Exploring Cultural Differences between the USA and France
to Determine if those Differences Affect Business Decision Making

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Professional Biography

Clayton Fitchett's professional experience spans over 25 years with a focus in the food service / hospitality industry. Having acquired a foundation in management from a background in operations and various additional responsibilities, Clayton applies this knowledge to his current role as a logistics and project manager in the fast casual dining segment of the restaurant industry.

Clayton is currently studying business finance to enhance his expertise in restaurant business development as it applies to franchising and international operations. His future endeavor will be to direct a company's expansion for profitability and relevance in the global market.
Abstract

Purpose – This paper examines research literature detailing the cultural differences of the United States and France and how those differences affect the business decision making process when applying US GAAP vs IFRS.

Design/methodology/approach – Literature examples were reviewed to determine the extent to which national cultures of the United States and France differ, followed by an exploratory of US GAAP and IFRS. Next, subjective inferences regarding differences between existing accounting standards were beneficial to the existing national cultures.

Findings – Findings showed benefits in current accounting standards correlate to the expectations of the national cultures of the United States and France. It was discovered that while the United States will likely adopt international standards for financial reporting, it will not do so in the near future.

Research limitations/implications – Literature regarding topics of culture heavily cite Geert Hofstede. It was extremely difficult to find correlative data showing definitive proof that a switch to IFRS would be ruinous to the United States economy.

Originality / Value - I contribute to the literature by showing lack of adoption of international standards by the United States is based on national cultural influencing the need for short term achievements. To alleviate concerns of the United States switching to international reporting
standards, I suggest specific tasks be completed: alleviate fear of adoption, concerns regarding cost of reporting, and preparation for general public acceptance.

Keywords

Cultural Difference Affecting Decision Making between USA and France

Introduction

The United States and France have been amiable for centuries. The French gifted the United States an iconic symbol of freedom (Cantu, 2004), and the United States was a major ally of France during world wars (Gilbert, 2004); however, despite such friendly relations, the United States and France have significant cultural differences (What about France, 2016; What about the USA, 2016). This paper will explore these cultural differences based on research by Geert Hofstede, interpret how they affect the decision making process, and then analyze if they influence the way accounting reporting standards are applied when using US GAAP vs IFRS.

Cultural Differences

The United States and France score almost opposite to one another in Geert Hofstede’s dimensional cultural research. Referencing Figure 1, Geert’s research shows United States with a lower midpoint score of 40 in Power Distance while scoring 90, very high, in Individualism. In his article *Motivation, leadership, and organization: Do American theories apply abroad?*, Geert Hofstede says “the United States is the single most individualist country of the entire [world]”. These two scores demonstrate the United States believes people should be accountable for taking care of themselves; furthermore, Americans are accepting to the theory that even though everyone has the opportunity to be financially equal, it does not mean that they have the ability to obtain financial equality; therefore, the American culture accepts that an income equality gap exists.

France’s Power Distance score of 68 with a score of 71 in Individualism demonstrates the French tendency to be dependent of authority, yet willing to do as they please once the authority has given direction. The French have a history in cultivating its Public Management System
because the culture believes that good Public Management of Society is a human right (Eyden, 2003). In his paper, *Management in France*, Tony Morden paraphrases KF Ackerman saying “French employees are among the most reluctant in Europe to carry out instructions from a superior”. This demonstrates Hofstede’s observation that the French citizens demand a well-run government that still respects their privacy.

The next two dimensions, when viewed together, demonstrate the American desire for achievement, success and their willingness to take risks in order to obtain their goals. On the geert-hofstede.com website, with a relatively high Masculinity score of 62, the culture in the United States is described as one where “people should ‘strive to be the best they can be’”, and there is a cultural belief that conflict helps people improve themselves (What about the USA, 2016). Following Masculinity, Americans score below average with a score 46 in Uncertainty Avoidance; this lead to the observation that in the United States, the citizenry is generally accepting of new ideas or differing opinions. Americans are willing to assume the risk involved in doing so without developing an anxiety towards the action or an unwanted outcome of events. Thus, Americans have an easier time than others to trust and try the unknown in order to achieve success.

The French score is somewhat lower-middle in Masculinity with a score of 43, and very high in Uncertainty Avoidance with a score of 86. Combined, this data suggests the French are motivated by a need to have stability, and expect structure in their personal as well as business lives. Both constructs are demonstrated by French managers who “tend to view organizations as political, authority, role-formation, and hierarchical-relationship systems” (Laurent, 1983). These French behavioral constructs are opposite of the world’s viewpoint that Americans “live to work” as opposed to “work to live” (Okulicz, 2010).
Finally, the last two of Hofstede’s indices describe cultural tendencies over time. Figure 1 shows America scores a very low 26 on Long Term Orientation while scoring a relatively high 68 on Indulgence. Possibly, as the effect of a causal relationship between Masculinity and Long Term Orientation, America views success in the present day, whether it is in quarterly reporting, or in posting success to Facebook for immediate recognition (Mooij, 1998). This is also reinforced by the perception that owner-manager relationships tend to be adversarial (Daily, Dalton & Rajagoplan, 2003) due to the nature of expecting immediate, short term results. Because owners feel they are entitled to expect the short term results, being adversarial instead of restraining their emotions due to failure demonstrates a case could be made that this is a reflection of a lower Indulgence score.

The score for Long Term Orientation and Indulgence for France are, interestingly, inconsistent to pop culture stereotypes about them. With Hofstede listing Long Term Orientation with a higher score of 63, he states that the French “show an ability to adapt traditions easily to changed conditions”; this is revealed to a tourist who visits Paris, views the old, historical buildings from the outside, then finds that the insides have been updated and maintained to modern standards. With a score of 48 in Hofstede’s Indulgence indices, Hofstede shows that even with the stereotypes of being finicky, working to live, and of being “chic”, the French are shown to be very pragmatic and “enjoy life less than commonly assumed” (What about France, 2016).

**Differences between Accounting Principles – US GAAP and IFRS**

Cohen, Pant and Sharp (1993) found in their studies of multidimensional ethics that “a social desirability” was discovered in the decisions made by individuals. Per Pashang, Sterling, Johansson and Ljungkvist (2015), “Accounting principles are a set of ethical constructs that
primarily serve to shift accounting towards the locus of ethical judgment.” (Pashang, 2015). The constructs and ethics used by a person are influenced by their culture, affecting how they make decisions (Briley; Morris; Simonson, 2000); this leads to the necessity of accounting principles to remove ethical, social and cultural bias in financial reporting. Even with guiding principles, this paper highlights the tendency to interpret those principles differently, and the differences that can arise in making those decisions between countries having different national cultures.

In his paper *Evolution of US Generally Accepted Accounting Principles (GAAP)*, Stephen Zeff of Rice University (2007) details the development of US GAAP (Generally Accepted Accounting Principles). Per Zeff, development of US GAAP began in the 1930s as a series of correspondence recommendations between a special committee of the American Institute of Accountants (AIA) and the New York Stock Exchange. Additionally, the US Congress created the SEC (Securities and Exchange Commission), who then creates the Office of the Chief Accountant and the Division of Cooperate Finance. Working together, the AIA, SEC and Congress created the framework for ensuring transparent, consistent and accurately reported financial statements by publicly traded companies on the New York Stock Exchange to protect the public interests. In 1936 the AIA “publishes *Examinations of Financial Statements*, which introduces the term ‘generally accepted accounting principles’”.

In the current day, US GAAP is enforceable by the SEC in the United States; however, the SEC does not have jurisdiction over all of the world’s countries. As globalization has necessitated the need for countries around the world to rely on the information provided by one another, a uniform set of standards was needed to ensure fair decision making could be made across national borders. Per the FASB.org website (Comparability, 2016), in 1973, the International Accounting Standards Committee (IASC) was created to be an international
standards setting body, whose standards were collectively called the International Accounting Standards (IAS). The IASC reorganized into the International Accounting Standards Board (IASB) in 2001, and took responsibility for managing the international standards, which it published under the name International Financial Reporting Standards (IFRS). As of 2016, approximately 120 countries and jurisdictions are using IFRS, with 90 countries have fully adapted and requiring it’s use (AICPA, 2016). The SEC of the United States does not yet require US companies use IFRS (Alon and Dwyer, 2016). Until the SEC finalizes a demand that United States conforms to IFRS, there will continue to be resources, time and cost that must be attributed to US based firms operating in multiple countries to produce dual reports.

**Method- Exploring US GAAP vs French IFRS decision making**

Members of the European Union already follow IFRS, inclusive of France beginning 2005 (France, 2016). The SEC of the United States is not yet requiring domestic companies on the US Stock Exchange to confirm to IFRS reporting. Differences between US GAAP and IFRS are many, and a complete listing is beyond the scope of this paper. In his blog, Matthew Johnson (2014) lists some examples of the differences:

1. Revaluation of Assets
2. Inventory Cost
3. Definition of an Asset
4. Revenue Recognition

According to US GAAP versus IFRS (2015), Ernst and Young reports that under US GAAP, revaluation of assets are not allowed, but is permitted under IFRS. Culturally, this holds managers in the United States to be accountable to maintaining their assets, and also reinvesting
into them if there is a desire to maintain their value over time as they are depreciated. US GAAP also requires that over time, a company may not revalue its assets to assist in reporting during times of economic hardships; if the company is not doing well, it is accountable to accept its reported performance and look for more efficient ways to improve itself. Under IFRS, not only are the French allowed to revalue their assets, but are then allowed to continue doing so over time. This is mirrored in French law requiring that revaluations take place (Doost and Ligon, 1986), demonstrating the French expectation that the government is helpful to them.

Previously mentioned, the United States’ cultural need to achieve and to be acceptancing of risk is favored by US GAAP inventory allowances and definition of assets; whereas the definition for the same constructs with IFRS is favored by France’s cultural need for stability and structure. In US GAAP, the prominent use of LIFO inventory valuations allows for older inventories to be valued at a historically higher present day rates, increasing the cost of goods sold, thereby lowering the amount of reported taxable income (Rabbimov, 2014) which increases on hand cash assets. In addition, under US GAAP, differing valuation methods can be applied to multiple inventories, indicating that a United States company may choose to value various inventories differently to achieve better reported results. LIFO is not allowed in IFRS (US GAAP vs IFRS, 2015) meaning there is more of a reliably stable and structured framework for use when analyzing inventory valuations.

Regarding asset definitions, the FSAB defines an asset under US GAAP as “Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events” (Original Pronouncements, 1985). The word “probable” infers that there is a measure of uncertainty, i.e., risk, involved in asset valuation. In a staff paper at IFRS.org, (Clark and Brown, 2013) the definition of an asset stipulates that an asset must be capable of
producing economic benefits. Therefore an item cannot be valued as an asset based solely on its future potential, making asset valuation under IFRS slightly more stable and structured.

The differences of handling Revenue Recognition also correlates to the cultures of the United States and France. In the United States, US GAAP states that “there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectability is reasonably assured”; under IFRS when “revenues can be measured reliably and it is probable that the economic benefits will flow to the company” (Ernst and Yound, 2015). Revenue Recognition under US GAAP allows companies to claim success for their sales, even though they have not yet received compensation, and allowing for a degree of uncertainty in its collection. Under IFRS, the French are afforded the pragmatic approach that they are collecting money, and allow less uncertainty of the future collection for the sale.

Results

In 2007 the SEC stopped requiring US GAAP reconciliation by foreign investors (Tyson, 2011), but progress has been slow for the adoption of IFRS for domestic firms. The reposition of adopting IFRS has been met with apprehensions of possible regulatory instability due to the IASB not being regulated by a governmental agency (Kaya and Phillhofer, 2013). Although the need for a unified set of reporting standards is recognized by the SEC, the United States cultural tendency to honor tradition will likely lead it to not adopt IFRS in the near future (Rabbimov, 2014).

In 2011, Mitchell Skotarczyk wrote a thesis titled “The Effect of Culture on the Implementation of International Financial Reporting Standards” where he draws together his conclusions of the correlation among the works of Hofstede, Bond and Gray. He writes that culture affects decision making, but the influence of managers contributed to accounting
decisions applied per the dictate of standards. Given that “managerial discretion” can influence accounting decision making, there will be variances in the application of new standards when, or if, they are adopted.

Supporting the United States’ apprehension of adopting IFRS are research articles that have begun investigating the results. Brüggemann, Hitz, and Sellhorn (2013) surmised that the act of changing account standards alone, regardless of standard, can lead to economic consequences if the changes in data provided by the financial reports show reduced earnings to stakeholders who use the information for “contracting or decision making”. Financial reporting also allows stakeholders to hold management accountable for its stewardship. With the United States’ national culture requiring accountability and the ability to show immediate success, a dramatic change in a traditional standard would immediately lead to uncertainty to performance, as well as a possibility of showing less success.

There could also be an argument made that certain cultural societies will additionally benefit from the adoption of IFRS. Tyson (2011) reported a study that concluded positive results from IFRS adoption:

1. less earnings management
2. more timely loss recognition
3. higher variance of the change in net income
4. higher ratio of changes in net income and cash flows
5. higher frequency of large positive net incomes
6. higher value relevance of accounting amounts.

With a seemingly more stable and structured review of financials, the national culture of France more likely had an easier time of adopting the newer standards. The cultural pragmatic approach
of less earnings management while recognizing losses more quickly would also have been more easily accepted by the French.

In 2009, Cormier, Demaria, Lapointe and Teller published descriptive statistics on the impact of the French adoption of IFRS:

- 21 firms revalued their capital assets upwards;
- 80 firms charged unrecognized actuarial losses to equity;
- 83 firms transferred cumulative translation losses to retained earnings;
- 50 firms revalued their financial assets upwards;
- 7 firms applied IFRS 3 retrospectively to all their business combinations.
- None of our sample firms revalued their capital assets or financial assets downwards, or reported unrecognized actuarial gains. Only 4 firms showed cumulative translation gains.

Overall, research is able to make a case for and against the move to IFRS. Joos and Leung (2013) concluded that when conversion is perceived to lead to benefits, stakeholders view it more favorably. They also cited that in instances where [creative accounting] was desired in reporting, IFRS was received negatively. Some of the research is also suggesting that the mere move to an international accounting standard increases the perceived quality of the reporting itself (Christensen, Lee, Walker, Zeng, 2015). A subjective opinion could be that IFRS is generally perceived negatively by the United States because to its cultural identity, defined by low power distance, high masculinity, and low long term orientation. When taken together, these constructs show a need to maintain the traditional standards and not create an opportunity of immediate uncertainty causing a reduction in profits, cash flows and assets.
Discussion

Regardless of the cultural impacts to past decision making, globalization will likely lead the United States adopting and converging from US GAAP to IFRS (Smith, 2008). The adoption of IFRS by the United States is likely delayed not by a failing of IFRS, but by a fear of change due the national culture of the United States. With US GAAP being a rules based standard, and IFRS being a principles based standard, Presha, Dorminey and Wilson (2012) conclude that IFRS does not offer the same advantages of accountability. In his article “The Effect of IFRS Adoption on Financial Disclosure: Does Culture Still Play A Role?”, Dr. Nazh Akman (2011) determined that financial disclosure did improve in France, but that “effects of national culture on earnings management, use of same accounting standards may not necessarily mean that similar reporting practices are followed.”

Hindered by the immense amount of work it will take to get FASB and IASB to work out the details, an example of the current complexity of US GAPP reporting is furthered detailed by Jim Ulvog (2011) as he describes the HSBC annual report, which in itself is 392 pages long:

“The audit opinion starts on page 236, the financial statements start on page 38, the notes start on page 250 and end on page 370. That’s 135 pages for the audited financial statements, of which the basic financials take up 12 pages and the notes consume 120 pages. The summary of significant accounting policies is 18 pages long just by itself.”

Adoption of IFRS by the French, although possibly inconvenient at the time, would not have been difficult for them given their tendency to expect the government to provide structure and hierarchy. The final adoption of IFRS by the United States may never happen given the
United States tendency to be in control and accountable to itself instead of others. Interestingly, the United States is a member of IASB, and has heavily influenced its decisions of the IFRS framework.

To help determine the viability of the United States converting to IFRS, I suggest three tasks to address the concerns of adopting an international standard.

Firstly, a three phase observational research study should be commissioned to determine the effects of differing standards.

- Phase one would take the financial reports of a sample of domestic companies in the United States and restate the reports in terms of IFRS instead of US GAAP and review the results.
- Phase two would be to submit a review of those restated reports to independent auditing committees for accuracy and comparison reporting against US GAAP.
- Phase three would be to remodel the overall historical financial performance of the United States over the same time period to review the differing results.

Secondly, to reduce the costs associated with dual reporting and / or simultaneous comparative dual reporting, I recommend the creation of an open source accounting reporting software platform released under the creative commons license. Releasing such a software platform would remove the capital outlay for the software package as well as provide oversight of its implementation of standards by the international community. Furthermore, being released under the creative commons license would allow developing nations to use the software free of acquisition costs as they begin participating in international markets.

Thirdly, I recommend FASB commission a cultural committee dedicated to preparing the marketing media and messaging channels necessary to acclimate United States public opinion
and private enterprises to the arrival of the international standards. The committee would focus on the benefits and lack of detriments of the United States using an international reporting standard. The media and messaging should also focus on the United States’ leadership during the last several decades in influencing the international standards as they already exist today.

Showing a result of increased performance and higher accountability to standards would meet the criteria of the national culture of the United States. The adoption of a global, or international, accounting standard is more than accepting a set of rules, principles or guidance for decision points. It is a consideration of one’s national culture, and that culture’s willingness to subject itself to the opinions and standards of others.
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**Figures**

*Figure 1. Bar graph showing the compiled six dimensional scores of the United States from Hofstede's research*