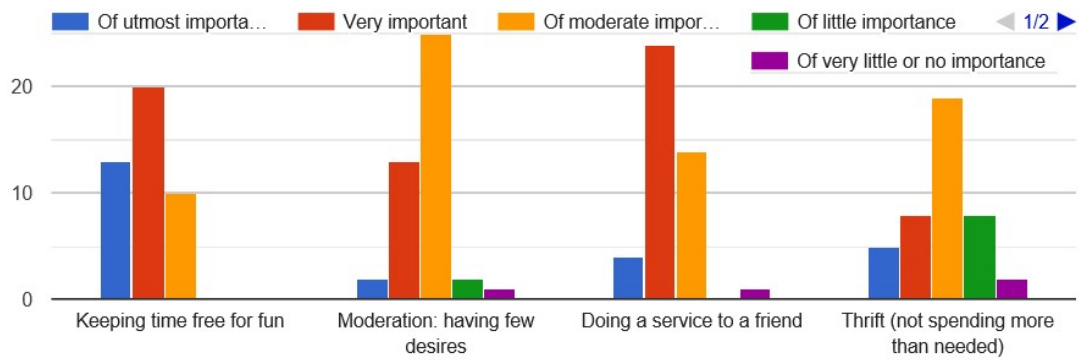
41 vastausta



Please think of an ideal job, disregarding your current job, if you have one. In choosing an ideal job, how important is it to-

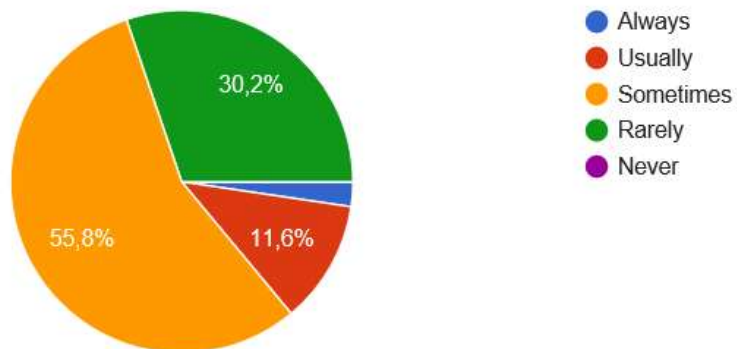


In your private life, how important is each of the following to you



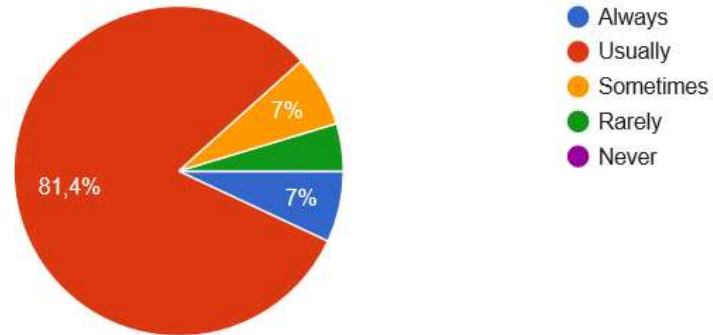
How often do you feel nervous or tense?

43 vastausta

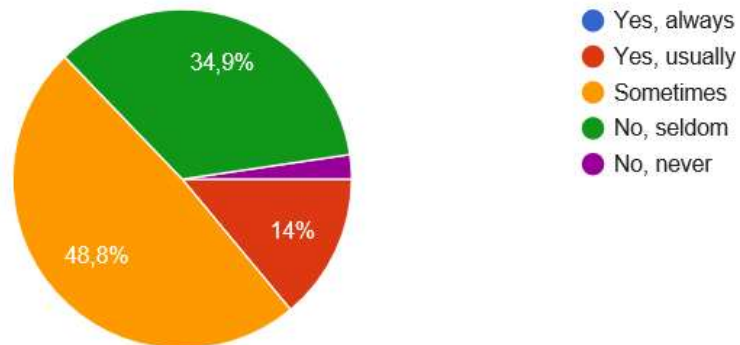


## Are you a happy person?

43 vastausta

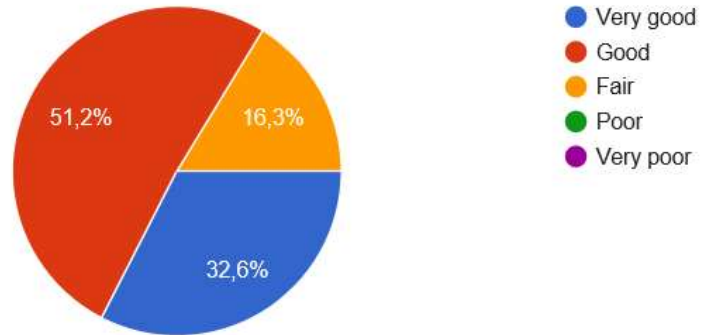


Do other people or circumstances ever prevent you from doing what you really want to?



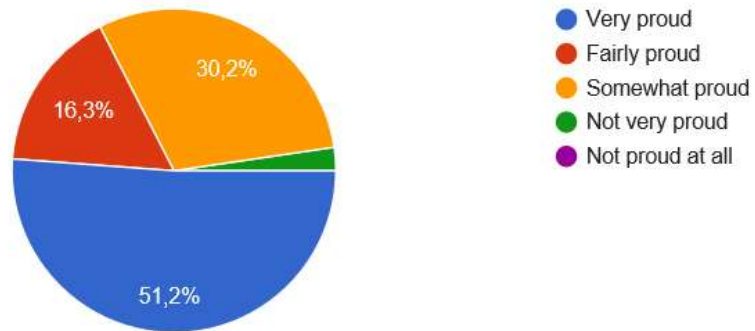
## All in all, how would you describe your state of health these days?

43 vastausta

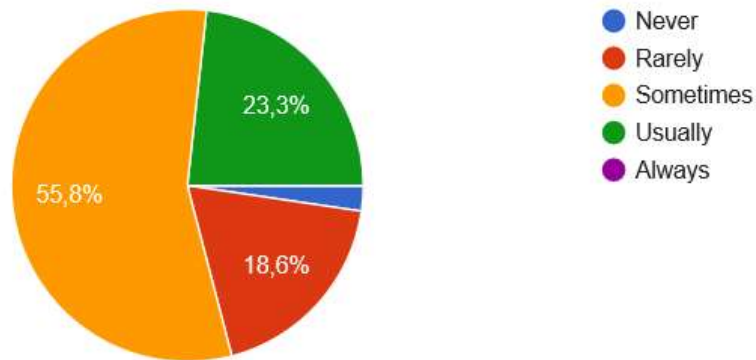


## How proud are you to be a citizen of your country?

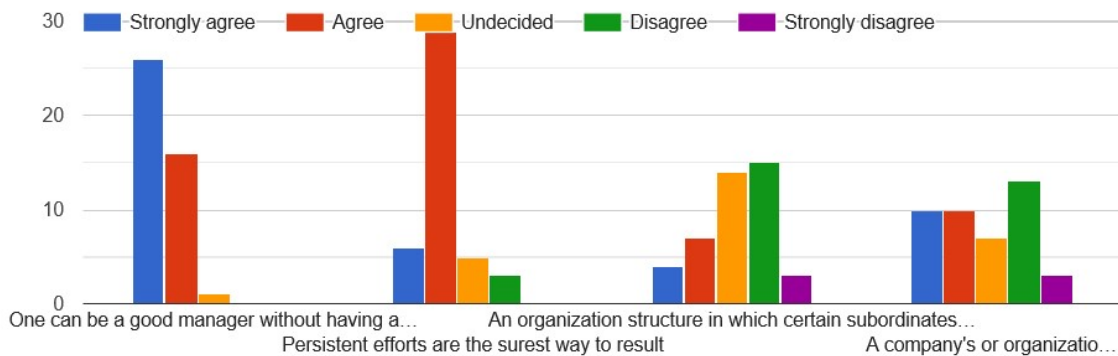
43 vastausta



How often, in your experience, are subordinates afraid to contradict their boss (or students their teacher?)

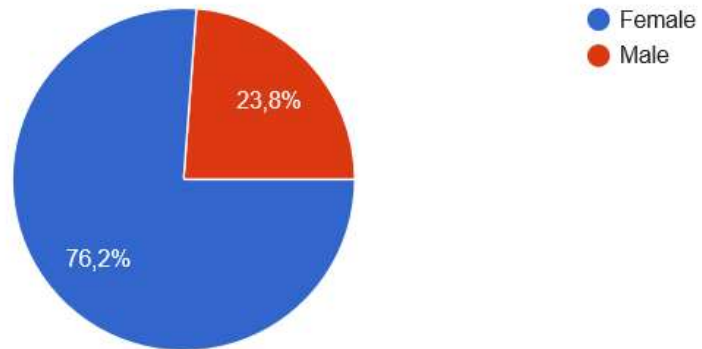


To what extent do you agree with each of the following statements?



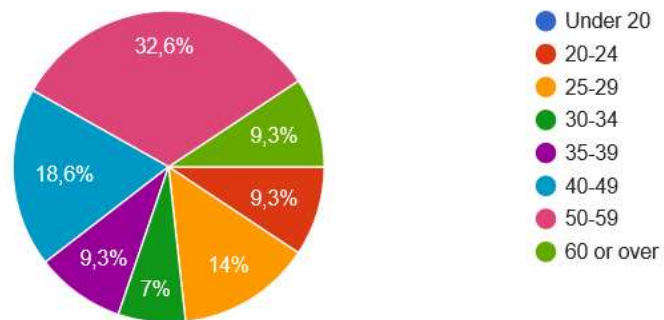
## Are you

42 vastausta



## How old are you?

43 vastausta





How many years of formal school education (or their equivalent) did you complete (starting with primary school)?

