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The effect of culture on accounting conservatism during adoption of IFRS in the EU

Abstract: Purpose – This paper examines the impact of culture on accounting conservatism during transition to international standards.

Design/methodology/approach – The sample used in this analysis consists of 15 countries of the European Union that have adopted IFRS pursuing Regulation N° 1606/2002. The study covers the 2000-2010 period. Two conservatism measures are used, the Basu (1997) measure to account for conditional conservatism and the accruals measure to account for unconditional conservatism. In order to test the impact of culture, the six dimensions of Hofstede (1980 and 2010) are used.

Findings – The results of the analysis show that variation of conditional conservatism is influenced by the six cultural dimensions. However, unconditional conservatism is only affected by power distance.

Originality/value – The results of our study are interesting and provide a better understanding of the adoption of IFRS worldwide. The role of culture in explaining accounting practices after adopting a single set of accounting standards is particularly highlighted.

Key words: IFRS, conservatism, cultural dimensions, European Union.

Article classification : Research paper.

1. Introduction

Accounting conservatism is a fundamental principle that has always influenced accounting practices and financial statements. In the accounting literature, this concept has been widely discussed, in terms of its variation over time or across different legal and political regimes (Ball et al, 2008; Ball and Shivacumar 2005; Basu 1997; D’Arcy 2001; Gassen et al. 2006; Lara and Mora 2004; Pope and Walker 1999). Zeghal et al. (2012) introduced conservatism as an attribute of the quality of results and found that it decreased following the mandatory adoption of IFRS. Moreover, these authors found that a decrease in conservatism is more important for the group of countries whose local standards diverge significantly from international standards.

In an effort to learn more about the consequences for accounting conservatism of adopting IFRS, it is appropriate to examine the potential impact of culture. Indeed, accounting literature has shown that culture is a key factor in explaining international differences. In their study of the differences in international standards, Ding et al. (2005) found that culture significantly explains divergence between local and international standards. Moreover, the authors underline that the legal system, which was often evoked in the accounting literature to explain accounting differences and international harmonization, turns out to be less explanatory than culture does.

In this paper, our aim is to analyze the role of culture in explaining the consequences of IFRS adoption. More specifically, we are interested in analyzing the effect of culture on variation in accounting conservatism following the mandatory adoption of IFRS in the European Union. In fact, the application of these standards did not affect all countries in the same way (Gassen et al. 2006; Hung and Subramanyam 2007; Prather-Kinsey et al. 2008; Soderstrom and Sun 2007; Zeghal et al 2011; Zeghal et al. 2012). In a recent study, Borker (2013) proposed to determine a favorable cultural profile for IFRS. The author raised the issue of applying a set of standards known for their close resemblance to the Anglo-American model in regions with different cultures.

The impact of culture on accounting systems and therefore on accounting principles seems important. At this stage, we already expect that culture influences accounting conservatism. In fact, Gray (1988) established a link between the cultural dimensions developed by Hofstede and accounting values. We believe that the results of this study will contribute to a better understanding of the consequences of IFRS application. This makes it possible to capture certain biases in the accounting data of countries with different cultures, despite their adoption of IFRS.

The remainder of the paper is organized as follows: Section 2 presents a review of the relevant literature the objectives of the study and the research hypotheses. Section 3 describes the methodology. Section 4 reports and discusses the results. Finally, section 5 summarizes the findings and concludes the paper.

2. Literature review, the purpose of the study and the research hypotheses

2.1. Culture and accounting practices

Accounting literature has found that culture is one factor that significantly explains international accounting differences. Similarly, Kanagaretnam et al. (2011) believe that culture explains banking behavior and also the quality of disclosed results. Furthermore, the authors insist that this effect is particularly important for non-financial institutions. In fact, the banking sector is already highly regulated, minimizing the influence of cultural characteristics. However, non-

bank companies, not subject to such regulations, are more likely to be affected by culture. Kanagaretnam et al. used the Hofstede's dimensions to measure culture: individualism, power distance, uncertainty avoidance and masculinity.

Prior to the study of Gray (1988), accounting research had not established a link between accounting and culture (Borker 2013). In his study of the influence of culture on accounting systems, Gray, however, found a close link between culture and the development of accounting systems. For example, he argues that the conservative attitude of accountants could increase with the social value « uncertainty avoidance ». Indeed, it reflects the tendency to hedge against the uncertainty of future events. The author provides no link with "power distance" but finds a negative relationship with "individualism" and "masculinity".

Chand et al. (2012) confirmed the importance of culture in accounting through their study of a sample of Australian and Chinese students. In fact, they found that cultural differences influence accounting judgments and consequently accounting practice. This is in accordance with the results of Feleaga et al. (2010). In fact, these authors examined provisions reported to total liabilities as a proxy of the degree of uncertainty. The results of their study confirm that provisions are subject to managers' discretion even under IFRS. Feleaga et al. conclude that national accounting culture influences IFRS application for measurement and recognition of provisions.

Liu (2013) argued that cultural values matter in the *eXtensible Business Reporting Language* (XBRL) implementation decision. In fact, he stated that the information can be used and interpreted differently in different nations. Liu and O'Farrell (2013) conducted an analysis on six nations that mandatorily adopted XBRL by 2009 and found that accounting sub-cultural values have significant impact on the information quality following XBRL adoption. Specifically, the authors found that all Gray's cultural values influence the accuracy of the analyst forecast.

More recently, Fearnley and Gray (2015) examined the role of national institutional factors in explaining accounting measurement choices following the IFRS adoption. They presented that the major differences in accounting practices come from institutional influences which include cultural values. The authors reiterate that cultural values are more important than legal and equity market development in explaining accounting practice.

2.2. IASB's position and a favorable cultural profile for IFRS

Borker (2013) suggests identifying a profile that best suits the application of IFRS. The study shows that the characteristics of the profile that best meets IFRS are in fact those of the Anglo-American model. The author added that countries with significant differences from this profile encounter more difficulties when adopting IFRS.

The review of existing literature shows that IASB is often considered to be a mechanism that presents the characteristics of the Anglo-American model. (Hung and Subramanyam 2007; Prather-Kinsey et al. 2008; Raffournier 2007). D'Arcy (2001) also clearly stated that preparing financial information under IASB is dominated by the Anglo-American approach. Liu et al. (2014) stated that IFRS are more principles-based as opposed to rules-based standards. Besides, the authors consider IFRS to be highly influenced by UK and US standards. Consequently, the adoption of the international standards requires readiness for flexibility and openness. Dayanandan et al. (2016) stated that IFRS adoption is still controversial. In fact, while some researchers consider that these standards improve information quality, others raise the disadvantages of their adoption such as the earnings volatility.

2.3. Research objective

Over the past few decades, the use of IFRS has become increasingly significant. They were often considered to be a solution to the diversity of accounting practices in so far as they establish a unique set of standards applicable all around the world (Cardona et al. 2014; Ferreira et al. 2007; Noll 2013). These standards are adopted because they are especially known for their transparency and for their ability to produce better quality information (Ball 2006; Daske 2006; Dayanandan et al. 2016; Dumontier and Raffournier 2005; Gassen et al. 2006).

Ball (2006) believes that uniformity of standards alone cannot ensure a harmonization of accounting practices. The author finds, in fact, that this needs deeper changes. Moreover, recent studies have found different results with respect to mandatory IFRS adoption and their impact. Anwer et al. (2013) noted a decrease in timeliness of loss recognition and concluded that there is a decrease in accounting quality in the post-IFRS mandatory adoption. However, according to Zhuang et al. (2014) mandatory IFRS adoption drew no change in accounting conservatism as measured by Basu's differential timeliness. According to Salter et al. (2013), accounting choices are usually attributed to management decisions, but at the same time, they neglect the values and beliefs of people who made them. Lasmin (2012) conducted a study in 81 developing countries. The study shows that the decision to adopt international standards is more influenced by cultural dimensions than economic factors. Noll (2013) proposes to include cultural dimensions in order to assimilate accounting practices. Following the same line of thought, Chand et al. (2012) suggested that standard setters should take into account cultural differences because they can lead to differences in interpreting IFRS. According to Feleaga et al. (2010), national culture influences accounting policies even when IFRS are adopted. Despite the importance of cultural factors in explaining accounting choices, to the best of our knowledge, the role of these factors in deciding to adopt international standards was not adequately studied. In fact, previous studies, even when they analyzed accounting conservatism under IFRS (Anwer et al. 2013; Zhuang et al. 2014; Piot et al. 2010; André et al. 2015), often lack explanations in terms of social and cultural factors. André et al. presented an original take on this by linking reduction of

conditional conservatism in the post-IFRS period to audit quality and asset impairment tests. But they still ignored cultural influence. In spite of considering cultural influences, Feleaga et al. only focused on the chapter of provisions to measure uncertainty that is a proxy for conservatism. We would state that national cultures are not adequately proxied in this study. Kanagaretnam et al. (2014) made an interesting contribution by linking national culture to accounting conservatism and bank risk-taking. They found that individualism and uncertainty avoidance influence conservatism and risk-taking of banks. Kanagaretnam et al. focused on banks, an extremely regulated sector that we consider not representative of other sectors. In addition, they introduced two cultural factors while they have ignored other interesting factors developed in previous works. Our research is more comprehensive and differs from prior studies in at least 3 important ways. First, we focus on a cornerstone accounting concept, conservatism, in a period of transition to IFRS, with relation to cultural factors. Prior studies, have not stressed the importance of culture to explain the observed variations of conservatism. We think that it is interesting to examine factors that explain variations in conservatism after IFRS adoption. We believe that culture is one of the most crucial factors that influence accounting practice. Second, a pioneering measure is employed in our study to account for culture. In fact, we introduce Hofstede's cultural factors in their most recent version. Third, our study is conducted in a large sample over a relatively long period, allowing a better understanding of the impact of culture on conservatism under IFRS. In this study, we try to explore the relationship between cultural factors and level of accounting conservatism during implementation of international standards. The question that this study attempts to answer is as follows: *What is the effect of culture in explaining variation in the level of accounting conservatism following the mandatory adoption of IFRS in the European Union?*

The purpose of this study is to examine the impact of culture on the level of accounting conservatism in European companies during the transition to international standards. We expect that variation of conservatism in post-IFRS adoption will be influenced by culture. Specifically, we seek to answer the following questions: do cultural factors reinforce the impact of IFRS on accounting conservatism? Are there any differences between cultures in the variation of the level of accounting conservatism in the post-IFRS adoption period?

This study contributes to the existing literature on the adoption of international standards. It allows for a better understanding of the consequences of the adoption of these standards. We highlighted the importance of culture differences in determining IFRS effects. Thus, for IASB, it is important to understand the effect of its standards on different contexts in order to take into account the specificities of the targeted countries or regions. IASB is thus called to take into account cultural diversity in order to reach its goal of international accounting harmonization. For investors, it is interesting to understand the nature of IFRS and the consequences of their application in order to better understand financial information that is communicated to them. Finally, any country wishing to adopt these standards could better assess the potential impact by taking into account the cultural characteristics.

2.4. The research hypothesis

As mentioned previously, The IFRS have common features with the Anglo-American model (Borker 2013; D'Arcy 2001; Hung and Subramanyam 2007; Prather-Kinsey et al. 2008; Liu et al. 2014; Raffournier 2007). Gray's research shows that accounting practices in countries operating under an Anglo-American model are less conservative than countries operating under a continental model. Zeghal et al. (2012) found that conservatism decreased following the mandatory IFRS adoption. Specifically, the decrease in the conservatism level after adopting IFRS is more important for countries with local standards different from international ones. Based on these previous studies, we expect a decrease in the level of accounting conservatism following the IFRS adoption. We also expect that the decrease will be influenced by the cultural dimensions. In fact, Salter et al. (2013) found that previous studies have often neglected the impact of societal values and beliefs on accounting choices. Their study proved the existence of a relationship between these values and accounting conservatism. Noll (2013) suggested including cultural dimensions in order to better understand accounting practices in the post-IFRS adoption period. Thus, it would be interesting to examine the impact of culture on financial information and see whether its inclusion may affect the relationship between IFRS adoption and conservatism.

Table 1 summarizes the predictions made by Borker (2013) about the relationship between Hofstede's dimensions and Gray's accounting values.

TABLE 1 ABOUT HERE

A positive relationship is indicated with a positive sign (+) which becomes significant when it is dual (++). Conversely, the signs (-) indicate a negative relationship, which becomes significant when it is dual (--). As shown in table 1, conservatism has a positive relationship with "power distance", "long-term orientation" and "uncertainty avoidance". The relationship is significant with the latter dimension. Thus, conservatism is higher for groups with a high level of these three dimensions. With regard to the remaining dimensions, the relationship is negative. Therefore, the lower a country ranks in terms of "masculinity", "individualism" and "indulgence/restraint" the more likely it is to rank highly in terms of conservatism. Taking into consideration the relationship between conservatism and the cultural dimensions, we expect that the impact of IFRS will be more significant in cultures characterized by a higher level of conservatism.

Bearing in mind the above assumptions, we formulate the main hypothesis of our study as follows:

H1: Culture is a moderating variable of the relationship between IFRS adoption and conservatism.

Considering the six cultural dimensions of Hofstede and based on the relationship between accounting conservatism and cultural dimensions as presented in table 1, we formulate the following six sub-hypotheses:

H1.1: The higher a country ranks in terms of uncertainty avoidance, the higher is the impact of IFRS adoption on conservatism.

H1.2: The lower a country ranks in terms of individualism, the higher is the impact of IFRS adoption on conservatism.

H1.3: The lower a country ranks in terms of masculinity, the higher is the impact of IFRS adoption on conservatism.

H1.4: The higher a country ranks in terms of power distance, the higher is the impact of IFRS adoption on conservatism.

H1.5: The higher a country ranks in terms of long-term orientation, the higher is the impact of IFRS adoption on conservatism.

H1.6: The lower a country ranks in terms of indulgence, the higher is the impact of IFRS adoption on conservatism.

3. Research design and descriptive statistics

3.1. The sample characteristics

Fifteen countries from the European Union are included in this study. The companies included in the sample are those adopting the IFRS for the first time in 2005 following the decision prescribed by Regulation 1606/2002. The list of companies in our sample is obtained from "Worldscope" database in accordance with the procedure described in table 2. The data was taken from the database "Reuters Eikon." The study period extends from 2000 to 2010, except for the years 2005 and 2008ⁱ.

As shown in table 2, some companies lacked complete data for at least two years before and after IFRS adoption and were therefore excluded from the analysis. In fact, according to He et al. (2008) an examination of the two years before and the two years after this event are sufficient to conduct the analysis. Interestingly, this condition would be fulfilled for the two measures of conservatism employed in our study (conditional and unconditional conservatism) as described in the next sections. In fact, in the previous studies these two forms are commonly used to cover the two definitions of conservatism (Ball and Shivakumar 2005; Beaver and Ryan 2005; Qiang 2007).

Our final sample consists of 1216 companies for the conditional conservatism and 1126 for unconditional conservatism.

TABLE 2 ABOUT HERE

3.2. Conditional conservatism measurement:

Conditional conservatism reflects accountants' tendency to ask for more monitoring when considering good news than bad news. It can be measured by associating earnings and the positive and negative returns reflecting good and bad news respectively. Basu's model (1997) is one of the most used to measure this type of conservatism and integrates this approach of associating profits and returns. According to Basu accounting practices are conservative when reported net income incorporates bad news more quickly than good news.

$$N_{it} = \beta_0 + \beta_1 RN_{it} + \beta_2 R_{it} + \beta_3 RN_{it} * R_{it} + \varepsilon_{it} \quad (1.1)$$

Where:

N_{it} : Net income before extraordinary items per share deflated by share price at the beginning of the period.

R_{it} : Return Rate of the firmⁱⁱ.

RN_{it} : Dummy variable = 1 in case of a negative return rate and 0 otherwise.

ε = error term.

3.3. Unconditional conservatism measurement

This type of conservatism leads to undervaluation of assets and overvaluation of liabilities. The use of discretionary accruals to measure unconditional conservatism is quite common in the accounting literature (Anwer and Duellman 2007; He et al. 2008; Lobo and Zhou 2006). According to Lobo and Zhou (2006) a decrease in discretionary accruals is interpreted as an increase in accounting conservatism. We estimate accruals using the Jones model modified by Dechow et al. (1995) as it is usually employed in the literature. For that purpose, model (2.1) below is estimated each year for each two-digit SIC industry. The extracted error term is then the discretionary accruals that we will regress as a dependent variable in a new model.

$$TAC_{i,t} = \alpha_1 + (1/LTA_{i,t-1}) + \alpha_2[(\Delta REV_{i,t} - \Delta REC_{i,t})/LTA_{i,t-1}] + \alpha_3[(PPE_{i,t}/LTA_{i,t-1})] + \varepsilon_{i,t} \quad (2.1)$$

Where:

$TAC_{i,t}$: Total accruals scaled by LTAⁱⁱⁱ.

LTA: Lagged total assets.

$\Delta REV_{i,t}$: Change in revenues of firm i (Revenue in year $_t$ – Revenue in year $_{t-1}$).

ΔREC : Change in receivables of firm i (Receivables in year $_t$ – Receivables in year $_{t-1}$).

PPE: Gross property plant and equipment.

3.4. Control variables

Control variables are used in our study in order to take into account some factors that may influence conservatism. First, similar to Anwer and Duellman (2007) and Paananen and Lin (2009), we introduce size TA . This variable is measured by the natural logarithm of the company's total assets. Second, it is interesting to take into account the possible effect of the company's debts. In fact, previous studies have confirmed a link between level of accounting conservatism and the conclusion of debt contracts (Anwer et al., 2002; Nikolaev, 2010; Zhang, 2008). The variable DR (debt ratio) is measured by total debts standardized by the company's total assets. Third, sales growth (SG) is also introduced as a control variable. Finally, as in Lobo and Zhou (2006), the variable operating cash flow (CFO) is introduced in the measurement model of unconditional conservatism. CFO is equal to total operating cash flows standardized by lagged total assets.

3.5. Cultural dimensions measurement

The cultural dimensions of Hofstede remain one of the most used measures of culture in the literature. They have been used in many studies in fields such as accounting and psychology (Ding et al. 2005) despite criticisms. Hofstede initially identified four cultural dimensions in 1981 (individualism, power distance, uncertainty avoidance and masculinity), he then developed two others (long-term orientation and indulgence). The cultural factors developed by Hofstede are used in many studies (Albuquerque et al. 2011; Borker 2013; Gray 1988; Kanagaretnam et al. 2011). It would be interesting to explore the impact of each of these factors.

3.5.1. Individualism

It explains the behavior of the individual in relation to the group. It reflects the extent to which society members care for the group. Thus, collectivist societies work for the group while the individualist societies look after individual interests.

3.5.2. Power distance

Everyone has a different attitude towards hierarchical relationships. The power distance score reflects the degree to which the less powerful members of a society accept the inequalities in power distribution.

3.5.3. Uncertainty avoidance

This dimension reflects the attitude of individuals to uncertain events. In fact, different cultures have different ways to deal with anxiety brought by uncertain situations. The extent to which cultures avoid risky events is reflected in uncertainty avoidance score.

3.5.4. Masculinity

Hofstede defines masculinity as follows: "Masculinity stands for a preference in society for achievement, heroism, assertiveness, and material success"^{iv}. However, femininity shows the human side of the society, its preference for relationships, modesty and quality of life.

3.5.5. Long-term orientation

In a short-term oriented society, past and present are connected, traditional methods are favored, stability and regularity are looked for. Nonetheless, long-term oriented societies are characterized by future-oriented expectations and encouragement of investment.

3.5.6. Indulgence

This sixth dimension stands for measuring the degree to which societies try to control desires and impulses. When a society or a culture allows its members to meet their personal desires, it is characterized by "indulgence". In contrast, seeking to impose strict standards to limit satisfaction, are characterized as showing "restraint".

3.6. Descriptive statistics

Table 3 summarizes the descriptive statistics of the variables of our study. Focusing on the cultural dimensions, we find that they have similar values for both models. For example, the "uncertainty avoidance" score is on average equal to 64.4 with a standard deviation of 28.332 and a median of 65. In our sample, Denmark is the least aversive country to uncertainty. In contrast, Greece ranks first with a score of 112 Individualism varies between 27 and 89, with an average of 64.267 and a standard deviation of 16.615. Portugal is thus the most collectivist country, while the UK is the most individualistic. In terms of masculinity, Sweden is the most feminist country while Austria is the country with the highest masculinity score. On average, the countries of our sample have a score of 45.800 for this dimension with a median of 50

and a standard deviation of 22.998. As for power distance, the average score is 44.133 with a standard deviation of 18.943 and a median of 38. Luxembourg is characterized by a culture that accepts the existence of hierarchical positions. Austria is the country of our sample that has the lowest score and therefore it is least likely to accept hierarchical positions. Regarding short/long-term orientation, the score is on average equal to 53.467 with a standard deviation of 17.679 and a median of 53. Scores on this dimension range between 24 and 83 with a low for Ireland and a high for Germany. Finally, the score on the dimension "indulgence/restraint" shows that, on average, countries in our sample have a score of 55.200. Italy ranks last. Sweden has a score of 78 showing that the culture of this country promotes having fun.

TABLE 3 ABOUT HERE

4. Results of the empirical study

We intend to study the impact of culture by introducing cultural factors, explained earlier in this study, as moderating variables. Indeed, these may be employed in the formulation of new research questions for which little knowledge is available (Caceres and Vanhamme 2003). To our knowledge, the impact of culture on conservatism during a transition to international standards has not been adequately studied. According to Baron and Kenny (1986), "a moderator is a qualitative (e.g., sex, race, class) or quantitative (e.g., level of reward) variable that affects the direction and/or strength of the relation between an independent or predictor variable and a dependent or criterion variable"^v.

We define two subgroups for each cultural dimension to analyze the impact of culture on the relationship between IFRS adoption and conservatism. The first group represents countries with a high level of the dimension, and the second corresponds to those with a low level of the same dimension. Groups with low and high levels are determined by the median. The medians for the cultural dimensions used in this study are reported in table 3. Thus, countries with scores below the median form the group with a low level of the considered dimension. Countries whose scores exceed (greater than or equal to) the median form the high level group of the dimension.

4.1. Conditional conservatism analysis

Conditional conservatism is measured by the model of Basu (1997), to which we introduced the variables of our study. Thus, the model to be tested is the following:

$$N_{it} = \beta_0 + \beta_1 RN_{it} + \beta_2 R_{it} + \beta_3 RN_{it} * R_{it} + \beta_4 IFRS_{it} + \beta_5 IFRS_{it} * R_{it} + \beta_6 IFRS_{it} * RN_{it} + \beta_7 IFRS_{it} * RN_{it} * R_{it} + \beta_8 TA_{it} + \beta_9 DR_{it} + \beta_{10} SG_{it} + \varepsilon_{it} \quad (1.2)$$

IFRS: a dichotomous variable equal to 1 in the post-IFRS adoption period and 0 elsewhere. The other variables are as defined above. Before testing the different hypotheses, a preliminary analysis was conducted to select the appropriate method. In addition, a multicollinearity analysis of the independent variables was performed through the VIF test (Variance Inflation Factor). The VIF analysis revealed that *IFRS_{it} * RN_{it}* presents a multicollinearity problem, and will be removed from the analysis. We obtain the following model:

$$N_{it} = \beta_0 + \beta_1 RN_{it} + \beta_2 R_{it} + \beta_3 RN_{it} * R_{it} + \beta_4 IFRS_{it} + \beta_5 IFRS_{it} * R_{it} + \beta_6 IFRS_{it} * RN_{it} * R_{it} + \beta_7 TA_{it} + \beta_8 DR_{it} + \beta_9 SG_{it} + \varepsilon_{it} \quad (1.2^*)$$

According to Basu (1997) the coefficient β_3 detects asymmetry in the recognition of good and bad news. Thus, when β_3 is positive and significant it indicates that the results incorporate bad news faster than good news and therefore that accounting practices are conservative. In the above model (1.2*), the coefficient β_6 allows us to judge the impact of adopting IFRS on the level of conditional conservatism. Thus, a negative and significant coefficient indicates that the conditional conservatism level decreases in the post-IFRS period. Table 4 summarizes the results of the estimation of model (1.2*) by sub groups formed by the level (high/low) of the cultural dimensions.

TABLE 4 ABOUT HERE

A first interesting outcome relates to the level of conditional conservatism. Indeed, the results in table 4 report that the coefficient β_3 is positive and significant for all sub groups. Therefore, accounting practices are conservative for all the studied cultures. More important, the results show that IFRS adoption reduces conditional conservatism in the vast majority of cases.

As for "uncertainty avoidance," we found that the coefficient β_6 is negative and significant at the 1% level for the high-level group of this dimension. However, this coefficient is significant at the 5% level for the group with a low uncertainty avoidance score. Hence, a decrease in conditional conservatism is more significant for the highly uncertainty averse cultures. Hypothesis H1.1 is thus validated.

Consistent with our expectations, the results of our study show that a reduction in the level of conditional conservatism is more significant in collectivist cultures than individualist ones. In fact, while the coefficient β_6 is negative and significant (at the 10% level) for the low-scoring group of "individualism", it is not statistically significant for the group with a high score on this dimension. This finding allows us to conclude that hypothesis H1.2 is validated.

The analysis of groups with high and low masculinity scores shows that the impact of adopting IFRS on conditional conservatism is far more significant in feminine cultures. Indeed, the coefficient β_6 is negative and significant

(at the 1% level) for the group with a low score on the dimension "masculinity" while it is not significant for the group with a high score of this dimension. This result confirms our expectations and validates hypothesis H1.3.

The groups with low and high "power distance" scores are significantly different. The results of our tests show that the coefficient β_6 is negative and significant at the 1% level for the group with a high score on this dimension. However, when considering the low-score group, the result is statistically not significant. This result indicates that during the post-IFRS period, conditional conservatism decreases in a more significant way in the group with a high "power distance" score than in the group with a low score on this dimension. This finding is consistent with our expectations and confirms hypothesis H1.4.

Regarding short-term/long-term orientation, β_6 is negative and significant (at the 1% level) for the long-term orientation group but not statistically significant for the short-term oriented group. Thus, hypothesis H1.5 is validated.

Finally, for the dimension "Indulgence/restraint", from table 4 we notice that IFRS adoption leads to a decrease in conditional conservatism. This decrease is more significant in the group with low scores of the analyzed dimension. Thus, the coefficient β_6 is negative and significant at the 5% level for the latter group while it is significant at the 10% level for the group with a high score on this dimension. Therefore, hypothesis H1.6 is also validated.

4.2. Unconditional conservatism analysis

To analyze unconditional conservatism, accruals are estimated as described in section 3. Discretionary accruals are regressed on the variables of the study as shown in model (2.2) below:

$$TDA_{it} = \beta_0 + \beta_1 IFRS + \beta_2 TA_{it} + \beta_3 DR_{it} + \beta_4 SG_{it} + \beta_5 CFO_{it} + \varepsilon_{it} \quad (2.2)$$

VIF was performed and it revealed the absence of any multicollinearity problems. Table 5 summarizes the findings of the model (2.2) estimation.

TABLE 5 ABOUT HERE

The first interesting result is that the coefficient of the variable IFRS is positive and significant for all the sub-groups. Lobo and Zhou (2006) explained that a decrease in discretionary accruals reveals a higher accounting conservatism. In our analysis, the positive sign of β_1 allows us to confirm that for all the studied cultures, adopting international standards leads to higher discretionary accruals. Therefore, there is a decrease in unconditional conservatism in the post-IFRS period. This is well in line with our expectations of the impact of adopting IFRS on accounting conservatism.

As to the role of culture, we examined the coefficient of the variable IFRS in the different sub-groups. From table 5 we notice that "power distance" is the only dimension which presents differences. Indeed, for the high-scoring group of this dimension the coefficient of the IFRS variable is positive and significant at the 1% level. However, this same coefficient is only significant at the 10% level for the low-scoring group. Therefore, we can conclude that a decrease in conservatism in the post-IFRS period is more significant for cultures with a high "power distance" score. The result is consistent with our expectations, allowing us to conclude that hypothesis H1.4 is validated. For the other cultural dimensions, as shown in table 5, the results are similar for the groups with high and low scores. In fact, we detect a positive and significant coefficient β_1 for the subgroups concerning "uncertainty avoidance", "individualism", "masculinity", "long-term orientation" and "indulgence/restraint".

To sum up the results on unconditional conservatism, only the H1.4 hypothesis is validated while hypotheses H1.1, H1.2, H1.3, H1.5 and H1.6 are not. Variation of unconditional conservatism is therefore not influenced by all the cultural dimensions. It may be influenced mainly by a change in accounting standards. In addition, there may be other factors that could have influenced the relationship between IFRS and unconditional conservatism. Furthermore, even if we remain with the cultural factors, the literature shows that there are other measures that could probably give different results. For example, Zeghal and Mhedhbi (2006) categorized a country as belonging to a cultural group according to language, Anglo-Saxon colonization and illiteracy rate.

5. Analysis of the results and conclusion

The objective of this study is to examine the impact of culture on accounting conservatism in European companies during a transition to international standards. In fact, little is known about factors influencing accounting choices after IFRS adoption. Fearnley and Gray (2015) found that cultural values are determinant in explaining accounting choices even after IFRS adoption. We investigate this issue on the basis of Hofstede's cultural dimensions. The study examined 15 countries of the European Union that had adopted IFRS in 2005 in accordance with Regulation N°1606/2002. Two conservatism measures have been used to reflect its two forms. The first one is developed by Basu (1997) and measures conditional conservatism. The second estimates discretionary accruals by the modified Jones model and it measures unconditional conservatism.

Regarding conditional conservatism, the results of our study show that culture is a moderating variable of the relationship between IFRS and the level of accounting conservatism. Thus, a decrease in conditional conservatism was more significant for groups with high "uncertainty avoidance", "power distance" and "long-term orientation" scores. It is

also more significant for groups with low "individualism", "masculinity" and "indulgence/restraint" scores. This result is consistent with our expectations and prior research. Especially, Borker (2013) predicted a positive relation between conservatism on the one hand and power distance, uncertainty avoidance and long-term orientation on the other. For unconditional conservatism, there are differences in the impact of culture only for the subgroups formed according to the "power distance" dimension. In fact, the decrease in unconditional conservatism was more significant in cultures with a high level of this dimension. This is in line with our expectations and with the result obtained for conditional conservatism. However, for the other five dimensions, the results show that the impact of IFRS is similar for subgroups with high and low scores of the above mentioned dimensions. Thus, we can conclude that these cultural dimensions have no impact on unconditional conservatism when IFRS are applied. The variation of conservatism may be mainly attributed to the application of the international standards. In this regard, we can refer to André et al. (2015) who stated that "The form of 'prudence' that the Board intended to eliminate from the conceptual framework (and financial reporting) can be clearly related to unconditional conservatism"^{vi}. So we can conclude that accounting practices under IFRS lead to a reduction of unconditional conservatism regardless of culture differences. Moreover, the result on unconditional conservatism could be due to the measure employed which, probably, leaves less opportunity to exercise discretion influenced by culture.

The results are quite interesting and enable a better understanding of the consequences of IFRS adoption and the factors that could influence the transition to these international standards. They support the view that IFRS adoption does not ensure complete homogeneity of accounting data prepared from different cultures. We extended the existing literature by explaining that differences in accounting practices remain after adopting a single set of international standards. More interestingly, the role of cultural values in explaining accounting practices is highlighted. In fact, cultural differences across nations are found to influence accounting practices even when a single set of accounting standards is implemented.

The research findings have some caveats. According to our results, cultural variables act as moderating factors on conservatism of accounting data when adopting IFRS. It would be interesting for future studies to conduct similar studies over a longer period to investigate if the conclusions drawn by our study hold true with more recent data.

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^[1] The year 2005 is eliminated because it is the year of IFRS adoption and 2008 is also eliminated because it is the financial crisis year which could have affected the results of the study.

^[2] Similar to Lara and Mora (2004), Giner and Rees (2001) return is calculated as follows: $P_t - P_{t-1} / P_{t-1}$.

^[3] TAC = Net profit – Operating Cash flow.

^[4] Gray S. J. (1988) p7.

^[5] Baron R. M. and Kenny D. A. (1986), p 1174.

^[6] André S et al. (2015) p 483.

	PDI	IND	MAS	UNC	LTO	IVR
Conservatism	+	-	-	++	+	-
Uniformity	+	--	?	++	+	-
Professionalism	-	++	?	--	-	+
Discretion	++	--	-	++	+	-

Table 1: Relationship between cultural dimensions of Hofstede and accounting values of Gray (Source: Borcker D.R. 2013)

PDI: power distance; IND: individualism/collectivism; MAS: masculinity/femininity; UNC: uncertainty avoidance; LTO: long/short-term orientation; IVR: Indulgence/Restraint.

Description	Number	
	Conditional conservatism	Unconditional conservatism
Starting Population	6026	6026
Exclusion of companies with a closing date of the accounting period different from December 31 and companies that do not meet the selection criteria	4080	4080
Exclusion of companies from the financial sector	399	399
Subtotal1	1547	1547
Companies that do not have data for at least two years before and after the adoption of IFRS	331	421
FINAL SAMPLE	1216	1126

Table 2: Description of the data collection process

Variable	Mean	STD	Median	Minimum	Maximum
VARIABLES OF BASU MODEL					
N_{it}	0.015	0.168	0.020	-0.906	0.515
R_{it}	0.109	0.560	0.028	-0.844	2.446
PS	26.353	26.368	13.261	2.69	70
TA	5.815	2.115	5.576	1.678	11.198
DR	0.579	0.212	0.596	0.082	1.259
SG	0.099	0.379	0.055	-0.833	2.358
VARIABLES OF ACCRUALS MODEL					
TAC	-0.013	0.059	-0.012	-0.114	0.082
TDA	-0.026	0.054	-0.014	-0.122	0.038
TA	5.878	1.812	5.697	3.326	8.967
DR	0.582	0.170	0.602	0.292	0.827
SG	0.070	0.171	0.054	-0.190	0.387
CFO	0.071	0.069	0.073	-0.045	0.181
CULTURAL DIMENSIONS					
UNC	64.400	28.332	65	23	112
IND	64.267	16.615	70	27	89
MAS	45.800	22.998	50	5	79
PDI	44.133	18.943	38	11	70
LTO	53.467	17.679	53	24	83
IVR	55.200	14.194	57	30	78

Table 3: Descriptive statistics

N_{it}: Net income before extraordinary items per share deflated by share price at the beginning of the period; **R_{it}**: Rate of return of the firm; **PS**: Share price 3 months after the end of the year; **TAC**: Total accruals scaled by lagged Total assets; **TDA**: Total discretionary accruals as estimated by modified Jones model; **TA**: Natural logarithm of end-of-year total assets; **DR**: Total debt normalized by the total assets of the firm; **SG**: sales growth; **CFO**: cash flow from operational activities scaled by beginning total assets; Cultural dimensions are as defined in Table 1.

	UNC		IND		MAS		PDI		LTO		IVR	
	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High
RN	0.0010 (0.79)	0.0105 (3.95***)	0.0001 (0.11)	0.0004 (0.69)	0.0016 (0.70)	0.0019 (0.74)	0.0005 (0.39)	0.0095 (3.57***)	0.0085 (3.66***)	-0.0009 (-0.37)	0.0092 (3.38***)	0.0017 (1.05)
R	-0.0017 (-1.20)	0.0244 (5.52***)	-0.0009 (-0.87)	-0.0010 (-1.55)	-0.0067 (-2.12**)	0.0024 (0.71)	-0.0012 (-0.78)	0.0156 (3.59***)	-0.0019 (0.74)	-0.0004 (-0.13)	0.0221 (4.81***)	-0.0018 (-1.03)
RN*R	0.0314 (7.29***)	0.1111 (10.72***)	0.0289 (11.11***)	0.0220 (11.74***)	0.1083 (13.65***)	0.0508 (5.66***)	0.0315 (6.75***)	0.1176 (11.70***)	0.0554 (7.48***)	0.1145 (13.19***)	0.1062 (10.10***)	0.0375 (7.30***)
IFRS	-0.0039 (-3.04***)	-0.0113 (-4.45***)	-0.0037 (-4.27***)	0.0008 (1.36)	-0.0095 (-4.19***)	-0.0019 (-0.82)	-0.0029 (-2.19**)	-0.0148 (-5.80***)	-0.0093 (-4.25***)	-0.0028 (-1.25)	-0.0108 (-4.16***)	-0.0041 (-2.66***)
IFRS*R	0.0024 (1.10)	0.0162 (2.61***)	0.0015 (0.94)	-0.0012 (-1.13)	0.0103 (2.21**)	-0.0047 (-0.97)	0.0004 (0.19)	0.0241 (4.00***)	0.0033 (0.82)	0.0047 (0.94)	0.0169 (2.65***)	0.0025 (0.94)
IFRS*RN*R	-0.0141 (-2.13**)	-0.0425 (-2.58***)	-0.0077 (-1.84*)	-0.0003 (-0.12)	-0.0376 (-2.82***)	0.0155 (1.14)	-0.0102 (-1.43)	-0.0529 (-3.28***)	0.0074 (0.62)	-0.0370 (-2.64***)	-0.0397 (-2.39**)	-0.0147 (-1.85*)
TA	0.0022 (9.73***)	0.0101 (21.38***)	0.0024 (15.10***)	0.0005 (5.63***)	0.0066 (16.83***)	0.0085 (18.48***)	0.0020 (8.24***)	0.0106 (21.90***)	0.0076 (16.94)	0.0057 (14.24***)	0.0100 (20.87***)	0.0023 (8.31***)
DR	-0.0148 (-6.59***)	-0.0988 (-16.79***)	-0.0112 (-7.91***)	0.0038 (3.63***)	-0.0593 (-12.75***)	-0.0806 (-17.85***)	-0.0180 (-7.38***)	-0.1072 (-17.85***)	-0.0457 (-10.79***)	-0.0699 (-14.61***)	-0.0994 (-16.27***)	-0.0186 (-7.11***)
SG	0.0044 (3.31***)	0.0463 (12.82***)	0.0058 (7.11***)	0.0019 (3.32***)	0.0274 (9.08***)	0.0214 (7.28***)	0.0049 (3.55***)	0.0457 (12.54***)	0.0229 (8.03***)	0.0231 (8.01***)	0.0440 (12.03***)	0.0057 (3.35***)
Constant	0.0030 (1.52)	0.0486 (12.35***)	0.0293 (22.63***)	0.0192 (20.39***)	0.0371 (10.49***)	0.0210 (5.98***)	0.0066 (3.21***)	0.0540 (13.49***)	0.0004 (0.14)	0.0518 (15.12***)	0.0488 (12.08***)	0.0074 (3.16***)
Observations	3845	5778	2896	6727	5292	4331	3967	5656	3936	5687	5446	4177
Wald Chi²	235.89***	1398.91***	790.57***	431.56***	901.61***	713.89***	214.88***	1417.88***	533.38***	963.32***	1293.04***	220.63***

Table 4: Analysis of the IFRS impact on conditional conservatism level following the cultural dimensions

$$N_{it} = \beta_0 + \beta_1 RN_{it} + \beta_2 R_{it} + \beta_3 RN_{it}^* R_{it} + \beta_4 IFRS_{it} + \beta_5 IFRS_{it}^* R_{it} + \beta_6 IFRS_{it}^* RN_{it}^* R_{it} + \beta_7 TA_{it} + \beta_8 DR_{it} + \beta_9 SG_{it} + \varepsilon_{it} \quad (1.2^*)$$

Significant at: ***1 percent; **5 percent; *10 percent; IFRS: Dichotomous Variable equal to 1 in the IFRS post adoption period and 0 elsewhere. The other variables are as defined in Table 3.

	UNC		IND		MAS		PDI		LTO		IVR	
	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High
<i>IFRS</i>	0.0009 (3.08***)	0.0009 (4.31***)	0.0042 (3.29***)	0.0054 (8.62***)	0.0007 (3.51***)	0.0011 (4.03***)	0.0005 (1.95*)	0.0012 (5.42***)	0.0016 (4.93***)	0.0006 (3.20***)	0.0009 (4.23***)	0.0009 (3.33***)
TA	0.0001 (0.69)	-0.0032 (-22.44***)	-0.0056 (-14.86***)	-0.0017 (-9.05***)	-0.0017 (-12.48***)	-0.0018 (-9.54***)	0.0010 (5.93***)	-0.0040 (-26.73***)	-0.0026 (-12.48***)	-0.0014 (-10.42***)	-0.0032 (-21.52***)	-0.0001 (-0.76***)
DR	-0.0067 (-5.69***)	-0.0020 (-1.91*)	-0.0153 (-3.39***)	-0.0296 (-14.48***)	-0.0055 (-6.06***)	-0.0046 (-3.55***)	-0.0093 (-7.92***)	-0.0015 (-1.40)	-0.0058 (-3.80***)	-0.0053 (-5.82***)	-0.0024 (-2.21**)	-0.0070 (-6.04***)
SG	-0.0037 (-7.00***)	-0.0035 (-8.26***)	-0.0184 (-4.45***)	-0.0212 (-10.47***)	-0.0025 (-6.43***)	-0.0053 (-9.44***)	-0.0038 (-7.36***)	-0.0038 (-8.56***)	-0.0058 (-8.77***)	-0.0029 (-7.57***)	-0.0035 (-7.91***)	-0.0040 (-7.73***)
CFO	-0.0098 (-5.74***)	-0.0069 (-5.22***)	-0.1407 (-13.41***)	-0.1556 (-31.64***)	-0.0041 (-3.53***)	-0.0119 (-6.64***)	-0.0109 (-6.58***)	-0.0067 (-4.87***)	-0.0101 (-4.88***)	-0.0065 (-5.55***)	-0.0070 (-5.17***)	-0.0102 (-6.14***)
Constant	-0.0018 (-1.60)	0.0003 (0.37)	0.0005 (0.17)	0.0265 (19.19***)	0.0066 (7.03***)	-0.0098 (-7.14***)	-0.0102 (-8.37***)	0.0072 (6.51***)	-0.0025 (-1.73*)	0.0015 (1.61)	0.0012 (1.12)	-0.0021 (-1.81***)
Observations	3390	5191	1842	6739	4864	3717	3853	4728	2716	5865	4873	3708
Wald χ^2	128.69***	686.43***	742.86***	1903.59***	296.62***	298.18***	187.24***	914.60***	351.71***	275.01***	633.36***	157.35***

Table 5: Analysis of the IFRS impact on unconditional conservatism level following the cultural dimensions

$$TDA_{it} = \beta_0 + \beta_1 IFRS + \beta_2 TA_{it} + \beta_3 DR_{it} + \beta_4 SG_{it} + \beta_5 CFO_{it} + \varepsilon_{it} \quad (2.2)$$

Significant at: ***1 percent; **5 percent; *10 percent. The variables are as defined above.