# Russia and Ukraine: A comparison of cultural accounting orientation

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**Abstract**

*In spite of the current conflict between Russia and Ukraine, both nations have a long history of cultural and political integration in many areas, including accounting. The recent availability of Hofstede data on his six cultural dimensions for Ukraine makes it possible to compare Russia and Ukraine in terms of cultural value dimensions and, as well, to compare accounting cultural profiles for the two countries. Using the methodology proposed in previous studies of accounting cultural value orientation, this study compares the relative accounting cultural orientation of Ukraine and Russia to successfully implement International Financial Reporting Standards. The latter results are also presented for a neighboring country Romania and the United States, representing the highly IFRS oriented Anglo-American countries. The results of the study indicate a high degree of similarity between the two countries and a need to distinguish between cultural accounting orientation and other factors affecting recent accounting development.*

## 1. Introduction

The Russian and Ukrainian people have a long history of interconnection. Most Ukrainians and many Russians can understand and speak other other's national language and there is a substantial ethnic mix of Russians in the Ukraine, approximately 17.3% as of 2007. The percentage of ethnic Ukrainians in Russia is considerably lower than this declining from 7.9% in 1926 to 1.4% in 2010. The borders of the two countries, prior to Russia seizure of the Crimea, originate with the administrative boundaries of the Soviet Union with Crimea being added to Ukraine by Khrushchev in 1954. The majority of Russian ethnic speakers reside in Crimea and the eastern section of the Ukraine including the cities of Odessa, Dnepropetrovsk, Zaparozhie, and Kharkiv (Kharkov in Russian), while the western part of the country is predominantly ethic Ukrainian. Kyiv (Kiev in Russian) the capital city showed heavy representation of both ethnic groups. Due to its Black Sea location and the importance of the port of Odessa, Ukraine has historically been a melting pot for a variety of non-Slavic ethnic groups including Greeks, French, and Jew from other parts of Europe. Also, prior to the annexation of Crimea, Ukraine has a large Crimean Tatar population.

Russia and Ukraine have both adopted International Financial Reporting Standards (IFRS) for external financial reporting.

Ukraine requires all domestic and foreign companies whose securities are traded in a public market to use IFRS in their financial statements. For statutory filings all public joint stock companies, banks and insurance companies must prepare IFRS financial statements. Other companies may choose to apply IFRS and, as of 2012, such statements become the only required statutory financial statements. Companies not choosing this option are required to use National (Ukrainian) Accounting Regulations (NR(S) AU") for statutory purposes. (PWC, 2016)

Russia requires that IFRS be used for consolidated financial statements of listed companies and standalone financial statements of listed companies with no subsidiaries as well as for subsidiaries of foreign companies that are legal entities incorporated in accordance with the legislation of the Russian Federation and listed on Russian stock exchanges. It allows subsidiaries of foreign companies that are legal entities incorporated in accordance with the legislation of the foreign states and listed on Russian stock exchanges to prepare their financial statements in accordance with other commonly known international standards, e.g. US GAAP. For statutory

purposes, Russia requires certain types of companies to prepare consolidated financial statements in accordance with IFRS, including the following: credit institutions, insurance companies, companies whose securities are admitted for organized trading by inclusion in a quotation list, non-state pension funds, managing companies of investment funds, unit investment funds and non-state pension funds, clearing organizations, joint Stock company's shares of which are held in the federal property, determined by the Government of the Russian Federation, state federal unitary Enterprises determined by the Government of the Russian Federation, and companies which are otherwise obliged by federal laws or constitutive documents to prepare consolidated financial statements using IFRS. (PWC, 2016) Russia has played a dominant role in developing IFRS in the former republics of the Soviet Union. This includes obtaining rights from the International Accounting Standards Board (IASB) to the only authorized text of IFRS in a Slavic language (Russian) and developing exportable certification and training programs for Russian speaking accountants in and outside Russia. (Borker, 2012)

There is a limited amount of literature on Ukrainian accounting and adoption of IFRS, most of which is from Ukrainian and Russian sources. Much of it focuses on monitoring Ukrainian progress and difficulties implementing IFRS and comparing Ukrainian accounting with its neighbors, notably Russia. Shortcomings in Ukrainian accounting are noted in several areas (Pyl'nova & Demdenko, 2014)(Kasich & Yakovlenko, 2013)(Kasich & Yakovlenko, 2013)(Bogdanova, 2012) One paper investigates those Ukrainian companies that have since 2011 elected voluntarily to use IFRS. (Droniuk, 2014) The finding is that most companies choosing IFRS in Ukraine elect to do so out of some external obligation rather than as a voluntary act of a firm. The paper cites as possible reasons for this: lack of financing, discrepancies in the national legal system, absence of knowledge, experience and skills of accountants, and the absence of appropriate accounting software. The one positive factor for electing IFRS was having a strong accounting system.

## 2. Statement of Purpose

This paper examines the relative potential of Russia and Ukraine to establish and maintain sufficiently high quality financial reporting based on an evaluation using two quantitative measures: the Composite IFRS Orientation Index, and the Expanded IFRS Orientation Index, developed by the author in a recent study. (Borker, 2014)These measures are determined by a quantitative analysis of each country's culturally derived accounting values as they relate to IFRS. Four of these accounting values are taken from Sidney Gray's accounting value dimensions -- Conservatism, Uniformity, Professionalism, and Secrecy. To these, a fifth value dimension, Stewardship, is added by the author, based a set of selected sociocultural factors. The aim of the analysis is to understand the cultural ease with which these countries will adapt to IFRS relative to one another. For comparison purposes, the analysis in this paper is also applied to Romania, a close neighbor to Ukraine, and the United States, representing the highly IFRS oriented Anglo-American countries.

## 3. Brief Literature Review

Geert Hofstede introduced his worldwide cultural value dimensions in 1980, based on survey work conducted in the 1970s. His book, *Cultures Consequences: International Differences in Work Related Values,*provided index scores for individual countries across four cultural dimensions: Power Distance (PDI), Individualism (IDV), Masculinity (MAS) and Uncertainty Avoidance (UAI). (Hofstede, 1980)Later, Hofstede developed additional cultural dimensions - Long-Term Orientation (LTO) and Indulgence vs. Restraint (IVR). (Hofstede, 2001)(Hofstede, Hofstede, & Minkov, 2010)These dimensions are fully described in Hofstede's website:(Hofstede, 2013)

- **Power Distance (PDI)**"This dimension deals with the fact that all individuals in societies are not equal – it expresses the attitude of the culture towards these inequalities amongst us. Power Distance is defined as the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally."(Hofstede, 2013)

- **Individualism (IDV)**"The fundamental issue addressed by this dimension is the degree of interdependence a society maintains among its members. It has to do with whether people´s self-image is defined in terms of "I" or "We". In Individualist societies people are supposed to look after themselves and their direct family only. In Collectivist societies people belong to 'in groups' that take care of them in exchange for loyalty."(Hofstede, 2013)
- **Masculinity (MAS)**"A high score (Masculine) on this dimension indicates that the society will be driven by competition, achievement and success, with success being defined by the winner / best in field – a value system that starts in school and continues throughout organizational behavior. A low score (Feminine) on the dimension means that the dominant values in society are caring for others and quality of life. A Feminine society is one where quality of life is the sign of success and standing out from the crowd is not admirable. The fundamental issue here is what motivates people, wanting to be the best (Masculine) or liking what you do (Feminine)."(Hofstede, 2013)
- **Uncertainty Avoidance (UAI)** "The dimension Uncertainty Avoidance has to do with the way that a society deals with the fact that the future can never be known: should we try to control the future or just let it happen? This ambiguity brings with it anxiety and different cultures have learnt to deal with this anxiety in different ways. The extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these is reflected in the score on Uncertainty Avoidance."(Hofstede, 2013)
- **Long Term Orientation (LTO)**"This dimension describes how people in the past as well as today relate to the fact that so much that happens around us cannot be explained. In societies with a normative orientation, most people have a strong desire to explain as much as possible. In societies with a pragmatic orientation most people don't have a need to explain everything, as they believe that it is impossible to understand fully the complexity of life. The challenge is not to know the truth but to live a virtuous life."(Hofstede, 2013)
- **Indulgence versus Resraint (IVR)**"One challenge that confronts humanity, now and in the past, is the degree to which small children are socialized. Without socialization we do not become "human". This dimension is defined as the extent to which people try to control their desires and impulses, based on the way they were raised. Relatively weak control is called "Indulgence" and relatively strong control is called "Restraint". Cultures can, therefore, be described as Indulgent or Restrained."(Hofstede, 2013)

Hofstede originally provided dimensional indices for over seventy countries including Russia and major countries throughout the world. This number has increased and, more recently, Ukraine has been added to the list based on a study using Hofstede methodology and survey materials. This has provided the opportunity for our paper on Ukraine and Russia.

In response to Hofstede's first book on his cultural value dimensions, Gray wrote a paper in which he posited a relationship between Hofstede individual country cultural value dimensions and a set of accounting value dimensions. (Gray, 1988) Gray identified four accounting dimensions, Conservatism (opposite of Optimism), Uniformity (opposite Flexibility), Professionalism (opposite Statutory Control) and Secrecy (opposite Transparency). He related these accounting dimensions to Hofstede cultural dimensions in four hypotheses quoted below:

- "The higher a country ranks in terms of individualism and the lower it ranks in terms of uncertainty avoidance and power distance then the more likely it is to rank highly in terms of *professionalism*."
- "The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism then the more likely it is to rank highly in terms of *uniformity*."
- "The higher a country ranks in terms of uncertainty avoidance and the lower it ranks in

terms of individualism and masculinity then the more likely it is to rank highly in terms of *conservatism*."

- "The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism and masculinity then the more likely it is to rank highly in terms of *secrecy*."[1](Gray, 1988)

Gray qualifies his hypotheses with observations regarding the relative importance of various Hofstede dimensions in relation to his accounting dimensions. For example, in discussing Professionalism, Gray noted that Hofstede's IDV and UAI are strongly linked to his Professionalism value, while PDI is linked, but not as strongly, to the Professionalism value.

More recently, Braun and Rodriguez quantified each of Gray's four accounting dimensions for individual countries by taking a simple average of scores for the corresponding Hofstede dimensions. (Braun & Rodriguez, 2008)In the case of scores for dimensions that have a negative or inverse relationship to a Gray accounting dimension, the Hofstede score is adjusted in the following manner. The mean score for that dimension for the total countries analyzed is subtracted from the specific country's score. Next, this value is multiplied by -1, and then added to the mean score. By using this conversion of negatively correlating Hofstede scores, they are able to create opposite positive scores for each Hofstede dimensional component of a Gray accounting dimension. By using a simple average in their computation, Braun and Rodriguez assume that all Hofstede dimensions that relate to a given Gray dimension should have an equal weight. This does not take into consideration Gray's observations regarding his hypotheses that certain Hofstede dimensions have a greater or lesser weight than others in relationship to the accounting dimensions. (Gray, 1988)

In a recent conceptual paper, Borker (Borker, 2013a) develops a revised description of the relationship between Gray accounting value dimensions and Hofstede cultural value dimensions that provides relative weightings based on Gray's indications in his original article. He also expands the model to include two Hofstede dimensions identified after Gray's article, specifically Long-term orientation (LTO) and Indulgence versus Restraint (IVR). Table 1 below summarizes the positive and negative relationships between Gray and Hofstede dimensions, using '+' to represent a lower weight positive correlation, '+ +' to represent a higher weight positive correlation, and '-' and '- -' to represent, respectively, lower versus higher weighted negative correlation relationships. Finally '?' is used to represented no, or an uncertain, relationship between the Gray and Hofstede dimension. The use of these symbols for the first four Hofstede dimensions (see shaded area in table) were intended to reflect Hofstede's own comments in his original article on the greater or lesser importance of certain Hofstede dimensions. The use of these symbols under Hofstede's two later dimensions, LTO and IVR, indicated Borker's assumed relationship between these two dimensions and Gray's four accounting dimensions based on an a common pattern of these value dimensions for the United States, the United Kingdom and five other Commonwealth countries.

| | **Power Distance: PDI** | **Individualism: IDV** | **Masculinity: MAS** | **Uncertainty Avoidance: UAI** | **Long-Term Orientation: LTO** | **Indulgence vs. Restraint: IVR** |
|---|---|---|---|---|---|---|
| **Conservatism** | + | - | - | + + | + | - |
| **Uniformity** | + | - - | ? | + + | + | - |
| **Professionalism** | - | + + | ? | - - | - | + |
| **Secrecy** | + + | - - | - | + + | + | - |

**Table 1: Expansion of Hofstede-Gray Relationships** (Borker, 2013a)

[1] Italics have been added by the author of this paper.

Also, Borker proposes an IFRS favorable accounting value profile based on Gray accounting dimensions. This profile assumed that the ideal IFRS accounting value profile for a country was one characterized by a low degree of the dimensions Conservatism, Uniformity and Secrecy, and a high degree of the dimension Professionalism. This translates into a profile of Optimism, Flexibility, Professionalism and Transparency. Although only published in 2013, the concept of individual country dimensional profiles and an IFRS favorable profile are applied in several studies before and after publication.

## 4. Research Methodology

In another study, a methodology was developed for measuring the level of country's cultural IFRS orientation through two indices: the Composite IFRS Orientation Index, and the Expanded IFRS Orientation Index. (Borker, 2014) The first of these indices quantifies the level of fit between a given country's accounting cultural values and those of IFRS. The procedure involves first establishing a methodology for quantifying each of Gray's four cultural dimensions for a given country and then adjusting and combining these scores to derive a quantitative measure of the overall level of fit with the Gray values favorable to IFRS. In developing the Gray dimensional scores the study employed methods developed by Braun and Rodriguez discussed above. The study developed three alternative versions of Gray value indices, one based on a simple averaging of Hofstede dimensions, a second based on a weighted average of the Hofstede first four cultural dimensions as discussed by Gray and a third that incorporated two later developed Hofstede dimensions, LTO and IVR. Subsequent tests of these methods have led to the conclusion that the second version is most appropriate for scoring countries using the Composite IFRS Orientation Index. In this study, we will use this method as well as the one incorporating Hofstede's two later developed dimensions.

Another index was developed from the IFRS Orientation Index that incorporated various socio-political factors thought to be associated with the accounting value of Stewardship, a value not included in Gray's original dimensions. This second index is the Expanded IFRS Orientation Index. It is determined by taking a weighted average of the Composite IFRS Orientation Index, weighted at 80% plus scores for four sociocultural indices each weighted 5%. The indices are: (a) The Corruption Perception Index (CPI) provided by Transparency International, (Transparency International, 2013), (b) an adaptation of AON's political risk ratings by which the higher a country's political risk, the lower the score it receives, (AON, 2013), (b) the United Nation's Education Index adjusted for inequalities, (Malik, 2013), and (d) (World Bank, 2013)The present study applies the above methodology for determining a country's Composite IFRS Orientation Index and Expanded IFRS Orientation Index, discussed above, to Ukraine and Russia, and for comparison to Romania, a neighboring state, and the United States, a country with high IFRS orientation.

## 5. Results and Analysis

Hofstede cultural dimension scores are provided for Ukraine and Russia and for comparison purposes, with neighboring country Romania and the United States in Diagram 1. In this and subsequent diagrams, the columns for the United States are glow bordered in light gray to set them apart from the regional countries.

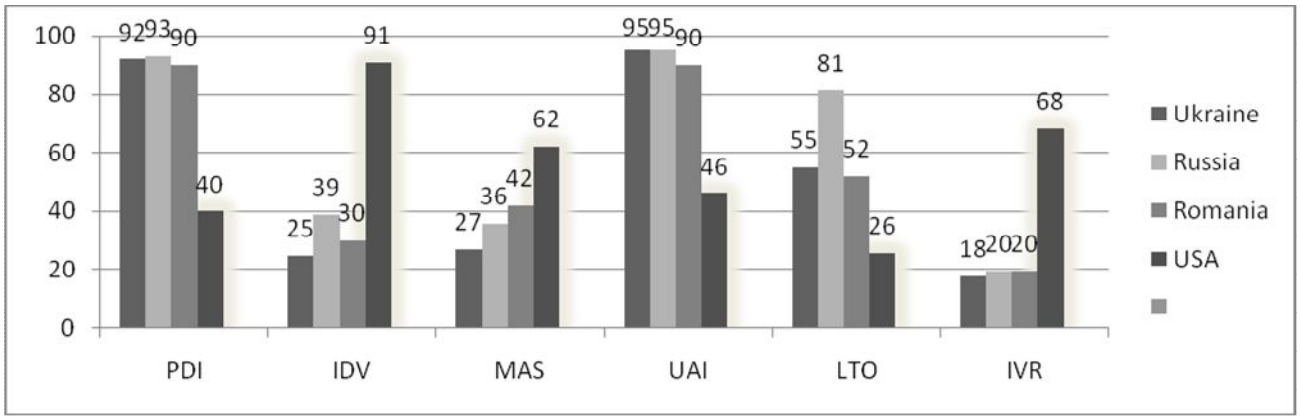


**Diagram 1: Hofstede Cultural Values by Country**

Gray accounting value dimensions scores are calculated for each country based on weightings that reflect Gray's own discussion of the four Hofstede dimensions. (Gray, 1988)These accounting dimension scores are provided in Diagram2a.

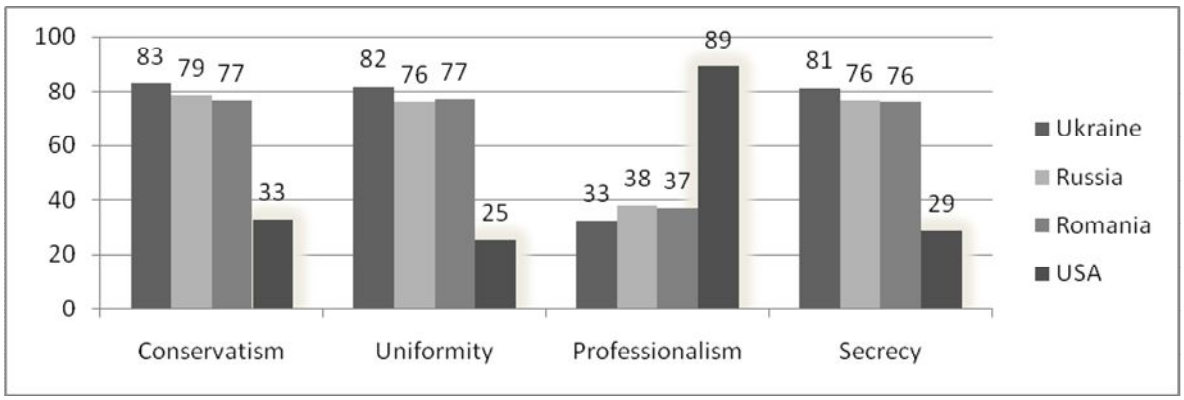


**Diagram 2a: Gray Accounting Values by Country (using 4 Hofstede dimensions Gray weighted)**

If, instead, the dimensions are calculated using all six Hofstede dimensions, the results come out somewhat differently, as show in Diagram 2b.

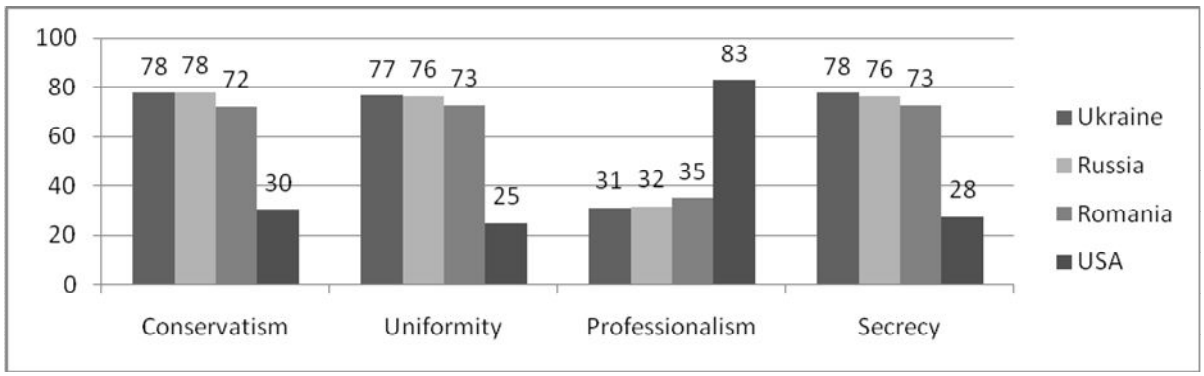


**Diagram 2b: Gray Accounting Values by Country (using 6 Hofstede dimensions Gray weighted)**

In this variant, the most significant change is that Conservatism index for Ukraine drops from 4 points above Russia just slightly lower (both round to 78). For the other three dimensions the difference between Ukraine and Russia narrows from 5-6points to 1-2 points.

Composite IFRS Scores are then calculated for each country based the Gray dimension scores above, adjusted for dimensions with a negative relationship to IFRS orientation, and presented in Diagram 3a below.

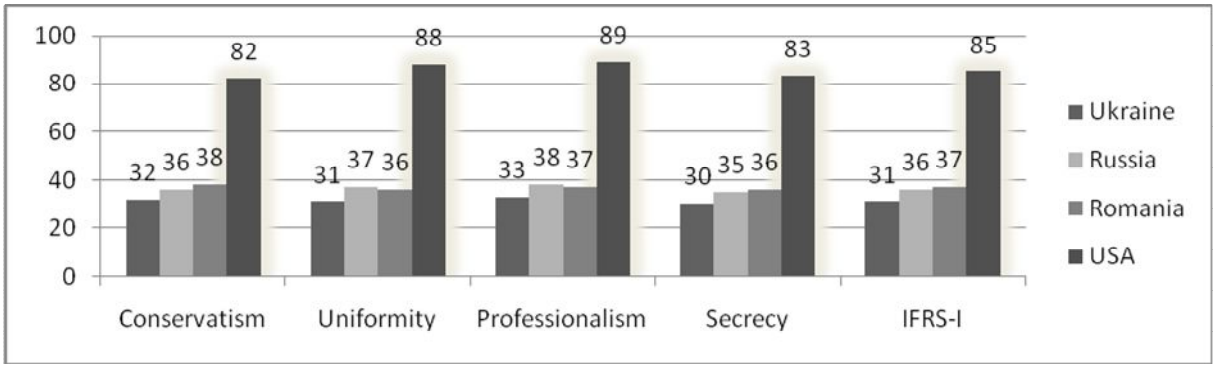


**Diagram 3a: IFRS Composite Index by Country (using 4 Hofstede dimensions Gray weighted)**

If, instead, the dimensions are calculated using all six Hofstede dimensions, the results come out somewhat differently, as show in Diagram 3b.

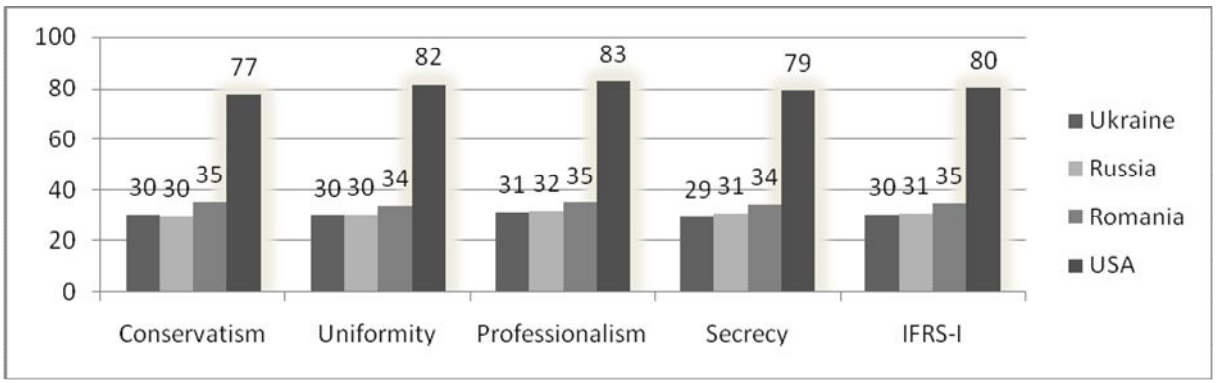


**Diagram 3b: IFRS Composite Index by Country(using 6 Hofstede dimensions Gray weighted)**

In this variant IFRS Composite index scores are similarly ranked but compressed. The difference between the Composite index for Ukraine and Russia decrease from 5 points to less than1 point.

The Composite IFRS Index is combined with four additional sociocultural factors to produce the Expanded IFRS Orientation Index presented in Diagram 4a. These factors are listed under the headings "Corruption," "Political Risk," "Education," and "Regulation Index" with each factor having a 5 percent impact weighting for a total of 20% with the value of the Composite IFRS Index having an 80% weighting. Diagram 4a provides the Expanded IFRS Orientation Index by country in the last column to the right with the elements the combine to determine it.

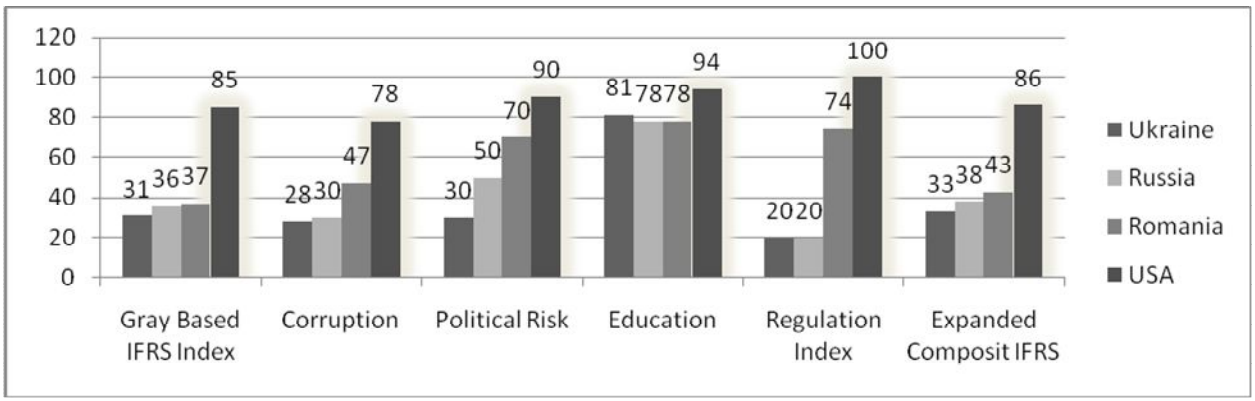

**Diagram 4a:Expanded IFRS Orientation Index by Country(using 4 Hofstede dimensions Gray weighted)[2]**

If, instead, the underlying Gray dimensions are calculated using all six Hofstede dimensions, the results come out somewhat differently, as show in Diagram 4b.

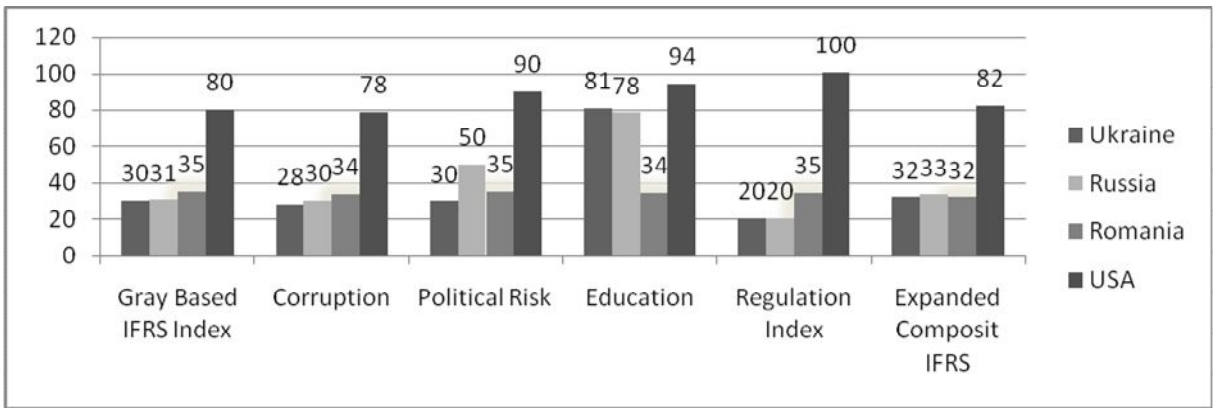


**Diagram 4b:Expanded IFRS Orientation Index by Country (using 6 Hofstede dimensions Gray weighted)**

## 6. Discussion

### 6.1 Hofstede Value Dimensions

Hofstede value dimension indices for Ukraine, Russia and neighbor Romania indicate a high degree of cultural similarity among all three countries. All exhibit relatively high scores for PDI, UAI, and relatively low values for IDV, MAS and IVR. This is the complete opposite of the United States, which has low PDI and UAI and high IDV, MAS and IVR. This reflects a general contrast between the democratic competitive investor oriented-common law cultures of the Anglo-American countries and the autocratic collectivist-statutory law orientation of the former Soviet Union, excluding the Balkans and, as cited in earlier studies, reflecting two opposing cultural profiles, one presumed to be highly favorable and one relatively unfavorable for IFRS implementation. (Borker, 2013a) Russia's high LTO score as compared with the United States (81 versus 26) also figures in the contrast of profiles, with the low score of the United States associated with a stronger focus on current financial reporting and profitability. LTO for Ukraine and Romania, at 55 and 52, respectively, is actually more in the middle and in contrast with Russia, reflecting perhaps a somewhat more balanced focus on short term issues like current earnings reports and profitability. In the case of Ukraine it may be reflective of Ukraine's historical Black Sea location, shared with Romania, which made it a melting pot for a variety of non-Slavic ethnicities, including Greeks, French, Jews and other minorities.[3]

### 6.2 Gray Accounting Values by Country

Gray cultural accounting value indices using Hofstadter's original four dimensions (PDI, IDV, MAS, and UAI) show that for Conservatism, Uniformity and Secrecy Ukraine has relatively high score like its local neighbors and in contrast with the United States. High scores for these dimensions can be seen as culturally unfavorable for IFRS implementation. Ukraine scores for all three are the highest for the group and exceed the next highest by 4-5 points. For Professionalism, which can be viewed as a favorable accounting value for IFRS, the three local neighbors have

[2]Political risk ratings for Ukraine are consistent with the source used in the previous papers on the Expanded IFRS Orientation Index. This predated the Russian annexation of Crimea and start of armed conflicts by Russian separatists in eastern Ukraine. The current political risk rating is much higher due to these destabilizing events.

[3] Particularly in the port city of Odessa

relatively low score, again, in contrast to the United States at 86. Of the locals, Ukraine has the lowest score for this Professionalism, below Romania by 4 points and Russia by 5 points. Thus for all four of Gray's accounting value dimensions, Ukraine has the least favorable scores for IFRS. The situation is somewhat altered if we determine Gray accounting values using all six of Hofstede's cultural dimensions as the basis. Under this measure Ukraine is more or less on an even plain with Russian for Conservatism and Uniformity and only two points above for Secrecy. For Professionalism, Ukraine is very close to Russia. The overall result for all four Gray values using this second method is that Russia and Ukraine are very close to one another, while Romania has slightly more favorable scores from an IFRS standpoint.

**6.3 IFRS Composite Index by Country**

The IFRS Composite Index attempts to quantify the degree of favorable orientation to IFRS based on the Gray index scores. Thus, the computed scores using Gray values derived from the four original Hofstede dimensions shows Ukraine at 31 ranking the lowest, 5 points below Russia and 6 below Romania. All three are dwarfed by the United States core of 85. The same index computed from Gray values using all six Hofstede dimensions results in a flattening of the picture slightly. Russia and Ukraine have virtually equal scores with Romania 4 points higher and the United States remaining far above them. It appears, disregarding any other factors, and despite Ukraine's slower transition to IFRS, both Russia and Ukraine are roughly equal in terms of Gray accounting cultural values and IFRS orientation.

**6.4 Expanded IFRS Orientation Index by Country**

The Expanded IFRS Orientation index weights the composite index at 80%and adds to it at 5% each of indices representing four socio-cultural factors: corruption, political risk, education and business friendly regulatory environment with higher scores indicating greater favorable orientation to IFRS. Score results for the expanded index range from 33 to 43 for the local countries, with Ukraine ranking lowest, 5 points below Russia, and Romania ranking highest 5 points above Russia. In contrast, the United States score is 86. If the same computation is done starting with a Composite IFRS Orientation based on all six Hofstede dimensions, the results flatten to the point where Ukraine, Russia and Romania basically share the same score (31-32) with the United States at 82.

It is evident that it is not the additional social factors considered in the Expanded IFRS Orientation Index that results in these alternative views of the relationship between Russia and Ukraine, but rather the method chosen to calculate the basic Gray dimension values used in this analysis. Using only Hofstede's original four value dimensions, Ukraine lags behind Russia and its neighbor Romania, although all three are relatively close when compared with the United States. Using all six Hofstede value dimensions, Ukraine is more or less on an equal footing with Russia, as well as its neighbor with all three very low in comparison with the United States. This assertion can be made for all the Gray-based measures discussed in 6.2-6.4. The difference between the results of using the two different methods for calculating Gray dimensional values appears to be the result of Ukraine's score on Hofstede's Long-Term Orientation dimension (LTO) shown diagram 1. At 55, Ukraine's LTO score is 26 points lower than Russia's score of 81. Ukraine is much closer to its western neighbor Romania which scores 52 points for LTO. As noted earlier, relatively low LTO is characteristic of cultures in which greater attention is paid to shorter term issues of profitability and recent financial reports. The United States, at 26, has a low LTO score typical for Anglo-American and other financial markets and reporting oriented countries. Ukraine and Romania's middle index scores of 55 and 52, respectively, are quite different from Russia's high score on LTO, which is more typical of central Asia and much of the Far East.

**7. Conclusion**

This paper supports the value of quantifying of Gray accounting value dimensions to study and compare individual countries and for qualitative judgments about the closeness of individual

country profiles to an IFRS favorable profile argued in previous literature. (Borker, 2014)(Borker, 2013a)It also shows how the selection of method for determining Gray dimensions from Hofstede's cultural value dimensions can produce different pictures of the relative ranking of countries under comparison.

Nonetheless, under either method, it is clear that both Ukraine and Russia, and, for that matter, Romania are more or less in the same cultural position vis-à-vis IFRS implementation when compared to the United States or other comparable countries. Ukraine, like Russia needs to work through confusions about IFRS concepts and to continue to invest in the development of a more professionally oriented accountants through training and upgrading programs.

Emphasis should be placed on providing high level professional training to students and existing accountants with strong emphasis on professionalism and high ethical standards. The quantitative component breakdown provided in the determination of the Composite IFRS Orientation Index and the Expanded IFRS Orientation Index facilitate the identification of particular areas of strength or weakness that may need to be addressed in this process.

Large Russian stock companies have taken advantage of inputs and programs run by the large international accounting firms. It is unfortunate that the current conflict between Ukraine and Russia may have curtailed Russian support of Ukraine's accountants and its efforts to implement IFRS, given that Russia owns the only complete Slavic language version of IFRS and offers many programs to former Soviet republics for certifying and training accountants.

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