



# The Effect of National Culture on the Level of Compliance with Financial Ethics

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## Abstract

**Introduction:** Culture is an important and influential factor on unethical behavior and people in any society. The purpose of this article is to investigate the effect of national culture on unethical financial behavior in 113 countries.

**Material and Methods:** The research method is applied in terms of purpose and descriptive and correlational in terms of data collection. The statistical population includes different countries around the world, from which a sample of 113 countries was selected. In this research, Hofstede's six cultural characteristics are used as a basis for investigating the relationship between culture and unethical financial behaviors. The research tool for collecting theoretical bases and research data is library studies. Also, data analysis was done based on descriptive statistics and multivariate regression using SPSS software.

**Results:** The results of this research show that the cultural characteristics of power distance have a significant and positive relationship with financial crimes. Also, individualism and uncertainty avoidance have a significant and negative relationship with unethical financial behaviors. But other cultural variables such as Long-Term Orientation, Masculinity and Indulgence have no significant relationship with unethical financial behaviors.

**Conclusion:** Compliance with ethics in financial fields means the existence of transparent financial systems in any country is rooted in the national culture of that country. Therefore, national culture is an integral part of moral behavior in all societies.

**Keywords:** *National culture, Financial ethics, Financial transparency*

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## INTRODUCTION

Compliance with ethics in financial institutions and systems has important consequences in various economic and social fields. Effects such as improving investors' trust in financial markets, increasing government income, reducing corruption at the community level. Countries, in cooperation with international authorities, seek to improve the financial transparency of the economic activities of their commercial enterprises by approving the necessary ethical regulations and implementing them. For this purpose, in 1989, the Financial Action Task Force

was established at the G7 summit in Paris to combat the growing problem of money laundering. The purpose of this group is to study the trends of money laundering, legal supervision, and the implementation of financial laws at the national and international levels. The significant increase in international trade following the expansion of the world economy has led to numerous financial crimes, including money laundering. The Financial Action Task Force provides recommendations to combat these crimes, reviews the opinions of its members, and seeks to increase the adoption of

regulations to combat money laundering from countries around the world [1, 2].

The national culture of any country has significant effects on the transparency of that country's financial system. According to cultural theories, cultural values are closely related to the economic environment, especially to the financial behavior of the people of any country. As an example, paying bribes is affected by the cultural characteristics of power distance, individualism and masculinity of the countries under study [3]. In another research, it was also shown that in countries where the power distance is high, the risk of fraud is high, and in countries with the cultural characteristic of long-term orientation, the risk of fraud is low [2]. Studies have shown that countries whose cultural values are characterized by low uncertainty avoidance, low individualism, high masculinity and low long-term orientation have a high rate of financial crimes [4].

The study conducted in the European Union indicates that countries with high levels of power distance, uncertainty avoidance, low individualism, and low indulgence have high financial ethics regarding taxes in those countries. In this study, policy makers are advised to improve the quality of national institutions such as the rule of law, the quality of supervision and the effectiveness of the government to reduce the adverse effect of culture on tax evasion [5].

During a study, researchers investigated the relationship between tax ethics and national culture. They showed that there is a positive and significant relationship between individualism and power distance with tax ethics and a negative and significant relationship with masculinity. They also found that in countries with a higher level of tax evasion, a lower level of tax ethics is observed [6].

In a survey of 41 countries, it was shown that culture has a significant effect on financial fraud. In this study, it was confirmed that uncertainty

avoidance and long-term orientation have a positive and significant relationship with the amount of fraud. Also, power distance and masculinity have a positive and significant relationship with cheating [7].

Research on the effect of culture on financial fraud in the insurance industry in two countries, Norway with a tight culture and Ukraine with a loose culture, shows that customers who enjoy a strict culture are less likely to commit insurance policy fraud compared to their counterparts from a lax culture [8].

Research has shown that the cultural characteristics of low power distance, high individualism, high masculinity, high uncertainty avoidance, long-term orientation have a positive effect on the environmental performance and financial performance of companies. On the other hand, high power distance, collectivism (low individualism), low masculinity, low certainty avoidance, short-term orientation has a negative relationship on the environmental and financial performance of companies [9].

The results of the study show that there is a significant relationship between power distance and whistleblowing, and this relationship is adjusted based on gender. This study also showed that with the increase of power distance, ethical reporting of corporate violations (whistleblowing) decreases. Also, in this study, it was shown that compared to men, women report the violations of their colleagues more than men [10].

Studies in the field of financial ethics have shown that national culture is related to unethical financial behaviors such as tax evasion, money laundering and corruption. The role of national culture is currently understudied in financial statement crime schemes, workplace fraud, and cybercrime. In these studies, researchers have concluded that financial unethical behaviors can be prevented by developing cultural values such as feminism, low power distance, tolerance of

uncertainty, short-term orientation, and restraint [11].

Therefore, the main goal of the article is to examine the dimensions of national culture (power distance, individualism, masculinity, avoidance of uncertainty and long-term vision, indulgence) by observing the financial ethics of different countries. Also, the main question of this article is that to what extent different dimensions of national culture have a significant relationship with non-observance of financial ethics? The results and findings of this research can, first of all, lead to the expansion of the theoretical foundations of research related to ethics in the field of financial ethics. Second, the current research can inform the readers of this article about the role of national culture and its relationship with financial ethics. Finally, the results of this article can provide useful information to investors and financial analysts about the effects of national culture characteristics on the riskiness of the financial system of countries.

## MATERIAL AND METHODS

The research method in this article is descriptive-correlation. Theoretical foundations and research data have been collected through library studies. The statistical population of the current research includes all the countries of the world, but since the data related to the cultural characteristics of 113 countries were available on Hofstede's website, therefore the sampling method is convenience sampling. The statistical sample of this research includes 113 countries. From this sample, 22 countries from North America and Latin America, 19 countries from Asia and the Pacific, 43 countries from Europe, 14 countries from the Middle East and the rest from the African continent have been selected. Since the research data have been used in various studies

[4, 7], they have the required validity and reliability. Data analysis was done through multivariate regression using SPSS software.

The independent variables in this research are cultural characteristics including individualism, masculinity, uncertainty avoidance, long-term vision, power distance and indulgence, which were chosen according to Hofstede's cultural characteristics [12]. The dependent variable is also the risk score of not complying with financial ethics, which was published by the Basel Committee in 2022 [13]. The research model is written as follows:

$$Y = a_0 + a_1x_1 + a_2x_2 + a_3x_3 + a_4x_4 + a_5x_5 + a_6x_6 + \mu$$

Y= Financial crimes

X1= Power distance

X2= Individualism

X3= Masculinity

X4= Uncertainty avoidance

X5= Long term orientation

X6= Indulgence

$\mu$ = Model error

## RESULTS

Table 1 presents the descriptive statistics of the research variables. This table shows that the average of the two cultural characteristics of power distance and uncertainty avoidance is above 50 and is equal to 66.6 and 66.68, respectively, and the average of other cultural characteristics of the countries is less than 50. Since Hofstede's six cultural characteristics, which are measured on the basis of zero to one hundred, it can be said that most of the countries studied in this research in terms of the cultural characteristics of masculinity, individualism, long-term orientation, and indulgence scored below the average. Also, the risk score of non-compliance with financial ethics of countries, which is scored from zero to ten, has an average of 4.95 and shows close to the average level.

**Table 1:** Descriptive data

	Risk of non-compliance with financial ethics	Power distance	Individualism	Masculinity	Uncertainty avoidance	Long term orientation	Indulgence
Mean	4.95	66.6	38.27	47	66.68	44.44	45.49
Median	4.87	70	33	46	67	41.50	44
SD	1.047	20.60	21.22	17.48	20.97	23.36	22.52
Min.	3	11	6	5	8	0	0
Max.	8	100	91	100	100	100	100

Table 2 also shows the results of correlation between independent variables. The evidence of this table shows that the most significant correlation between independent variables is between the variables of individualism and power

distance equal to 48.5% and indulgence and long-term orientation by 45.7%. Since these values are less than 50%, it can be claimed that the correlation between the independent variables of the research is not acute.

**Table 2:** Correlation between independent variables

Variables	1. Power distance	2. Individualism	3. Masculinity	4. Uncertainty avoidance	5. Long term orientation	6. Indulgence
1	1	-0.485*	0.033	0.257*	0.006	-0.348*
2		1	0.052	-0.201	0.130	0.128
3			1	-0.005	0.037	0.084
4				1	0.222*	-0.177
5					1	-0.457*
6						1

\* $\alpha=0.05$

The results of the multivariate regression test are presented in Table 3. The evidence of this table shows that, among Hofstede's six cultural characteristics, only the cultural characteristics of power distance, individualism, and uncertainty avoidance have a significant relationship with the risk of not complying with financial ethics at the 95% confidence level. The variables of masculinity, long-term orientation and

indulgence have no significant relationship with the dependent variable. Table 3 shows that the coefficient of the power distance variable is positive, this means that there is a positive relationship between the power distance variable and the risk of non-compliance with financial ethics. Also, individualism and uncertainty avoidance have a negative relationship with the risk of financial crimes.

**Table 3:** Regression results

	Coefficients	Standard error	t-value	Sig.	VIF
y-intercept	5.23	0.777	6.738	0.000	-
Power distance	0.019	0.006	2.990	0.004	1.948
Individualism	-0.015	0.005	-2.708	0.009	1.565
Masculinity	0.007	0.005	1.453	0.151	1.058
Uncertainty avoidance	-0.014	0.004	-3.275	0.002	1.161
Long term orientation	-0.006	0.004	-1.314	0.194	1.369
Indulgence	-0.003	0.005	-0.634	0.529	1.664
F value	12.005			0.000	
The normality of residual values	0.092			0.200	
R <sup>2</sup> Adjusted= 0.489					
Durbin-Watson=1.647					

## DISCUSSION

Culture is an important and influential variable in social science studies. In this article, the authors seek to examine Hofstede's six cultural characteristics, i.e., power distance, individualism, masculinity, uncertainty avoidance, long-term orientation, and indulgence, with the risk of financial crimes in 113 countries. The results of this research show that the cultural characteristics of power distance have a significant and positive relationship with the risk of non-compliance with financial ethics, and individualism and uncertainty avoidance have a significant and negative relationship with the risk of non-compliance with financial ethics. But other cultural variables have no significant relationship with the risk of not complying with financial ethics. The findings of this research are in line with the results of past research and confirm them [3-5, 9].

Based on the results of this article, it can be argued that power distance is one of the most important characteristics of national culture in the occurrence of unethical financial behaviors. In societies where the power distance is large, subordinates and superiors do not consider each other as equals, the difference in the salaries of high and low jobs is relatively large; Employees do not participate in decisions. It is expected that discrimination and injustice will increase in such societies and society members will be susceptible to financial fraud. On the other hand, the results show that with increasing individualism, the risk of unethical financial behavior in countries decreases. This issue can be interpreted in such a way that in individualistic societies, a person is assigned a higher moral value towards the society. In such societies, laws regulate people's actions, so financial immorality is reduced. Another finding of this research is that with increasing uncertainty avoidance, the risk of unethical financial behavior decreases. Since people in a

society with high uncertainty take less risk and prefer to behave within the framework of conventional rules and norms, the occurrence of financial frauds will be low in such a society.

Based on the findings of this research, policy makers and legislators are suggested to reduce the occurrence of unethical financial behaviors by developing cultural values such as low power distance, tolerance of uncertainty and development of individualism. It is also suggested to prevent unethical behavior and financial corruption by increasing social and media monitoring on the performance of public and private sector institutions. This issue can increase the power of civil control and reduce the power gap. One of the other suggestions of this research is that by increasing the level of cultural and social capital, work conscience and honesty and trustworthiness at work should be institutionalized as basic norms in the society so that ethical behaviors in financial systems can be developed through them.

One of the main limitations of this research is the lack of access to the data of all countries, so it is not possible to generalize its results to the sample of other countries that were not selected as a statistical sample in this research.

## CONCLUSION

The results and findings of this research show that culture is an integral part of moral behavior. In other words, compliance with ethics in financial fields means the existence of transparent financial systems in any country is rooted in the national culture of that country. According to the authors of this article, it can be concluded that society refers to a group of people and the structure of relationships between them, and culture refers to the content and principles that organize those relationships. Therefore, culture as the most important factor in economic, social, political, human and moral development

is in line with the goals of sustainable development

### ETHICAL CONSIDERATIONS

Ethical issues (such as plagiarism, conscious satisfaction, misleading, making and or forging data, publishing or sending to two places, redundancy and etc.) have been fully considered by the writers.

### CONFLICT OF INTEREST

The authors declare that there is no conflict of interests.

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