

Business Judgments and National Culture: A Comparison of U.S. and Italian Management Accountants

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EXECUTIVE SUMMARY

Globalization holds much promise for U.S. companies. But when companies force American culture on international subsidiaries, local values may make it difficult to follow what the United States considers to be best practices. To better understand potential clashes and how to prevent them, we surveyed accountants from two nations: Italy and the United States.

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Culture can be defined as shared customs, habits, attitudes, and values. When individuals from different cultures are asked to work together, differing work styles, attitudes, and approaches sometimes can create conflict and misunderstanding. For example, some work cultures foster individual thinking and reward workers for contributing to the company's success, as in the United States. In other countries, people may be less comfortable with independence on the job and prefer to work in teams, following structured processes.

Cultural diversity without understanding can lead to performance degradation, while well-managed, harmonious work teams can inspire greater creativity and innovation. Thus, increasing globalization and resulting cultural diversity raise questions about ways to positively manage and even capitalize on diversity to enhance productivity. Conflicts within the Eurozone during the global financial crisis are excellent examples of the impact of national culture on decision making. It became evident that countries within the Eurozone differed greatly in values and practices such as personal savings, social support, paid vacation days, and appropriate retirement age. This led to significant conflict.

To explore cultural differences in the workplace, we compared the attitudes of professional accountants from the U.S. and Italy. Then we elicited their perceptions of several dimensions of cultural characteristics to help us understand what aspects of culture drive the differences.

While here we highlight the differences between just these two countries, there are many differences among *all* nations. Our goal is to better understand why these business perceptions differ between these two countries so we better understand the causes of ethical differences among all countries. Specifically, we contrast business judgments and cultural characteristics of the two countries in an effort to identify how they relate to intentions to behave similarly in culturally laden business situations. From this, we cautiously generalize these findings to cultural differences between any two nations.

CULTURAL DIMENSIONS

In the 1960s, Geert Hofstede began studying national cultural differences based on a rich database of IBM employees worldwide. In 1991, he published the widely read popular edition of his results in *Cultures and Organizations: Software of the Mind*. Over time, several updated editions of the book were published in 20 languages.

There is a passage in the book that reads:

“The objective of this book is to help in dealing with the differences in thinking, feeling, and acting of people around the globe. It will show that although the variety in people’s minds is enormous, there is a structure in this variety that can serve as a basis for mutual understanding.”¹

The cultural dimensions that Hofstede pioneered and tested include the following ones, which we summarize.

High vs. Low Power Distance: How does the culture handle the fact that people are unequal? Hofstede defines Power Distance (PD) as the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally. Thus, a High PD culture would accept inequality while a Low PD culture would not. This is particularly relevant in organizational settings,

where there is typically a strict hierarchy of status hard-coded into the organization chart and informally reinforced through activities such as performance evaluations and promotion and raise recommendations.

Strong vs. Weak Uncertainty Avoidance: What is the culture’s tolerance of uncertainty and ambiguity? Cultures with strong Uncertainty Avoidance would feel threatened by ambiguous or uncertain situations, thinking, for example, that “different is dangerous.” Uncertain situations would produce anxiety. Cultures that are weak in Uncertainty Avoidance are more tolerant of uncertainty.

Collectivism vs. Individualism: Are ties between individuals loose or integrated into strong, cohesive groups? This is the “I” vs. “we” dimension. Some cultures value individualism and being responsible for oneself and immediate family members, while others value strong, integrated groups. People in an individualistic culture are expected to act in their own self-interest, while the collectivistic culture encourages loyalty to the group or organization. Occupational mobility is higher in individualistic cultures than collectivistic cultures.

Achievement Orientation: What characteristics are expected of individuals? Achievement-oriented cultures encourage assertiveness and competition, while cooperative cultures encourage nurturing and concern for relationships.²

In Hofstede’s global survey, individuals from the U.S. ranked as less accepting of Power Distance in their work relationships, less eager to avoid uncertainty in their work experiences, the most individualistic of any country in the sample, and lower on achievement vs. cooperation than individuals in Italy. Our goal was to see how these cultural dimensions, as measured for management accountants, varied between the two countries and how these variations help explain differences in intentions to behave in certain ways (see Table 1).

These cultural differences can create complexities and conflicts that can then compromise the effectiveness of globalization efforts. One particularly important interaction can create lasting fissures in globalization initiatives. This includes country-specific assumptions regarding appropriate behavior and reaction to others’ behavior by members of another culture with which

Table 1: Rankings

Historical Ranks (out of 76) of Culture Dimensions Between Countries			
	Italy	U.S.	U.S. is:
Power Distance	51	59-61	Less Accepting of Power Distance
Uncertainty Avoidance	33	64	Lower Desire to Avoid Uncertainty
Collectivism/Individualism	9	1	Highest on Individualism
Achievement Orientation	7	19	Lower on Achievement Orientation

Note: Higher ranking (i.e., lower number) indicates a person is stronger on that characteristic

one must interact. We sought to explore whether perceptions are accurate by comparing the judgments of management accountants in the U.S. to those of management accountants in Italy.

RESEARCH METHODOLOGY

We developed an online survey to conduct this research project, which is based on our previous international ethics research.³ The survey presents two different business situations and measures the intention to act in a similar way to the individual in the scenario (Behavioral Intention) and ethical judgment of the behavior described in the scenario. At the end of the survey, we measured the Hofstede cultural dimensions and skepticism, as well as ethics training and education.

The two scenarios (see Table 2) were intended to present common business issues and allow us to identify differences in cultural assumptions between the two countries, including:

Scenario 1—The Layoff. How seniority or tenure may be viewed as more important than performance in lay-off decisions, and

Scenario 2—The Bank Loan. The impact of personal relationships in business transactions, in particular in securing a loan for a friend who does not qualify for it.

Example questions and the cultural dimensions they measured include:

- To assess Power Distance. “In general, I feel that

the higher a person’s position or status is, the greater right he has to do whatever he wants.”

- For Uncertainty Avoidance. “Company or school rules should not be broken, even when it would be in the best interest of the school or company.”
- For Individualism/Collectivism. “At work or school, I believe each person should look out for each other.”
- And for Achievement/Cooperation. “Having a good working relationship with my direct superior is important.”

We also measured another factor—Skepticism. This component was not considered by Hofstede, but it is particularly relevant to the accounting profession. It was measured using a set of questions designed to assess the extent to which the person naturally trusted others. A sample question is: “I am suspicious of others.”

On all questions, participants were asked to indicate their agreement with a statement on a scale of 7 (strongly agree) to 1 (strongly disagree).

The survey was completed by 199 members of IMA® (Institute of Management Accountants) in the U.S. through the IMA Research Foundation and 145 management accountants from Italy. It took 10 to 15 minutes to complete. For the U.S. participants to maintain anonymity, they clicked a web link at the end of the survey that took them to a separate location to enter a drawing for one of two iPad Minis.

Table 2: Scenarios

Scenario 1 The Layoff

A firm has been hard hit by recessionary times, and the partners realize that they must reduce expenses. An analysis of productivity suggests that the person with the lowest productivity, and therefore most likely to be terminated, is a long-time employee with a history of absenteeism due to illness in the family. Instead, the partner-in-charge fires a younger, but very competent, recent hire.

Scenario 2 The Bank Loan

A promising start-up company applies for a loan at a bank. The credit manager at the bank is a friend of, and frequently attends sporting events with, the company's owner. Because of this company's short credit history, it does not meet the bank's normal lending criteria. The credit manager recommends approving the loan.

Although the two groups had significant experience in the same field, there were differences in demographic factors. These include age (43.2 years of age for the Italians compared to 46.3 for the Americans) and ethics training (16.8 hours for the Italian management accountants and 28.4 for the U.S. IMA members). Therefore, all results reported next control for age and ethics training, which then allows the impact of national culture, regardless of age or ethics training, to be detected.

RESULTS

Here are the survey results.

How Do Judgments and Intentions Differ Between Countries?

We begin the analysis of our data by evaluating differences between the two countries (see Table 3).

For Scenario 1—The Layoff: U.S. participants judged the action as more culturally acceptable yet more serious, and their intention to do the same as presented in the scenario was lower than that of their Italian counterparts. Note, however, that we also reported their expectation of what their colleagues would do, and there was very little difference between the two countries on this expectation. Indeed, the U.S. accountants thought slightly more of their colleagues would lay off the more productive young person than

the Italian accountants estimated for their colleagues.

For Scenario 2—The Bank Loan: U.S. participants judged the situation to be slightly more culturally acceptable and more serious, and they reported lower intentions to do the same for themselves and their colleagues. Note that accountants from both countries thought their colleagues were twice as likely to give the unauthorized loan than they, themselves, would be.

In regard to cultural differences between the two countries, means from our survey indicate that those from the U.S.:

- Are more accepting of Power Distance in their professional relationships and have a slightly greater desire to avoid Uncertainty, which are in contrast to the historical rankings.
- Are the same as Italians in their desire for Individualism or Collectivism and hold lower Achievement Orientation in their work relationships, which are consistent with historical rankings.
- Are not very different in the extent to which they are skeptical of others.

How Do Cultural Differences Impact Ethical Judgments and Intentions?

To more fully understand how Italy and the U.S. differ in regard to national culture, we measured each participant on the same principles, as well as one we added—Skepticism. Then we regressed three outcome variables

Table 3: Means of Relevant Measures

Means of Relevant Measures Between Countries			
	Italy	U.S.	Scale
Scenario 1 (Layoff)—Culturally Acceptable	3.61	4.00*	1=less acceptable, 7=more acceptable
Scenario 1 (Layoff)—Serious	48.64	55.78*	0 to 100%
Scenario 1 (Layoff)— Would do the same	<u>Myself</u> 51.17 <u>Others I work with</u> 51.90	<u>42.61*</u> <u>55.01</u>	0 to 100%
Scenario 2 (Bank Loan)— Culturally Acceptable	4.66	4.90	1=less acceptable, 7=more acceptable
Scenario 2 (Bank Loan)—Serious	22.28	69.89*	0 to 100%
Scenario 2 (Bank Loan)— Would do the same	<u>Myself</u> 26.65 <u>Others I work with</u> 52.84	<u>20.81*</u> <u>39.48*</u>	0 to 100%
Power Distance	2.21	2.47*	1=less accepting, 7=more accepting
Uncertainty Avoidance	4.42	4.62	1=low avoidance, 7=high avoidance
Individualism/Collectivism	4.02	4.01	1=low individualism, 7=high individualism
Achievement Orientation	2.83	2.52*	1=low achievement orientation, 7=high achievement orientation
Skepticism	3.64	3.59	1=low distrust of others, 7=high distrust of others
Age	43.4	46.3*	years
Gender	54%	47%*	% male
Work Experience	19.0	26.0*	years
Accounting Courses	4.4	13.7*	#courses
Ethics Courses	<1.0	1.8*	#courses
Ethics Training	16.8	28.4*	hours

The asterisk (*) indicates statistically significant differences between countries. Because mean age and ethics training are significantly different between samples, the means reported in this table were created while controlling for these two factors.

on these cultural characteristics as well as the covariates. The variables are participants’:

- Personal intentions,
- Expectations of what colleagues would do, and
- Judgment of the cultural appropriateness of the scenario action.

Because appropriateness judgment is so highly correlated with—and is such an important input into an individual’s decision to engage in—a behavior, it is important to understand how culture impacts these factors.

Controlling for age, ethics training, and country of origin, we find that Power Distance, Achievement Orientation, and Uncertainty Avoidance are all significant predictors for the personal intentions (the “Myself” measure) in the Layoff scenario. Skepticism and Individualism predicted the acceptability judgment but were not related to either of the Layoff intentions. In regard to the Bank Loan decision, Power Distance was significantly related to all three outcome variables, while Uncertainty Avoidance was related to personal intentions. Skepticism was significantly related only to the expectation of how colleagues would behave in the Bank Loan case. Neither Individualism nor Achievement Orientation was related to any of the Bank Loan outcomes.

This suggests that those who are more accepting of Power Distance are more inclined to go along with others by engaging in the same behaviors. Thus, greater acceptance of Power Distance would lead an individual to personally intend to lay off a younger, higher-performing individual as well as give a bank loan to a company that did not qualify.

Uncertainty Avoidance has the opposite impact. As one strives to avoid uncertainty, intentions to engage in either of these behaviors decline. Specifically, greater desire to avoid uncertainty makes individuals less inclined to lay off the younger, more productive employee and less likely to approve the bank loan.

Achievement Orientation was significant only with regard to the Layoff decision. Individuals with greater Achievement Orientation had lower intentions to do the same if placed in this context. Individualism had little, if any, impact on responses to the two scenarios, probably because there is little variation in individualism between the two countries. Finally, Skepticism—a

personal trait receiving more attention lately—made individuals perceive the Layoff as less culturally acceptable, yet it also increased accountants’ expectations that their colleagues would make the loan.

These analyses provide a somewhat more subtle view of the differences between countries. For example, although statistical means suggest that practitioners from the U.S. judged the Layoff scenario as less ethical and were less likely to engage in the behavior than those in Italy, means also suggest that U.S. practitioners are more accepting of Power Distance. Our regression analyses suggest that acceptance of Power Distance is positively associated with intention to lay off the more productive employee and to make the bank loan. Thus, across countries, individuals who are more focused on hierarchy are also more likely to approve of these two behaviors.

How Do Individual Differences (Including Experience and Ethics Training) Impact Ethical Judgments and Intentions?

The number of accounting and ethics courses taken in college is negatively correlated with ethicality judgments of both scenarios. Therefore, both types of college educational experience make individuals less likely to engage in the two behaviors. Given that U.S. participants reported having taken more accounting and ethics courses, it seems reasonable that they were less likely to lay off the more productive team member or to recommend the loan.

Interestingly, ethics *training* was positively related to personal intentions to behave in the same manner as the scenarios and assessment of acceptability of the described behavior, but it lowered the expectation that others would engage in the same behavior. In other words, ethics training appears to make individuals less ethical. This is perhaps happening through Power Distance, as greater training is associated with greater acceptance of Power Distance, which in turn is associated with greater intentions for these two behaviors. It also may be indicative of the limitations of ethics training’s ability to influence behavior.

Age was positively related to personal intentions to lay off the younger employee, as well as perceptions that the loan was culturally appropriate, but was nega-

tively correlated to expectations that colleagues would make the loan. Work experience exhibited a similar pattern.

HOW THIS RESEARCH MAY CONTRIBUTE TO THE PROFESSION

We believe these results provide important insights into differences between international business partners regarding how they perceive culturally challenging business situations. We designed the survey so that we could both identify how situational characteristics impact behavior in the two countries and isolate specific national characteristics that help explain behavior.

In addition, we measured a number of demographic characteristics, including work experience, ethics training, and education. Identifying how work experience and ethics training are related to differences in cultural attitudes and behavioral intentions could provide important insight into corporate policies designed to reduce cultural differences in the global workforce. For example, our data suggests that existing corporate ethics training may result in increased comfort with Power Distance, which then makes one more accepting of unethical behavior. It is possible that ethics training often may be employed more to acculturate employees than to motivate independent ethical thinking, so a careful consideration of ethics training content could be necessary.

This also can help companies execute effective mergers and acquisitions when doing business in a multicultural environment. When dealing with someone from another culture, it is advisable to acquaint oneself with the expected characteristics of that culture. While our data demonstrates that these traditional characteristics do not necessarily hold true for every individual within a country, familiarity with these factors may help someone deal more effectively in international contexts. This information is also useful in designing multinational performance evaluation protocol. As you know, you get the behavior you reward! ■

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ENDNOTES

- 1 Geert Hofstede, Gert Jan Hofstede, and Michael Minkov, *Cultures and Organizations: Software of the Mind*, third edition, McGraw-Hill, New York, N.Y., 2010.
- 2 While Hofstede calls this “masculinity/femininity,” we believe it is no longer descriptive of the cultural characteristics of this dimension.
- 3 See, for example: Mary B. Curtis, Teresa L. Conover, and Lawrence Chui, “A Cross-Cultural Study of the Influence of Country of Origin, Justice, Power Distance, and Gender on Ethical Decision Making,” *Journal of International Accounting Research*, Spring 2012, pp. 5-34.