

CHAPTER 3: CULTURE AND INTERNATIONAL COMPARATIVE FINANCIAL ACCOUNTING RESEARCH

- 3.1 INTRODUCTION**
- 3.2 THE THEORY OF THE ASSOCIATION OF NATIONAL
CULTURAL VALUES WITH ACCOUNTING SUBCULTURAL
VALUES**
- 3.3 CULTURAL VALUES IN TEN ASIAN-PACIFIC NATIONS**
 - 3.3.1 MEASUREMENT OF NATIONAL CULTURAL VALUES**
 - 3.3.2 MEASUREMENT OF ACCOUNTING SUBCULTURAL
VALUES**
- 3.4 ACCOUNTING SUBCULTURAL VALUES AND DISCLOSURE
IN CORPORATE ANNUAL REPORTS**
- 3.5 A CONTINGENCY APPROACH FOR STUDYING CULTURAL
VALUES AND ACCOUNTING DISCLOSURE PRACTICES**
- 3.6 SUMMARY**

3.1 INTRODUCTION

In this Chapter the theory of the relationship between national cultural values and accounting disclosure and measurement practices is outlined. The concept of culture is operationalised using the definition and framework of Hofstede (1980) and various subsequent works. The relationships between national cultural values and accounting subcultural values as hypothesised by Gray (1988) and Perera (1989) are discussed in Section 3.2. Accounting subcultural values are argued to be reflected in the accounting disclosure and measurement practices adopted within a country. These disclosure and measurement practices are hypothesised to be associated with national

cultural values. Specific hypotheses concerning the relationship between national cultural values and consolidation disclosure practices are developed in Chapter 5. Also, in this Section other studies in the accounting literature that have investigated aspects of the relationship between accounting and national culture are reviewed so that the contribution of the current study can be placed in context.

The sample of corporate annual reports in this study are sourced from ten countries in the Asian-Pacific region. The national cultural values of each of these countries are discussed in Section 3.3. Also, the research by Eddie (1990) concerning estimation of the measures of the accounting subcultural values of these countries is reviewed. Tests of the association between the national cultural values measured by Hofstede (1991) and the accounting subcultural values estimated by Eddie (1990) are reported.

In Section 3.4 the general associations between accounting subcultural values and disclosures in corporate annual reports are discussed. Two aspects of disclosure are considered. First, is the extent of disclosure which is represented by the number of items of information included in a corporate annual report. Second, is the degree of variation in the extent of disclosure which is represented by the differences in the extent of disclosure among corporations from the same country.

Finally, in Section 3.5 a descriptive contingency model using national cultural values as environmental variables is outlined. It is argued that national cultural values are associated with the extent of disclosure and the degree of variation in the extent of disclosure made in corporate annual reports. The independent variables in this model are national cultural values. The dependent variable in this model is consolidation accounting disclosure practices. The measurement of the dependent variable using a disclosure index is described in Chapter 6. The contingency models discussed in

Section 3.5, have been adapted from the general contingency models which were reviewed in Section 2.4.

3.2 THE THEORY OF THE ASSOCIATION OF NATIONAL CULTURAL VALUES WITH ACCOUNTING SUBCULTURAL VALUES

In this Section the theory concerning the association between national cultural values and accounting disclosure and measurement practices is discussed. The origins of the theory are traced in the literature. Next, the concept of culture as defined by Hofstede (1980) and other subsequent works is reviewed. Further, the use of this concept in accounting research is documented together with the theory proposed by Gray (1988) concerning the association between national cultural values and accounting subcultural values.

Statements concerning the general relationship between accounting and national culture can be traced to publications dating from the mid-1960s [for example Bedford (1966), Mueller (1968) and, Seidler (1969)]. In these publications the authors made no clear statements concerning the specific nature of the relationship. Generally they argued that accounting was culturally specific and that culture would be an impediment to the international harmonisation of accounting. An illustration of this point is Bedford (1966, p.3) where he claimed: ‘...for the mass of accounting, the language barrier, the political barrier and the cultural barrier effectively impede international transmigration of accounting thought.’ This sentiment was shared by Seidler (1969, p.37) who stated: ‘Accounting skills would appear, from a superficial examination, to have a similar non-political, noncultural orientation, which would enable them to pass from country to country free of nationalistic influences. Unfortunately, this is not the case.’

Research into the variables that were associated with different national accounting disclosure and measurement practices was reviewed in Chapter 2. In only two of these studies [Frank (1979) and, Nair and Frank (1980)] was culture used as an environmental variable. In both these studies culture was measured by a surrogate, national language. The use or non-use of specific European languages was included in the discriminant model. Two languages were found to have discriminatory power by Nair and Frank (1980), French with accounting measurement practices and English with accounting disclosure practices. The operational definition of culture as language in these studies limited a more robust model of the relationship between culture and accounting disclosure and measurement practices being developed.

An alternative operational definition of culture, developed by Hofstede (1980), provided a framework for analysis of culture that has been used subsequently by a number of researchers to investigate various aspects of the relationship between national culture and accounting practices [for example Harrison and McKinnon (1986), Bottger and Yetton (1987), Gray (1988), Soeters and Schreuder (1988), Karnes, Sterner, Welker and Wu (1989), Perera (1989), Bloom and Naciri (1989), Perera and Mathews (1990), Secord and Su (1991), Cohen, Pant and Sharp (1993), Harrison (1993), Shying (1994), Fechner and Kilgore (1994) and, Baydoun and Willett (1995)]. Hofstede's concept of culture is adopted in the current study.

The original operational definition and measurement of culture was extended by the inclusion of additional countries and regions in Hofstede (1983), and by the inclusion of an additional cultural value dimension in Hofstede (1991). Hofstede's conceptual framework for the analysis of culture distinguished between 'national culture', 'organisational culture' and 'occupational culture'. In this study the focus is upon national culture and Hofstede's framework for this concept is reviewed below.

The assumption from which the analysis of culture stems is that social systems exist because human behaviour is partially predictable, or on the other hand human behaviour is not completely random. An element that ensures some predictability within a social system is the shared learning of members of the social group. From this perspective Hofstede (1984, p.21) defined culture ‘...as the collective programming of the mind which distinguishes the members of one human group from another.’

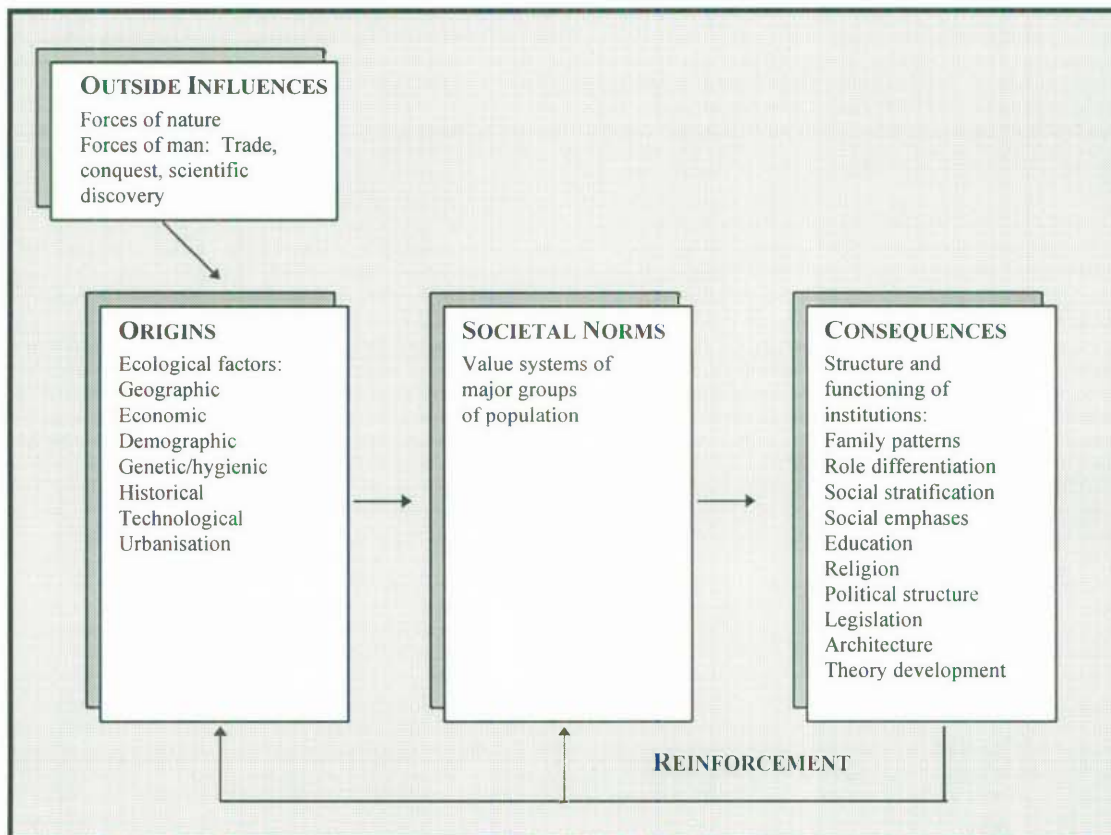
In order to operationalise this definition of culture the following four levels, by which culture manifests itself within social systems, were identified: symbols, heroes, rituals and values [Hofstede (1987, p.2)]. The first three levels were argued to be relatively easy to change and varied from generation to generation. None of these levels contributed to the inter-generational stability of societal patterns of behaviour. However, the fourth level, values, was considered to be the most deep seated and difficult to change of the dimensions of culture and was the foundation from which national cultural diversity was derived. A value was defined as ‘...a tendency to prefer certain states of affairs over others’ and was considered to be an attribute that could be applied to a social group as well as to individuals [Hofstede (1984, p.18)]. The model developed by Hofstede of the mechanism by which the cultural values of a nation were transmitted from generation to generation is reproduced as Figure 3.1

Figure 3.1 locates the value systems of the major groups of the population in the centre. These are defined as the ‘societal norms’ and represent the national cultural values. National cultural values are derived from a variety of ecological factors which are subject to outside influences and result in the pattern of institutional structures that distinguishes one social system from another. These values pervade all aspects of the political, economic, legal, educational and other institutional structures of a nation. Reinforcement of the system is maintained until some external event occurs that causes a change in one of the ecological factors. This may in turn affect the national

cultural values and have institutional consequences and can only be observed via a longitudinal study.

Figure 3.1: The Stabilising of Cultural Patterns

Source: Hofstede (1984, p.22)



In the initial work, Hofstede (1980), four national cultural values were identified and defined. These were:

1. Power distance, from large to small
2. Uncertainty avoidance, from strong to weak
3. Individualism with, as its opposite, collectivism
4. Masculinity with, as its opposite, feminism.

A fifth national cultural value was subsequently added following the work of Bond et al (1987) which was identified as 'Confucian dynamism' and then subsequently referred to by Hofstede (1991, p.165) as 'long-term versus short-term orientation'. Each of these cultural value dimensions is discussed below.

Power distance is the measure of the way in which a society manages inequality. It is defined as the extent to which members of a society tolerate inequality of power within institutions and organisations. The approaches that a society has for handling inequality range from institutionalising inequality, to facing the issue and seeking means to minimise inequality. Some of the consequences of low power distance in a society are the emergence of pluralist political systems, a relative equal distribution of wealth and a dominance of non-hierarchical organisational and institutional structures. On the other hand societies with high power distance tend to have autocratic political regimes, an unequal distribution of wealth and hierarchical and centralised organisational and institutional structures. The concept of power distance is defined and discussed in Hofstede (1984, pp.65-109 and 1991, pp.23-48).

Uncertainty avoidance measures the degree of 'tolerance to ambiguity' within a society. Uncertainty about the future is an element of human life that can contribute to feelings of 'anxiety'. These feelings of uncertainty not only relate to the individual but also are shared among members of a social group. Feelings of uncertainty are acquired and learned. Different ways and means of coping with these feelings are developed within societies and are reflected in various institutional arrangements. These can be generally characterised as rigid arrangements versus those that are flexible. Countries which exhibit low levels of uncertainty avoidance display among other things, weaker nationalism, a relativist orientation to knowledge and a flexible managerial style in organisations. On the other hand, countries with high levels of uncertainty avoidance display among other things stronger levels of nationalism, an orientation towards absolute truth and a task orientation to management within

organisations. The concept of uncertainty avoidance is defined and discussed in Hofstede (1984, pp.110-147 and 1991, pp.109-138).

Individualism versus collectivism measures the relationship between an individual and the collective in a given society. This value dimension is reflected in the way individuals within a society live together. In societies with high levels of individualism the members of the society are expected to look after themselves and their immediate family. In societies with low levels of individualism, or alternatively high levels of collectivism, members of the society are strongly integrated from birth into cohesive 'ingroups' which continue to protect and provide for the members throughout their lives. Some of the consequences for societies with high levels of individualism are that they exhibit balanced power political systems, high press freedom, high labour mobility, and in organisations employees are not seen as dependent. On the other hand, in societies with low levels of individualism, political systems have unbalanced power, freedom of the press is reduced, the labour market is more structured and less flexible and within organisations employees are considered to be dependent. The concept of individualism versus collectivism is defined and discussed in Hofstede (1984, pp.148-175 and 1991, pp.49-78).

Masculinity versus femininity distinguishes societies according to their attitudes towards such ideas as 'assertiveness', 'nurturing', 'modesty', 'aggressiveness', 'material orientation' and 'caring for the weak'. The duality of the sexes is managed differently within various societies by assigning different roles. This results in different behaviours being associated with specific genders. Hofstede (1991, p.80) distinguished between the biological terms, male and female, and the culturally determined roles of masculine and feminine and stated: 'The latter terms are *relative*, not absolute: a man can behave in a 'feminine' way and a woman in a 'masculine' way; this only means they deviate from certain conventions in their society.' Societies with a high level of femininity have limited occupational segregation based

on gender, a less achievement oriented reward system and organisations that are less driven by conflict. On the other hand in societies with a high level of masculinity the reward system is based on achievement, occupations are often determined by gender and organisations are faced with greater levels of industrial conflict. The concept of masculinity versus femininity is defined and discussed in Hofstede (1984, pp.176-210 and 1991, pp.79-108).

Long term versus short term orientation was identified in the Chinese value survey, by Bond et al (1987), and published as the Chinese culture connection. This national cultural value was referred to as 'Confucian dynamism' by Hofstede and Bond (1988, p.17) and was subsequently referred to as a 'long term versus a short term orientation in life' by Hofstede (1991, p.164). A society with a high degree of long term orientation would reflect the following Confucian values; 'persistence' (perseverance), 'ordering relationships by status and observing this order', 'thrift', and having a sense of 'shame'. [See also Cooke (1991b)]. These can be contrasted with the values that are reflected in a society with a short term orientation; 'personal steadiness and stability', 'respect for tradition', and 'reciprocation of greetings, favours, and gifts'. Hofstede (1991, p.166) made the following comment concerning these items: '...the values on the one pole are more oriented towards the future (especially perseverance and thrift) they are more dynamic. The values on the opposite pole are more oriented towards the past and present; they are more static.' This value dimension of national culture is further discussed in Hofstede and Bond (1988) and Hofstede (1991, pp.159-174).

The benefit of adopting the framework of cultural values identified by Hofstede for studying diversity in international accounting measurement and disclosure practices is that the approach provides a simpler alternative to the description and explanation of the significance of numerous economic, financial, political, legal and other social factors.

The inter-generational stability of national cultural values [Hofstede (1984, p.18)], compared with the inter-generational instability of national economic, financial, political, legal and other social factors, provides a relatively stable variable against which changes in these other factors can be interpreted. Thus, changes in national accounting disclosure and measurement practices can be interpreted against a background of relative stability in underlying national cultural values. This point was expressed in the following way by Harrison and McKinnon (1986, p.239):

The recognition of only one environment (national culture) in our framework is a critical point of departure from much existing research into the influence of environment on accounting practices in specific nations. The majority of this research regards aspects such as a nation's political, legal and corporate elements as environmental circumstances. By contrast, we recognise such elements as interactive social systems in their own right. Like the system of corporate reporting regulation, political, legal and corporate systems also experience change and are also permeated by the nation's cultural environment.

The relationship of the first four national cultural values (power distance, uncertainty avoidance, individualism, and masculinity) was argued to be associated with values inherent in accounting systems by Gray (1988) and also Perera (1989). At the time of these papers details concerning the fifth cultural value (long term orientation) had not been published. Gray (1988, p.5) stated:

In order to explore further the relationship between culture and accounting systems in an international context it is necessary to identify the mechanism by which values at the societal level are linked to values at the accounting subcultural level as it is these latter values which are likely to influence directly the development of accounting systems in practice.

The mechanism Gray (1988) used to describe the process for the transmission of national cultural values to accounting subcultural values was an extension of the process Hofstede (1980) described concerning the formation and stabilisation of

national cultural values, which was reproduced earlier as Figure 3.1. The extension included accounting values and the national accounting system which was an institutional consequence within the model. Gray (1988, p.6) further argued:

If Hofstede has correctly identified, Individualism, Power Distance, Uncertainty Avoidance, and Masculinity as significant cultural values then it should be possible to establish their relationship to accounting values. If such a relationship exists then a link between societal values and accounting systems can be established and the influence of culture assessed.

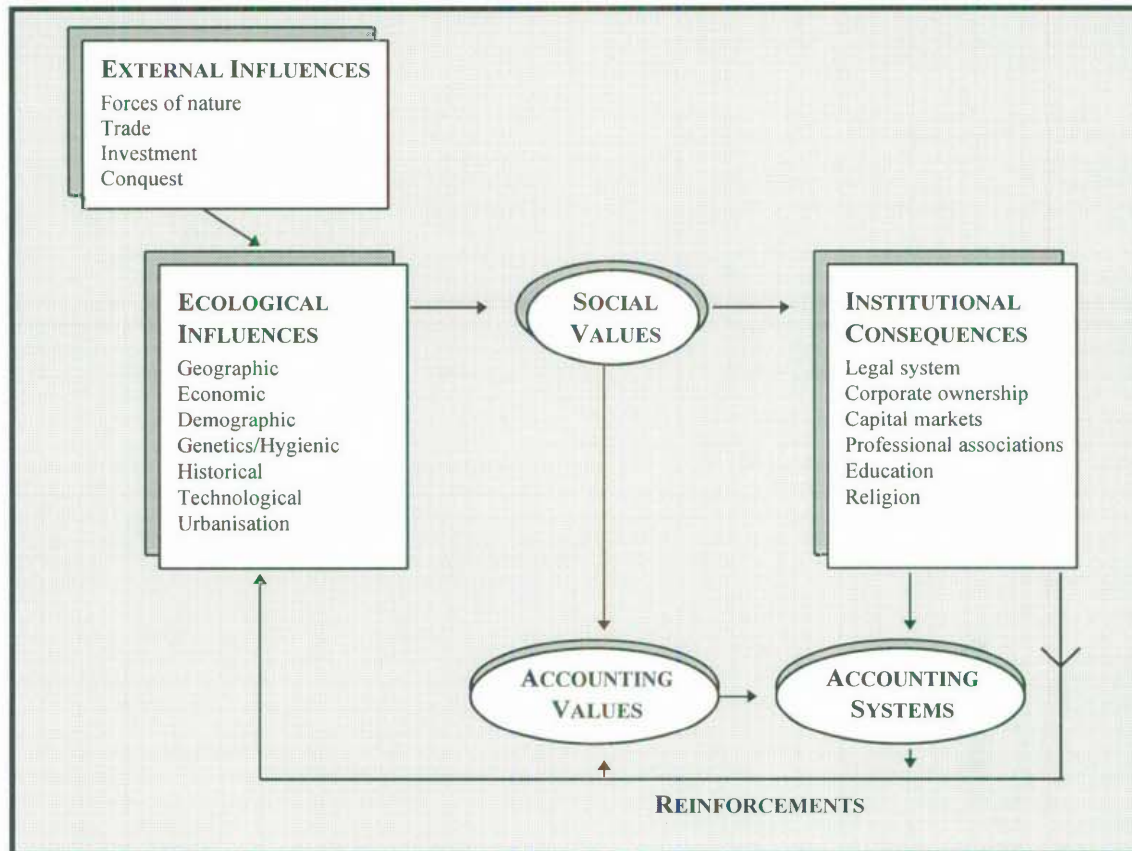
The model of the process whereby national cultural values are related to accounting subcultural values proposed by Gray is reproduced as Figure 3.2. In this Figure the four national cultural values (power distance, uncertainty avoidance, individualism and masculinity) are in the cell labelled 'social values'. In the cell labelled 'accounting values' Gray (1988, p.8) proposed the following four accounting values at the level of the accounting subculture 'from a review of the literature and practice':

1. Professionalism versus statutory control
2. Uniformity versus flexibility
3. Conservatism versus optimism
4. Secrecy versus transparency.

Each of these accounting subcultural values is reviewed below and their hypothesised relationship, as proposed by Gray (1988), to national cultural values is discussed.

Figure 3.2: Culture, National Cultural Values and the Accounting Sub-culture

Source: Gray (1988, p.7)



Professionalism versus statutory control as an accounting subcultural value is concerned with identification of the extent to which accountants adopt independent attitudes and exercise independent professional judgement. This value is captured by the extent to which the accounting profession has retained control over the accounting standards setting process as compared to public sector and statutory control of accounting standard setting. Also, this subcultural value can influence accounting disclosures and it was argued by Gray (1988, pp.8-9):

In the UK, for example, the concept of presenting ‘a true and fair view’ of a company’s financial position and results depends heavily on the judgement of the accountant as an independent professional. This is so

to the extent that accounting information disclosures additional to, and sometimes contrary to, what is specifically required by law may be necessary. This may be contrasted with the traditional position in France and Germany where the professional accountant's role has been concerned primarily with the implementation of relatively prescriptive and detailed legal requirements.

The relationship of the professionalism versus statutory control accounting subcultural value to the four national cultural values identified by Hofstede was argued by Gray (1988) to be as follows. An accounting system that emphasises professionalism is consistent with a society exhibiting high levels of individualism because in such societies independence and individual decision making is more highly regarded. Also, such an accounting system is consistent with a society exhibiting weak uncertainty avoidance because there is tolerance of professional judgement and a minimum level of statutory rules and regulations. The link between professionalism and power distance was argued to be not as strong as for the first two national cultural values, but was based on the proposition that in societies with small power distance professionalism was more likely to be accepted because of the focus on equality of rights and the processes of mediation in dispute resolution. Gray considered that there did not appear to be a significant relationship between professionalism and the national cultural value of masculinity versus femininity.

Uniformity versus flexibility as an accounting subcultural value is concerned with representing the attitudes of accountants towards fundamental accounting principles such as consistency and comparability. This value can be observed by the degree of inter-temporal and inter-corporate uniformity in the application of accounting principles. The results can vary from a high degree of uniformity to a relatively high degree of flexibility. Accounting reports prepared within a country that did not facilitate inter-corporate comparisons would be consistent with an accounting system that exhibited a high degree of flexibility. On the other hand if inter-corporate

reporting differences were small then it could be argued that the accounting values of the society tended towards uniformity.

The relationship of the uniformity versus flexibility accounting subcultural value to the four national cultural values identified by Hofstede (1980) was argued by Gray (1988) to be as follows. First, societies that exhibited high degrees of uncertainty avoidance would be consistent with an accounting system that exhibited uniformity because of a preference in such societies for rules and regulations, conformity in behaviour and a focus on absolute truths. Also, societies with low levels of individualism would be consistent with high degrees of uniformity because of the focus on group norms and standards of behaviour. The relationship between power distance and uniformity was argued to be less strong, but possible because in large power distance societies it would be relatively more easy to impose uniform laws, accounting standards and principles. The national cultural value of masculinity versus femininity was not considered to be linked to the accounting subcultural value of uniformity versus flexibility.

Conservatism versus optimism as an accounting subcultural value is concerned with distinguishing the attitude of accountants towards the measurement and reporting of profit and equity. Where accountants display strong levels of conservatism there is usually the adoption of practices which emphasise a strict application of historical cost asset valuation and the use of the realisation principle for income recognition. On the other hand, where accountants exhibit optimism alternative asset measurement practices to historical cost are found and income is recognised at multiple points in the earnings process prior to realisation. It was also argued that the influence of the degree of conservatism on accounting measurement would be ‘...reinforced by the relative development of capital markets, the differing pressures of user interests, and the influence of tax laws on accountants’ [Gray (1988, p.10)].

The relationship of the conservatism versus optimism accounting subcultural value was argued by Gray (1988) to be associated with the four national cultural values identified by Hofstede in the following way. First, it could be expected that conservatism would be positively associated with societies displaying strong levels of uncertainty avoidance because in such societies uncertainty is controlled by the adoption of a cautious approach to recognising changes in assets values and income. The link between the other national cultural values was considered to be less strong. In the case of individualism, it was argued that societies with an individual orientation would be more likely to tolerate alternative accounting measurement techniques and therefore, an accounting subcultural value of optimism would be more likely. In societies where masculinity was strong there would be an orientation towards achievement and this could also be expected to be associated more closely with an accounting subcultural focus on optimism. The national cultural value of power distance was not considered to be associated with the accounting subcultural value of conservatism.

Secrecy versus transparency as an accounting subcultural value is concerned with the extent of information contained in corporate annual reports and other disclosures to those outside the corporation. Thus, the secrecy subcultural value is primarily concerned with disclosure. Secrecy would also appear to be associated with conservatism in that both elements would be consistent with a cautious approach to accounting. The degree of disclosure in a society would also be reinforced by the relative development of the securities markets, the extent of equity ownership and the attitudes of management towards voluntarily disclosing accounting information.

The relationship of the secrecy versus transparency accounting subcultural value to the four national cultural values was argued by Gray (1988) to be as follows. First, it could be expected in societies with strong uncertainty avoidance that the accounting subcultural value of secrecy would be predominant because of the desire to restrict

information disclosure and accordingly increase the level of societal security. Also, in societies with high power distance it could be expected that greater emphasis would be placed on the accounting subcultural value of secrecy because this would ensure greater social control by the power elite due to the restriction in the quantity of disclosed information. In the case of individualism it could be expected that secrecy would be negatively associated with this national cultural value dimension because of the increased demand for additional disclosures by an individualist orientated society. Alternatively, where a society is collectivist in orientation then it would be consistent with secrecy and minimising disclosure to people outside the 'ingroup'. Finally, societies that exhibit greater feminism would be expected to be more open and caring and accordingly the accounting subcultural value of transparency would be consistent with such societies.

The national cultural value of **long term versus short term orientation** was not included in the analysis of Gray (1988). It is necessary to incorporate this national cultural value in the current study for the sake of completeness and also to consider its possible relationship with accounting subcultural values.

First, in the case of **professionalism versus statutory control** it would be expected that in societies with a long term orientation there would be a tendency to support statutory control because of the desire to maintain and order societal relationships. This can be contrasted with societies where there was a tendency for a short term orientation where it would be expected that professional associations may develop to advise members of the society concerning their short term behaviour. Thus, it is expected that the relationship between professionalism and long term orientation would be negative, that is a society with higher levels of long term orientation would exhibit lower levels of professionalism.

Second, in the case of **uniformity versus flexibility** it could be expected that a long term orientation would be associated with an accounting subcultural value favouring uniformity because of the desire to order societal relationships. On the other hand in societies where there was a short term orientation then it could be expected that there would be a greater preference for flexibility. This would indicate a positive relationship between long term orientation and uniformity. That is, the higher the level of long term orientation exhibited by a society the greater would be the level of uniformity.

Third, in the case of **conservatism versus optimism** it would be expected that in a society that displayed a long term orientation the focus would be on conservatism because of the underlying focus on thrift. In societies which exhibited a short term orientation the preference would be to adopt optimistic measurement practices to facilitate short term trading opportunities. This would indicate a positive relationship between long term orientation and conservatism. That is, the higher the level of long term orientation then the greater would be the acceptance of conservatism in accounting measurement practice.

Fourth, in the case of **secrecy versus transparency** it could be expected that in societies with a long term orientation the focus would be on secrecy because of the recognition the Confucian view stresses on ordering relationships and status and observing this order [Hofstede (1990, p.168)]. Thus, it would be expected that less information would be disclosed due to the inequality in relationships. Alternatively, where a society had a short term orientation then it would be expected that a greater extent of information would be disclosed to promote the search for short term opportunities. This would imply a positive relationship between long term orientation and secrecy. That is, the higher the level of long term orientation in a society then the greater would be the degree of secrecy.

The above discussion concerning the relationships between national cultural values and accounting subcultural values is summarised in Table 3.1.

Table 3.1: Hypothesised relationships between national cultural values and accounting subcultural values

Source: Adapted from Gray (1988) and Perera (1989).

| | Values of the accounting subculture | | | |
|----------------------------------|-------------------------------------|------------|--------------|----------|
| | Professionalism | Uniformity | Conservatism | Secrecy |
| National cultural values: | | | | |
| Power distance | Negative | Positive | N/A | Positive |
| Uncertainty avoidance | Negative | Positive | Positive | Positive |
| Individualism | Positive | Negative | Negative | Negative |
| Masculinity | N/A | N/A | Negative | Positive |
| Long term orientation | Negative | Positive | Positive | Positive |

N/A No hypothesised relationship

In this Table a positive relationship indicates that a high score on one dimension is associated with a high score on a related dimension. A negative relationship indicates that a high score on one dimension is related with a low score on a related dimension.

The above discussion has reviewed the literature concerning the relationships between national cultural values and accounting subcultural values. The theoretical framework for studying culture developed by Hofstede has been reviewed. Five national cultural

values [power distance, uncertainty avoidance, individualism, masculinity, and long term orientation] have been outlined. Four accounting subcultural values [professionalism, uniformity, conservatism, and secrecy] identified by Gray (1988) have been discussed. The hypothesised relationships between the five national cultural values and the four accounting subcultural values were described and summarised in Table 3.1.

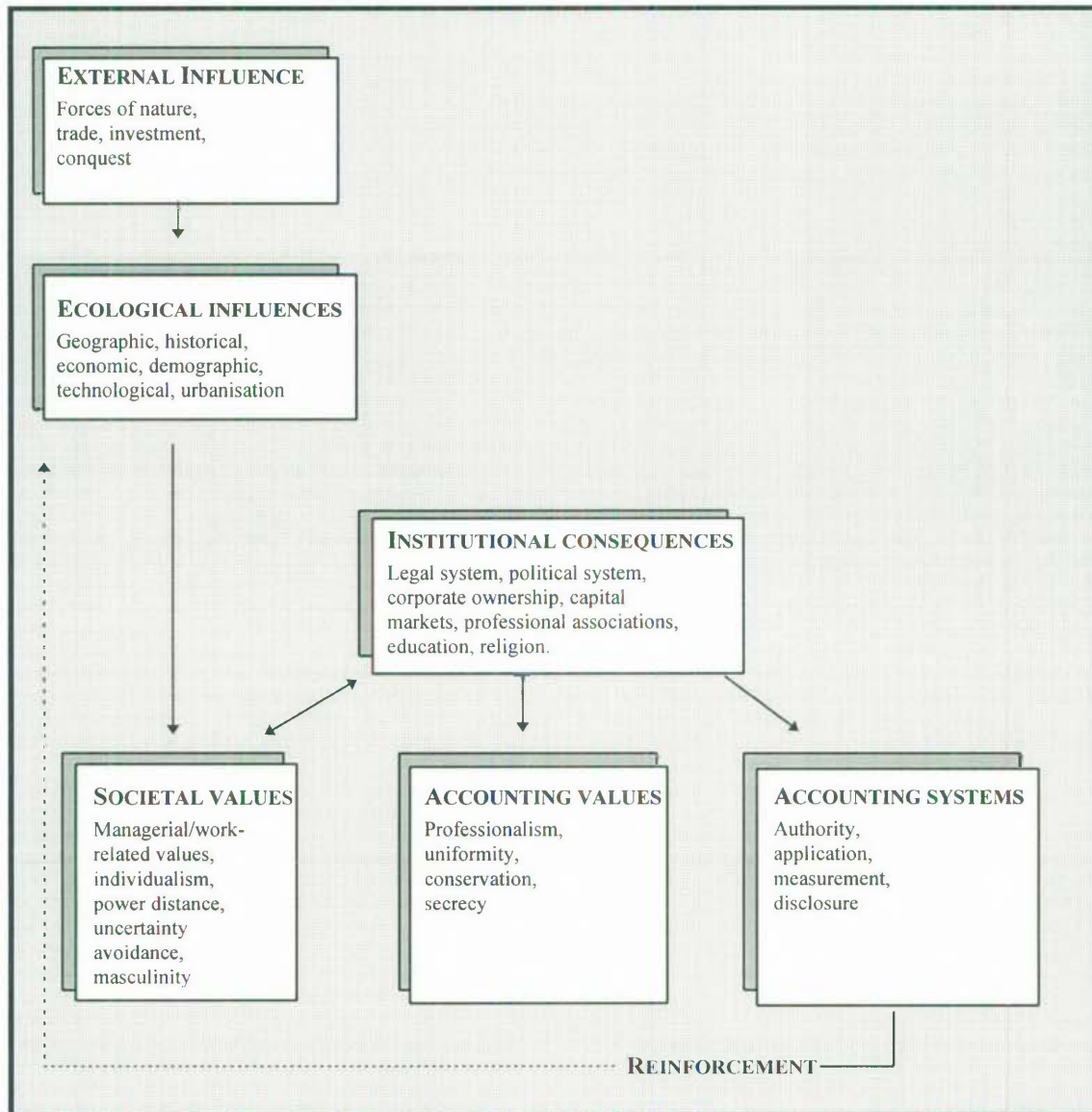
The framework developed by Perera (1989) was based on the above approach of Gray (1988) and described how the accounting subcultural values influenced accounting practices. Perera (1989, p.47) stated:

- Values of the accounting sub-culture are likely to influence certain aspects of accounting practice, namely
- (1) the authority for accounting systems,
 - (2) their force and application,
 - (3) the measurement practices used, and
 - (4) the extent of information disclosed.

The approach of Perera (1989), which was similar to Gray (1988), emphasised the consequences of accounting values for accounting practices. The accounting subcultural value of professionalism was related to the source of authority within accounting systems, uniformity as a value dimension was related to the application of accounting rules and regulations, conservatism was related to accounting measurement practices, and secrecy was related to the extent of disclosure of information in accounting reports. Long term orientation as a national cultural value was not included in Perera (1989). Figure 3.3 reproduces the model proposed by Perera (1989) to describe the above relationships.

Figure 3.3: Accounting and culture

Source: Perera (1989, p.48)



Neither Gray (1988) nor Perera (1989) empirically tested the hypothesised associations between national cultural values and accounting subcultural values. Gray (1988) hypothesised culture area classifications of national accounting systems on a

judgemental basis by first combining the accounting systems dimensions of authority and enforcement, and second the accounting systems dimensions of measurement and disclosure. Only a few studies have attempted to test empirically the hypothesised associations [for example Belkaoui (1989), Eddie (1990) and Perera and Mathews (1990)]. The results are mixed. Belkaoui (1989) did not find support for Gray's hypotheses. Eddie (1990) reported a weak association between national cultural values and accounting subcultural values for thirteen countries from the Asian-Pacific region. Perera and Mathews (1990) observed an association between national cultural values and corporate social accounting and disclosure practices. Therefore, an objective of the current study is to provide further empirical evidence concerning these hypothesised associations.

3.3 CULTURAL VALUES IN TEN ASIAN-PACIFIC NATIONS

In this Section the national cultural values and accounting subcultural values of the countries that are the subject of this study are reviewed using the above discussed frameworks of Hofstede (1980) and Gray (1988). This study is concerned with consolidation accounting disclosures of corporations headquartered in the following ten countries of the Asian-Pacific region: Australia, Hong Kong, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand. The national cultural values of these countries as measured by Hofstede (1991) are reported and discussed. There is one study in the literature which has reported estimates of the measures of the accounting subcultural values of these countries [Eddie (1990)]. The results of this study are reported and discussed. These results are illustrative of the cultural diversity

among countries in the Asian-Pacific region. However, what is of primary concern in the present study is the association of national cultural values with diversity in consolidation accounting disclosure practices.

3.3.1 MEASUREMENT OF NATIONAL CULTURAL VALUES

In this sub-Section the measurement of national cultural values by Hofstede (1991) is summarised for the ten countries that are the subject of this study. The source of the data concerning the index measures and ranks of the national cultural values is Hofstede (1991): power distance (p.26), uncertainty avoidance (p.113), individualism (p.53), masculinity (p.84), and long term orientation (p.166). Index measures and ranks were reported for fifty countries and three regions for the national cultural values of power distance, uncertainty avoidance, individualism and masculinity. Index measures and ranks for the national cultural value of long term versus short term orientation were reported for twenty three countries. The above index measures and ranks for the ten countries in this study are reported in Table 3.2.

Hofstede (1991) did not include a measure for long term orientation in the case of Indonesia and Malaysia. An estimate was made of this measure for these two countries using the following procedure. First, countries with similar national cultural values were identified from Table 3.1 which reports the results of a cluster analysis of countries based on their national cultural values. Second, Indonesia and Malaysia were allocated an index measure for long term orientation based on the mean score for long term orientation of the other countries with which they were clustered. Indonesia

was clustered with Taiwan and Thai and which had respective long term orientation measures of 87 and 56. Indonesia was therefore allocated a mean score for long term orientation of 72. Malaysia was clustered with India and the Philippines which had respective long term orientation measures of 19 and 61. Malaysia was therefore allocated a long term orientation score of 40.

Table 3.2: National cultural values for ten Asian-Pacific countries

Source: Hofstede (1991, pp.26,53,84,113,165) and author.

| Country | Power Distance | | Uncertainty Avoidance | | Individualism | | Masculinity | | Long term Orientation | |
|----------------------|----------------|-------|-----------------------|-------|---------------|-------|-------------|-------|-----------------------|-----|
| | IND | RAN | IND | RAN | IND | RAN | IND | RAN | IND | RAN |
| Australia | 36 | 36 | 51 | 31 | 90 | 2 | 61 | 16 | 31 | 15 |
| Hong Kong | 68 | 15-16 | 29 | 49-50 | 25 | 37 | 57 | 18-19 | 96 | 2 |
| Indonesia | 78 | 8-9 | 48 | 41-42 | 14 | 47-48 | 46 | 30-31 | 72 | NA |
| Japan | 54 | 33 | 92 | 1 | 46 | 22-23 | 95 | 1 | 80 | 4 |
| Korea (South) | 60 | 27-28 | 85 | 16-17 | 18 | 43 | 39 | 41 | 75 | 5 |
| Malaysia | 104 | 1 | 36 | 46 | 26 | 36 | 50 | 25-26 | 40 | NA |
| Philippines | 94 | 4 | 44 | 41 | 32 | 31 | 64 | 11-12 | 21 | 19 |
| Singapore | 74 | 13 | 8 | 51 | 20 | 39-41 | 48 | 28 | 48 | 9 |
| Taiwan | 58 | 29-30 | 69 | 26 | 17 | 44 | 45 | 32-33 | 87 | 3 |
| Thailand | 64 | 21-23 | 64 | 30 | 20 | 39-41 | 34 | 44 | 56 | 8 |

NA Indicates country not included in the survey

IND Indicates Index Score

RAN Indicates Rank within the countries surveyed

The scores on the indices were determined by Hofstede from the results of several surveys which ‘...consisted of over 16,000 questionnaires in 20 languages’ [Hofstede (1983, p.335)]. The data collection and treatment is discussed by Hofstede (1984, pp.39-63 and 1983, pp.335-47). The measurement of the long term versus short term orientation value is discussed by Bond et al (1987, pp.143-63).

An analysis of the above reported national cultural values reveals the following:

1. The range for power distance was from 104 (rank 1) for Malaysia to 36 (rank 36) for Australia. In general the scores are in the medium to high range for the countries that are the subject of this study.
2. The range for uncertainty avoidance was from 92 (rank 7) for Japan to 8 (rank 53) for Singapore. There is a wide diversity of the selected countries on this dimension. In fact, the cluster analysis (discussed below), essentially follows the uncertainty avoidance scores [Hofstede (1983, p.351)]. Apart from Japan and (South) Korea, all other countries are in the bottom half of the fifty countries and three regions scored on this dimension with index scores ranging from 69 to 8 and rank from 26 to 53.
3. The range for individualism was from 90 (rank 2) for Australia to 14 (rank 47-48) for Indonesia. Apart from Australia, the scores for all other countries are in the low to medium range with index scores ranging from 46 to 17 and rank in the fifty countries and three regions ranging from 22-23 to 44.

4. The range for masculinity was from 95 (rank 1) for Japan to 34 (rank 44) for Thailand. Apart from Japan, the scores for all other countries are in the medium to low range with index scores ranging from 64 to 34 and rank among the fifty countries and three regions from 11-12 to 44.

5. The range of index scores for the long-term orientation value dimension was from 96 (rank 2) for Hong Kong to 21 (rank 19) for the Philippines from the twenty three countries surveyed. Apart from the Philippines and Australia, all other countries are ranked relatively highly on this dimension, being ranked within the top ten of the twenty three countries surveyed.

During validation of the data Hofstede (1983) performed a cluster analysis. The resulting dendrogram had eleven primary clusters grouping the fifty countries and three regions surveyed. The cluster analysis was performed using only the numerical value of the four index scores for national cultural values reported in the study. The long term orientation value dimension was not included in this study. Countries in the Asian-Pacific region of interest to the present study were grouped using cluster analysis into the six groups listed in Table 3.3 [Hofstede (1983, pp.341-7)]:

Table 3.3: Cluster location of ten Asian-Pacific countries

Source: Hofstede (1983, p.346)

| Cluster No. | Country |
|-------------|-----------------------------|
| 2 | Japan |
| 5 | Indonesia; Taiwan; Thailand |
| 6 | Korea (South) |
| 7A | Malaysia; Philippines |
| 7B | Hong Kong; Singapore |
| 9 | Australia |

Each of the features that distinguished the countries in these clusters is discussed below.

Cluster 2 comprised Japan which was the only member of this group. The features of Japan are that it is half-way individualist, has a moderate level of power distance, is highly masculine, and has a strong long term orientation. Uncertainty avoidance is also high and in this regard Hofstede (1983, p.352) made the following comment: ‘...the Japanese in their social settings fear the unforeseen, the unexpected: they strive for a thoroughly known world. They partly achieve predictability through a rigid system of ranking people (more rigid than in China). They are uncomfortable abroad even if their business is successful.’

Cluster 5 comprised Indonesia, Taiwan and Thailand from the current study and also included Iran and Pakistan. This grouping of countries exhibits medium levels of power distance, low levels of individualism and a medium to low level of masculinity, and a strong to medium long term orientation. The relationship of religion to uncertainty avoidance was noted by Hofstede (1983, p.351) in this context when he stated: 'Islam is an uncertainty avoiding religion, although not as much as Catholic Christianity. Buddhism is more uncertainty avoiding than Hinduism.' The relationship of religion to culture and its implications for accounting principles and practices has been discussed by Hamid, Craig and Clarke (1993). Indonesia is predominantly Muslim whereas Taiwan and Thailand are predominantly Buddhist. Hofstede (1983) reported these countries exhibited medium to high levels of uncertainty avoidance.

Cluster 6 comprised South Korea from the current study and was grouped with the following other countries: Chile, Yugoslavia, Uruguay, Portugal, Salvador, Peru and Costa Rica. South Korea exhibits low levels of individualism and masculinity, moderate power distance, and a strong long term orientation. The high level of uncertainty avoidance evident in South Korea was argued by Hofstede (1983, p.352) to be possibly associated with Buddhism.

Cluster 7A comprised the Philippines and Malaysia from the present study and also included India. This group of countries is characterised by very high levels of power distance, low to medium levels of individualism, and medium levels of masculinity. In terms of long term orientation the Philippines has the lowest score on this

dimension for the countries in the current study. No information on this dimension was reported for Malaysia by Hofstede (1991). These countries exhibit less uncertainty avoidance than the countries discussed in the above clusters.

Cluster 7B comprised Hong Kong and Singapore from the current study and also included Jamaica. Hofstede (1983, p 351) commented as follows on these countries:

The Chinese city states and (ex-) British colonies, Singapore and Hong Kong, show the lowest Uncertainty Avoidance (of the Asian countries) but high Power Distance: an extreme “family” model of organising with centralised personal authority but few rules: a highly flexible, pragmatic, opportunistic value system. This fits with the Chinese tradition of management by wisdom but without abstract principles and without a system of law.

In terms of long term orientation, Hong Kong had the highest score on this dimension of the countries in the current study, while Singapore scored a moderate to high level on this dimension.

Cluster 9 comprised Australia from the present study and was grouped with the following other countries: Ireland, New Zealand, Canada, Great Britain, and the United States of America. Australia has the highest level of individualism of the Asian-Pacific countries in the current study and also the lowest level of power distance even though this was at a moderate level. In terms of masculinity and uncertainty avoidance Australia has a middle ranking compared with the other Asian-Pacific countries in the current study. The score on uncertainty avoidance for Australia of 51, places this country between Thailand (64) and Indonesia (48) which

were both members of cluster 5. On the long term orientation dimension Australia has a relatively low score and ranking.

The above review of national cultural values in the ten countries in the Asian-Pacific region that are the subject of this study has provided a background concerning one of the independent variables used in the contingency model of the association between national cultural values and consolidation disclosure practices.

3.3.2 MEASUREMENT OF ACCOUNTING SUBCULTURAL VALUES

In this sub-Section the measurement of accounting subcultural values in the ten Asian-Pacific countries reported by Eddie (1990) is reviewed. Indices for professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism, and secrecy versus transparency were constructed to measure the accounting subcultural values. The development of these indices is outlined below.

The indices to measure accounting subcultural values were determined by using an 'eclectic' method as described by Hofstede (1980, p.77). The factors comprising the indices were selected on the basis of theoretical reasoning and researcher's judgement. A morphology approach to scoring the factors was used similar to that developed by AAA (1977) and subsequently used by Nobes (1983) and AlNajjar (1986) [as discussed in Section 2.2]. Each factor used in constructing the indices was scored on a six point scale (0,1,2,3,4,5). This scale was used to provide differentiation in the resulting indices. All factors comprising the indices were considered to have equal

weighting and the scores allocated to each factor were additive. [See Section 6.2 where the use of indices in accounting research is reviewed.] Each index comprised ten factors and the resulting scores were aggregated and converted to an index measure between 0 and 100. The resulting index measures were assumed to have the properties of an interval scale. The index scores of the accounting subcultural values reported by Eddie (1990) are listed in Table 3.4 for the ten countries in the present study together with their rank among these countries.

Table 3.4: Accounting subcultural values for ten Asian-Pacific countries

Source: Eddie (1990, pp.138-140)

| Country | Professionalism | | Uniformity | | Conservatism | | Secrecy | |
|---------------|-----------------|-----|------------|-----|--------------|-----|---------|-----|
| | IND | RAN | IND | RAN | IND | RAN | IND | RAN |
| Australia | 88 | 1 | 24 | 10 | 22 | 10 | 32 | 10 |
| Hong Kong | 64 | 2 | 28 | 9 | 44 | 9 | 54 | 8-9 |
| Indonesia | 8 | 10 | 68 | 1 | 80 | 2-3 | 88 | 1 |
| Japan | 46 | 4 | 62 | 3 | 80 | 2-3 | 60 | 7 |
| Korea (South) | 30 | 7 | 64 | 2 | 82 | 1 | 78 | 5 |
| Malaysia | 32 | 6 | 56 | 4-5 | 74 | 5 | 84 | 2-3 |
| Philippines | 34 | 5 | 54 | 6-7 | 70 | 7 | 76 | 6 |
| Singapore | 48 | 3 | 42 | 8 | 50 | 8 | 54 | 8-9 |
| Taiwan | 26 | 8-9 | 54 | 6-7 | 72 | 6 | 82 | 4 |
| Thailand | 26 | 8-9 | 56 | 4-5 | 78 | 4 | 84 | 2 |

IND Indicates Index Score

RAN Indicates Rank within the countries

Each of the four indices used to measure the accounting subcultural values of the countries is described below.

The **professionalism index** was designed to distinguish countries according to the preference of accountants for the exercise of individual professional judgement and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control. Ten factors comprising this index were divided into the following two groups: First, the nature of the professional organisation [Independence of the accounting profession from governmental organisational structures; activity in conducting research and setting standards; age of the accounting profession; membership employed in the private sector versus government sector; range of services offered by the profession]; and second, the nature of membership [Strength of disciplinary rules and enforcement; extent of legal liability of accountants for negligence or malpractice; extent of continuing professional education requirements reliance on judgement, 'true and fair' view as opposed to statutory compliance; extent of qualified audit reports].

Countries with a high score on the professionalism index would have a strong independent accounting profession that is characterised by active participation in research and standard setting, detailed and enforced disciplinary rules, requirements for continuing education and postgraduate study by members, and a predominant private sector employment of accounting professionals. On the other hand countries with a low score on the professionalism index would have a weak and unorganised accounting profession that is characterised by a strong reliance on government

directives, limited involvement in research and standard setting, weak disciplinary rules, no continuing professional education requirements, and the provision of a limited range of services to clients.

The **uniformity index** was designed to distinguish countries according to their use of standardised disclosure formats, measurement rules and the application of the doctrine of consistency. Ten factors were used to construct this index and they were divided into the following two groups: First, issues concerning accounting policy [Accounting disclosure is regulated by a uniform plan as opposed to individual corporate selection; accounting measurement and valuation rules are specified by statute; accounting rules for measurement and valuation are required to be the same as taxation rules; stock exchange listing rules require uniform disclosure, measurement and valuation; accounting information is primarily used by government for national planning and macroeconomic purposes]; and second, issues concerning accounting practice [Companies change accounting policies over time; companies change measurement and valuation practices over time; companies within the same industry have the same accounting policies, measurement and valuation practices; companies within the same group have the same accounting policies, measurement and valuation practices; a change in accounting policies is reported and includes a restatement for prior periods]. The first group of factors are those driving uniformity from an institutional perspective and it was expected that this should distinguish countries according to statutory prescriptions, stock exchange influences and financial statement user group pressures. The second group of factors are essentially concerned with the extent of uniformity of disclosures in corporate financial reports.

Countries with a high score on the uniformity index would have an accounting system where disclosure formats and measurement rules were specified in detail by an authoritative body and compliance with these requirements was strictly enforced. In this type of system the primary user of accounting information would be the government for macroeconomic planning and taxation purposes. Corporations would be restricted in their capacity to change accounting policies over time. Also, within the same industry or group of companies, consistency would be an overriding principle for financial report preparation. Where a country had a low score on the uniformity index, financial reporting formats, measurement and valuation rules and accounting policies would be primarily determined by corporate management and thus could be expected to vary widely from company to company and across time. Published accounting information would be primarily used by non-government decision makers. When a company changed accounting policies then it would be expected that details concerning this would be disclosed including appropriate prior period restatements.

The **conservatism index** was designed to distinguish countries concerning the effects of accounting practices generally adopted by corporations on the measurement of net assets and net income disclosed in published financial statements. Ten factors were used in the construction of this index and these were divided into the following two groups: First, accounting practices affecting the valuation of assets and liabilities [Fixed assets are revalued to amount above historical cost; the net realisable value of marketable securities is reported if above historical cost; goodwill is amortised and

not written off immediately; the equity method is used to value long-term investments in associated companies; contingent liabilities are reported in the financial statements]; and second, accounting practices affecting the recognition of income [The realisation principle is followed in reporting income; income from abnormal and extraordinary items is included on the income statement and not taken directly to reserves; all gains or losses on foreign currency transactions are included in net income; the use of the equity method for recognising income from associated companies; tax-effect accounting is used to calculate the taxation expense].

Countries which scored highly on the conservatism index had corporations that generally adopted a strict interpretation of historical cost for asset valuation. There would be only limited disclosure of the market value of investments or other assets. Also, intangible assets, such as goodwill, would usually be written off and not be disclosed on the financial statements. In respect of liabilities, highly conservative countries would be consistent with the recognition of liabilities prior to incurring legal obligations. The overall result is that the lowest possible measure for net assets would be reported. As far as the income statement is concerned, countries ranking highly in conservatism would be characterised by a strict adoption of the realisation principle for income recognition and generally employ accounting practices that minimise the reported net income. In the case of countries scoring low on the conservatism index, assets may be reported at amounts above historical cost, such as directors' valuation of assets, the use of the market value for publicly traded securities and the use of equity accounting for investments in associated companies. In the case of the income statement unrealised gains will be included in the measure of net profit. Generally, all

gains or losses will be reported in the income statement and not booked directly to reserves.

The **secrecy index** was designed to distinguish countries according to those with a preference for confidentiality and the restriction of financial information and other disclosures to those directly involved in the management of the corporation, from countries that have adopted a much more open and publicly accountable approach concerning the disclosure of corporate financial and other information. Ten factors all relating to the dissemination and disclosure of corporate financial and non-financial information were used in the construction of the index. The ten factors were: [Extent of availability of annual reports for public corporations, enterprises and large private companies; extent of additional timely disclosures to securities markets; extent of the use of employee reporting; extent of social reporting disclosures; extent of segment (geographic and line of business) disclosures; extent of non-statutory required disclosures; extent of the use of audit committees within organisations; extent of full group disclosures (all subsidiaries and associated companies); extent of disclosure of interests in joint ventures; extent of disclosure of accounting policies].

Countries that scored highly on the secrecy index would have corporate reports that were not disseminated widely within the community. The information contained within the reports would be primarily confined to details prescribed by regulation. Also, there would be little evidence of employee or social reporting. In the case of countries with a low score on the secrecy index corporate financial statements would be widely disseminated. There would be regular additional disclosures to securities

markets. Financial statement users, other than investors, would be provided financial and non-financial information about the corporation. Information disclosed by companies would be in excess of the disclosure requirements specified by statute and other regulations and would also include more socially oriented disclosures.

The predicted relationship between national cultural values (Table 3.2) and accounting subcultural values (Table 3.4) were outlined in Table 3.1. The results of a correlation of the index scores for the ten countries comprising this study are reported in Table 3.5. These correlations were determined from a bivariate two-tailed Pearson correlation test.

Table 3.5: Correlation coefficients between national cultural values and accounting subcultural values using index scores

| Index: | Professionalism Index | Uniformity Index | Conservatism Index | Secrecy Index |
|------------------------------|---------------------------|--------------------------|---------------------------|----------------------------|
| Power distance | -.5143 P=.128 | .3536 P=.316 | .4014 P=.250 | .5757 P=.082* |
| Uncertainty avoidance | -.2196 P=.542 | .5137 P=.129 | .5164 P=.126 | .2385 P=.507 |
| Individualism | .8097 P=.005*** | -.5811 P=.078* | -.6800 P=.030** | -.7788 P=.008*** |
| Masculinity | .3976 P=.255 | -.0875 P=.810 | -.1111 P=.760 | -.4512 P=.191 |
| Long term orientation | -.1982 P=.638 | .1617 P=.702 | .2967 P=.475 | .2158 P=.608 |

*** P ≤ .01; **P ≤ .05; *P ≤ .10

The above results are consistent with the predicted signs of association contained in Table 3.1. Individualism was the only national cultural value to have a significant correlation with each of the accounting subcultural values. The other national cultural value that was significantly correlated with an accounting subcultural value was power distance with secrecy. However, given the small sample size (ten observations) the results were biased against finding significant relationships. For example, if the sample size was increased to forty countries then a correlation coefficient of .4 would indicate a significant association.

The results in Tables 3.5 indicate that there may be relationships between national cultural values and accounting subcultural values. However, the indices used to measure the accounting subcultural values were broad and the selection of items was not focused on specific accounting measurement or disclosure practices. Therefore the measures of the accounting subcultural values are only indicative and do not represent definitive measures in the way that Hofstede's measures of national cultural values have been subject to wide scrutiny and analysis.

This study does not use the above measures of accounting subcultural values in any tests. They have been reported in this Section because Eddie (1990) is the first example of a study where measures of accounting subcultural values have been estimated. In the current study consolidation disclosure practices are measured using a disclosure index. The index measures are then used to examine the relationship between national cultural values and the extent of consolidation disclosure and the degree of variation in the extent of consolidation disclosure in corporate annual

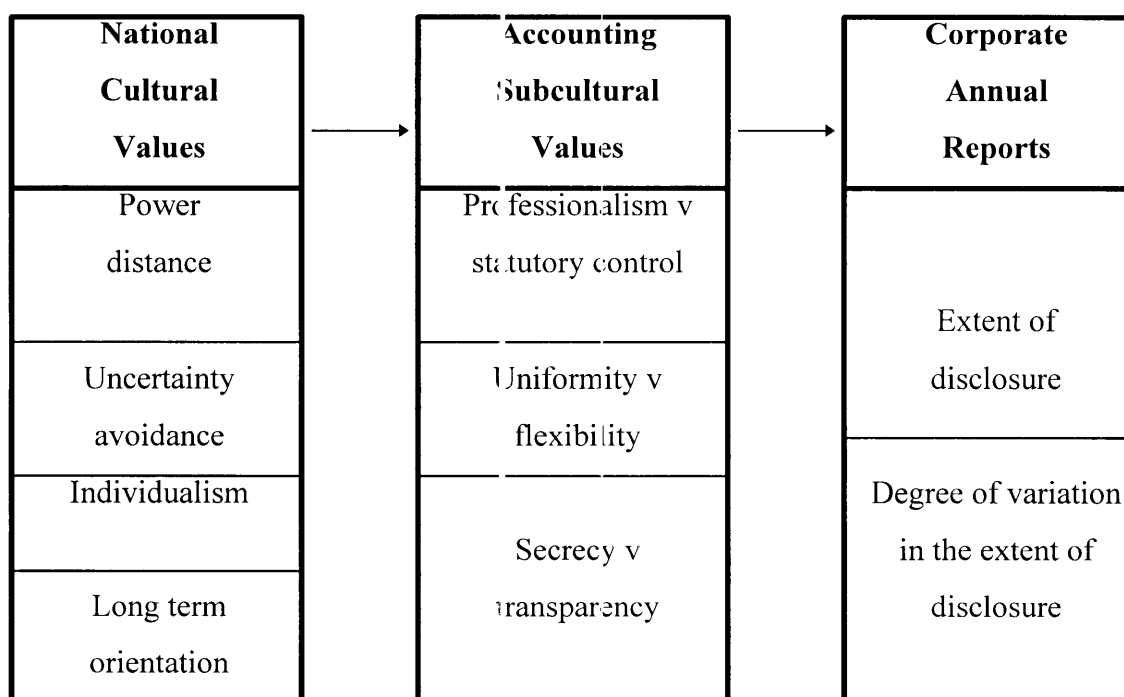
reports. Thus, in the current study accounting subcultural values are not directly measured. In the following Section the relationship between accounting subcultural values and the extent of disclosure and degree of variation in the extent of disclosure is discussed.

3.4 ACCOUNTING SUBCULTURAL VALUES AND DISCLOSURE IN CORPORATE ANNUAL REPORTS.

In this Section the relationships between accounting subcultural values and the extent of disclosure and the degree of variation in the extent of disclosure in corporate annual reports are outlined. The extent of disclosure is defined to be the amount of information contained in corporate annual reports. In this study the extent of consolidation disclosure in corporate annual reports is measured by a consolidation disclosure index, which is described in Section 6.4. The degree of variation in the extent of disclosure is measured by the residual from a multiple regression equation and is described in Section 8.2.2.

The relationship between national cultural values, accounting subcultural values and the extent of disclosure and the degree of variation in the extent of disclosure is illustrated in Figure 3.4.

Figure 3.4: National cultural values, accounting subcultural values and disclosure in corporate annual reports



The relationships between accounting subcultural values and the extent of disclosure and the degree of variation in the extent of disclosure are summarised in Table 3.6. In this Table a positive relationship indicates that a high score on the accounting subcultural value would be associated with a high score on either the measure of the extent of disclosure or the degree of variation in the extent of disclosure. Conversely, a negative relationship indicates a high score on the accounting subcultural value would be associated with either a low score on the extent of disclosure or the degree of variation in the extent of disclosure, or vice versa.

Table 3.6: The Relationship Between Accounting Subcultural Values and the Extent of Disclosure and the Degree of Variation in the Extent of Disclosure

| Accounting Subcultural Values | Extent of Disclosure (Low to High) | Degree of Variation in Extent of Disclosure (Low to High) |
|--|---|--|
| Professionalism versus statutory control | Positive | N/A |
| Uniformity versus flexibility | N/A | Negative |
| Conservatism versus optimism | N/A | N/A |
| Secrecy versus transparency | Negative | N/A |

N/A No hypothesised relationship

The measure of the extent of disclosure in corporate annual reports may be related to the accounting subcultural value of secrecy versus transparency. Secrecy can be interpreted to be similar to a low extent of disclosure. That is, secrecy is concerned with a value ‘...preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing’ [Gray (1988, p.8)]. In contrast transparency is consistent with a high extent of disclosure. Transparency is concerned with a value preference for an ‘...open and publicly accountable approach’ to financial disclosure [Gray (1988, p.8)]. It should be noted, Gray (1988, p.11) specified his hypothesis linking secrecy to national cultural values in terms of high levels of secrecy, which is interpreted to be equivalent to a low extent of disclosure. The relationship between national cultural values and a high level of secrecy should be the same as those with a low extent of

disclosure. Therefore, the extent of disclosure in corporate annual reports should be associated with the same national cultural values as the accounting subcultural value of secrecy versus transparency.

Also, the extent of disclosure in corporate annual reports may be related, but to a lesser extent than for secrecy versus transparency, with the accounting subcultural value dimension of professionalism versus statutory control. In countries where there is a value preference for statutory control this would be consistent with a lower extent of disclosure. In contrast, in countries with a value preference for professionalism this would be consistent with a higher extent of disclosure. Therefore, the extent of disclosure in corporate annual reports should be associated with the same national cultural values as the accounting subcultural value of professionalism versus statutory control.

The relationships hypothesised by Gray (1988) between national cultural values, high levels of transparency (high extent of disclosure) and high levels of professionalism (high extent of disclosure) are the same. These accounting subcultural values were hypothesised to be associated with the same national cultural values by Gray (1988).

The degree of variation in the extent of disclosure among corporations from the same country may be related to the accounting subcultural value of uniformity versus flexibility. In countries with an accounting subcultural value preference for uniformity it would be expected that the degree of variation in the extent of disclosure among corporations would be low. On the other hand where there was a preference

for the accounting subcultural value of flexibility then it would be expected that the degree of variation in the extent of disclosure among corporations would be high. It should be noted Gray (1988, p.10) specified his hypothesis in terms of high uniformity, which is equivalent to a low variation in the extent of disclosure. The relationship between national cultural values and high levels of uniformity should be the same as those with a low degree of variation in the extent of disclosure. Therefore, the degree of variation in the extent of disclosure in corporate annual reports should be associated with the same national cultural values as the accounting subcultural value of uniformity versus flexibility.

The accounting subcultural value of conservatism versus optimism is by definition concerned with accounting measurement practices. Therefore, there is no expected relationship between this accounting subcultural value and either the extent of disclosure, or the degree of variation in the extent of disclosure. Accordingly, this accounting subcultural value is excluded from the present study.

The above discussed relationships between accounting subcultural values and the extent of disclosure and degree of variation in the extent of disclosure would be consistent with the following relationships with national cultural values summarised in Table 3.7. Each of these relationships is derived from those reported in Table 3.1 and Table 3.6. In this Table a positive relationship indicates that a high score on a national cultural value would be associated with a high score on either the measure of the extent of disclosure or the degree of variation in the extent of disclosure. Conversely, a negative relationship indicates a high score on a national cultural value

would be associated with either a low score on the extent of disclosure or the degree of variation in the extent of disclosure, or vice versa.

Table 3.7: The Relationship Between National Cultural Values and the Extent of Disclosure and the Degree of Variation in the Extent of Disclosure

| National Cultural Values | Extent of Disclosure (Low to High) | Degree of Variation in Extent of Disclosure (Low to High) |
|---------------------------------|---|--|
| Power distance | Negative | Negative |
| Uncertainty avoidance | Negative | Negative |
| Masculinity | N/A | N/A |
| Individualism | Positive | Positive |
| Long term orientation | Negative | Negative |

N/A No hypothesised relationship

The rationale for the above relationships is outlined below.

1. The greater the degree of secrecy versus transparency as an accounting subcultural value, then the lower the extent of disclosure in corporate annual reports. The corollary of this statement is, the higher the level of transparency the greater the extent of disclosure in corporate annual reports. Countries with a low extent of disclosure

would be expected to have high levels of the following national cultural values: power distance, uncertainty avoidance, long term orientation and a low measure of individualism. On the other hand, countries with a high extent of disclosure would have lower levels of power distance, uncertainty avoidance, be more individualistic and have a shorter term orientation.

2. The greater the degree of professionalism versus statutory control in an accounting system, then the greater the extent of disclosure that would be expected in corporate annual reports. Alternatively, if statutory control was the dominant accounting subcultural value then this would be consistent with a lower extent of disclosure. The extent of disclosure would be expected to be positively related to the national cultural value of individualism and negatively related to the national cultural values of power distance, uncertainty avoidance and long term orientation. There is no expected relationship between the extent of disclosure and the national cultural value of masculinity.

3. The greater the degree of uniformity versus flexibility in an accounting system, then the lower the degree of variation in the extent disclosures that would be expected in corporate annual reports prepared by corporations from the same country. Alternatively, the higher the degree of flexibility exhibited in a country, then the greater the degree of variation in the extent of disclosure in corporate annual reports from

corporations within that country. Where there was a low degree of variation in the extent of disclosure in corporate annual reports this would be expected to be associated with countries having high levels of the following national cultural values: power distance, uncertainty avoidance and long term orientation, and with countries having low levels of individualism. There is no expected relationship between the degree of variation in the extent of disclosure and the level of masculinity within a country.

4. The accounting subcultural value of conservatism versus optimism is concerned with accounting measurement practices and therefore does not directly affect either the extent of disclosure or the degree of variation in the extent of disclosure in corporate annual reports.

The above discussion has outlined the general associations that are expected between national cultural values and the extent of disclosure and the degree of variation in the extent of disclosure in corporate annual reports. These general associations are developed as formal hypotheses concerning the association between national cultural values and consolidation disclosure practices in Chapter 5.

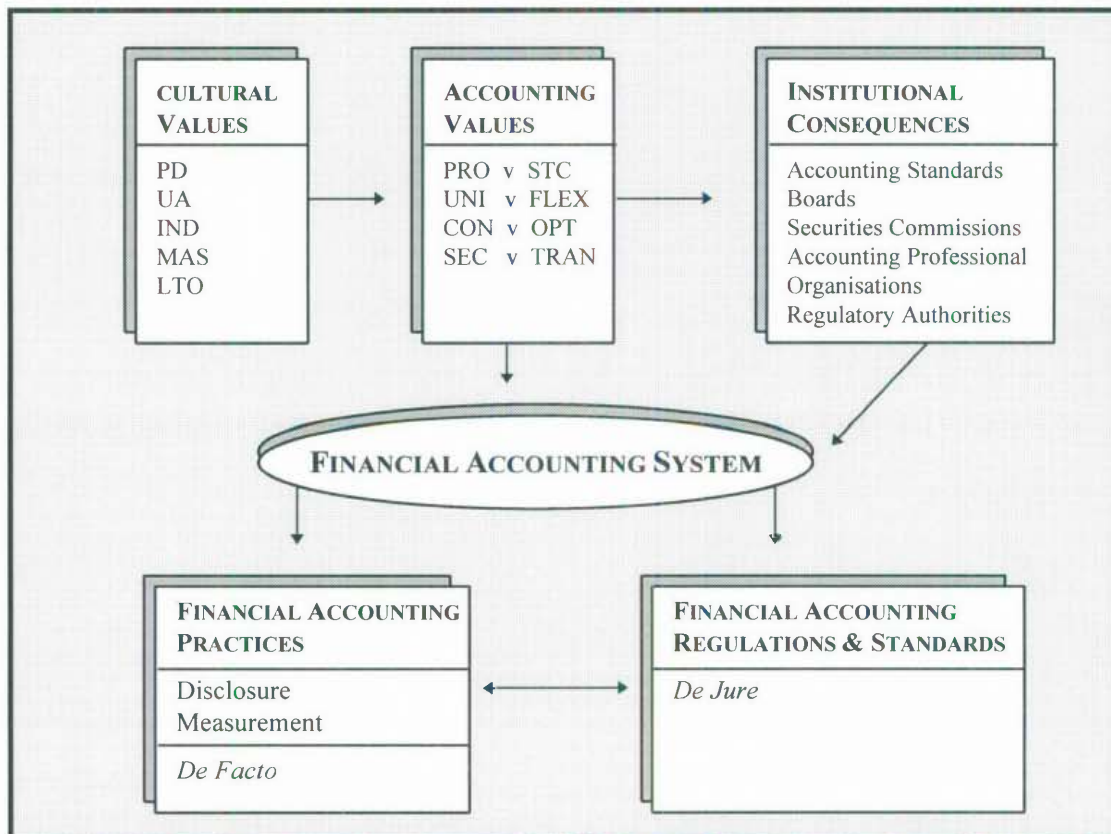
3.5 A CONTINGENCY APPROACH FOR STUDYING NATIONAL CULTURAL VALUES AND DISCLOSURE PRACTICES

In this Section the contingency approach, which was described in Section 2.4, is extended by including national cultural values in the various models. The development of the contingency model in this Section provides the theoretical framework for the subsequent investigation of the association between national cultural values and consolidation disclosure practices in corporate annual reports.

In Section 2.4 four general types of contingency model were described. These were: an environmental causal model, an environmental consequences model, a recursive contingency model and a contextual contingency model. Each of these models is reviewed below and the role of national cultural values discussed.

The environmental causal model was described as a unidirectional deterministic model whereby features in the environment were deemed to cause outcomes in the observed phenomena. For example, in the current case it would be argued national cultural values determined the accounting subcultural values, which in turn shaped the institutional arrangements for a country and resulted in the adoption of specific accounting standards, regulations and financial accounting practices. An environmental causal contingency model showing the above relationships is produced as Figure 3.5.

Figure 3.5: Environmental Causal Model: National Culture and Accounting

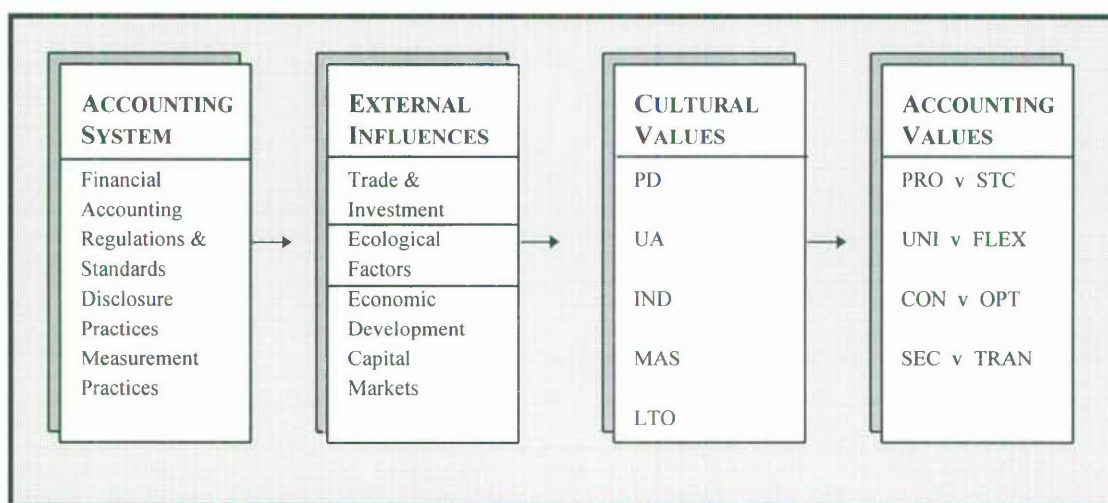


The following abbreviations are used in this figure: PD - power distance; UA - uncertainty avoidance; IND - individualism; MAS - Masculinity; LTO - long term orientation; PRO - professionalism; STC - statutory control; UNI - uniformity; FLEX - flexibility; CON - conservatism; OPT - optimism; SEC - secrecy; TRAN - transparency.

The second type of contingency model was described as an environmental consequences model. This model was also unidirectional and deterministic in that accounting attributes were argued to have an impact on the national environment. Within this model it is argued that the adoption of specific financial accounting regulations and standards, or disclosure and measurement practices could have environmental consequences that for example affects a nation's trade, foreign investment, capital markets or general economic development, which subsequently affects national cultural values and accounting subcultural values. In Section 2.4 it was argued that to observe these consequences a longitudinal study would be required

and also that it would be difficult to isolate the impact of accounting practices from other events affecting the country. Therefore, testing of the environmental consequences model would not be possible within the framework of the present study. An environmental consequences contingency model showing the above relationships is produced as Figure 3.6.

Figure 3.6: Environmental Consequences Model: Accounting Impact on National Culture

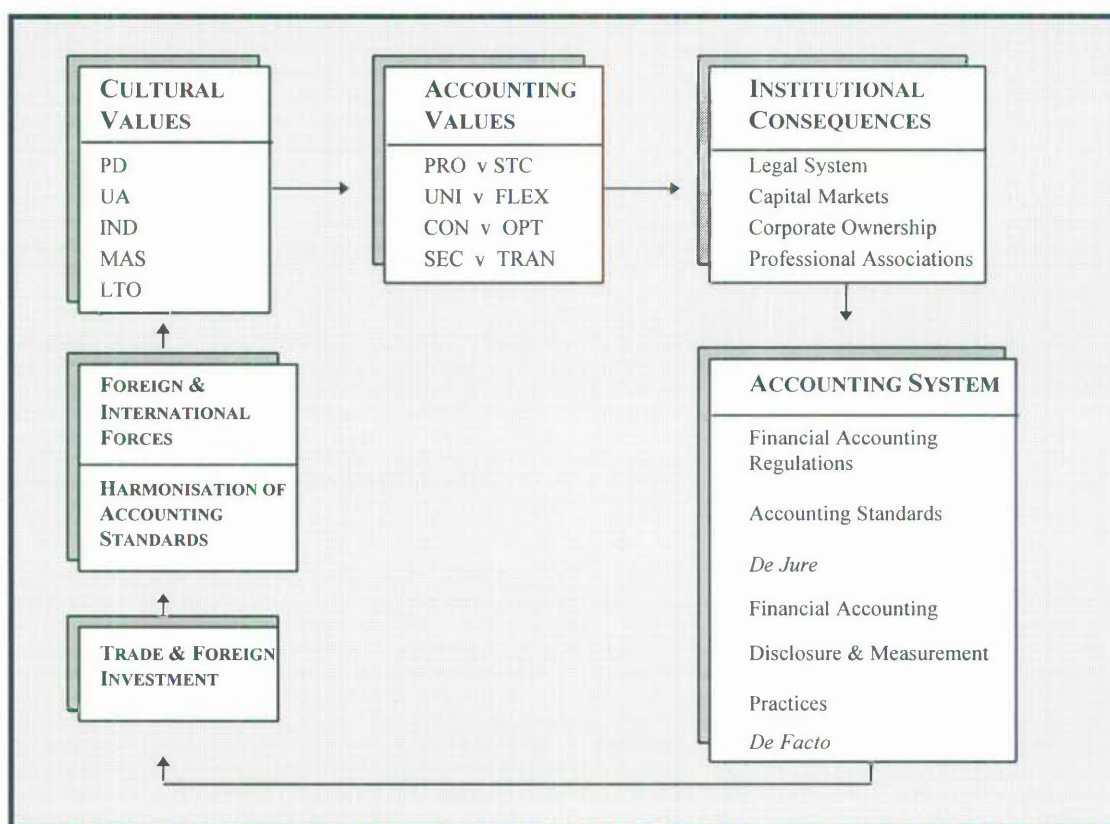


Abbreviations are the same as for Figure 3.5.

The third type of contingency approach was described as a recursive contingency model. This model combined the causal and consequences models. In this type of model it would be necessary to first observe the consequences of environmental attributes on accounting regulations, standards and practices and then to observe the consequences of the accounting practices on the national environment. The research required to observe the recursive model would need to span several years, if not decades, given Hofstede's assertion that national cultural values are difficult to change [Hofstede (1984, p.18)]. However, it is possible to diagrammatically represent this

recursive model. Figure 3.7 is an illustration of a recursive contingency model using financial accounting and culture. In this model national cultural values affect accounting subcultural values and have consequences for institutional arrangements and the features of the accounting system. The accounting system in turn affects the level of trade and foreign investment which is associated with other international forces and particularly pressures for harmonisation of accounting standards. Changes in these external factors can lead to changes in national cultural values and so the recursive process continues. Such a process is consistent with Hofstede's model, which was reproduced as Figure 3.1, and assumed national cultural values could be affected by external events.

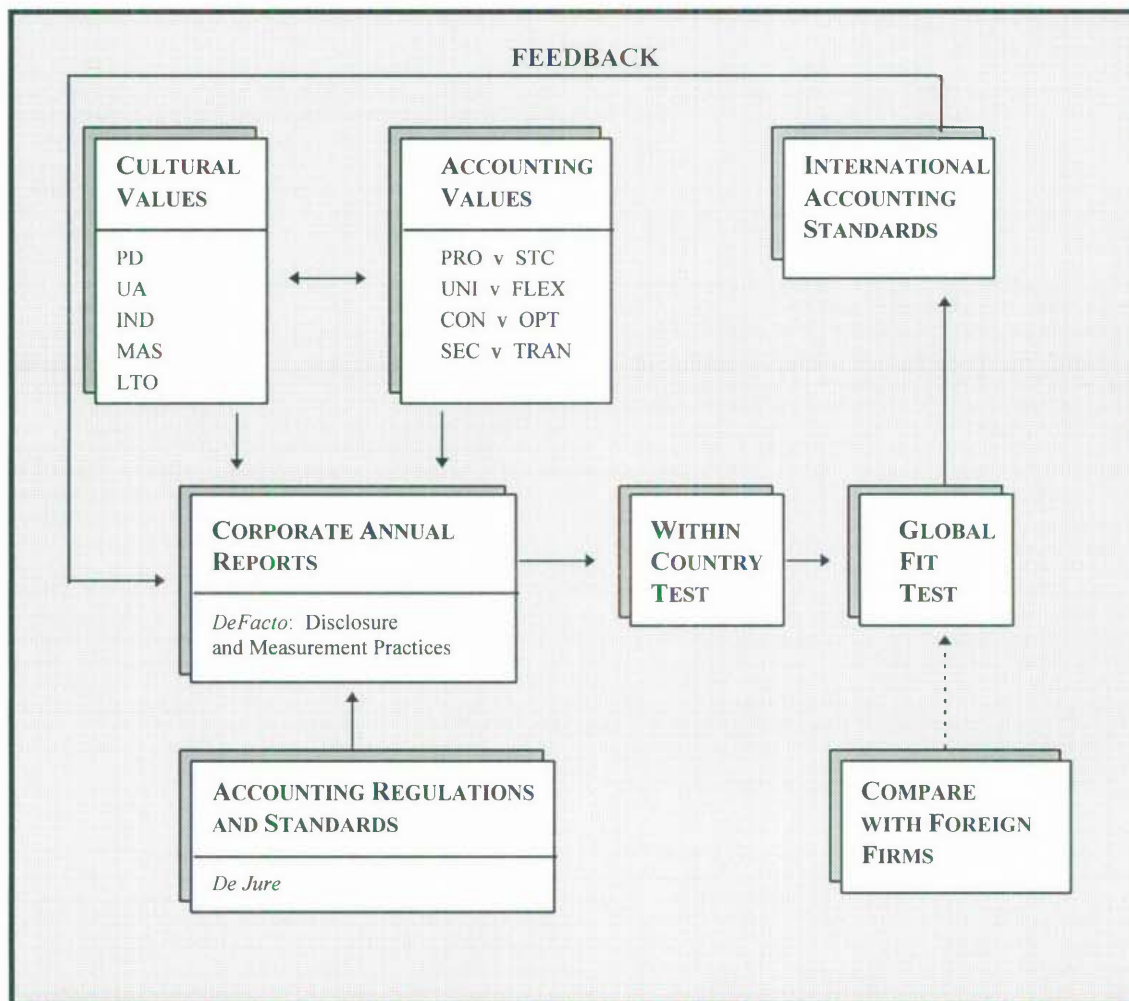
Figure 3.7: Recursive Contingency Model: Culture and Financial Accounting



Abbreviations are the same as for Figure 3.5.

The fourth type of contingency approach was described as the contextual contingency model. This model contained elements of the causal, consequences and recursive models and subjected accounting practices to a test of effectiveness within a country and then externally via a 'global fit' test. The contextual contingency model used in this study is represented diagrammatically in Figure 3.8. This figure represents both national cultural values and accounting subcultural values impacting on corporate reporting. These corporate reports are prepared within a framework of national accounting regulations and accounting standards. After publication of the corporate annual report a 'within country' test can be performed. This would be indicated by the degree of variation in the extent of disclosure by corporations from the same country. Next a 'global fit' test can be undertaken by comparing disclosures in the corporate annual report with the annual reports of foreign corporations and also any relevant international accounting standards. These comparisons could be expected to provide feedback for the preparation of future annual reports by the corporation.

Figure 3.8: Contextual Contingency Model: Culture and Financial Accounting



Abbreviations are the same as for Figure 3.5.

The current study partially tests this model. First, national cultural values are predicted to be associated with the extent of consolidation accounting disclosure in annual reports of the corporations that are headquartered within each of the ten countries that are the subject of this study. Second, it is predicted the degree of variation in the extent of consolidation accounting disclosures in corporate annual reports will be associated with national cultural values. This represents a ‘within

country' test. Third, by comparison with the benchmark requirements of International Accounting Standards variations among countries can be observed and a 'global fit' test performed. The 'global fit' test is described in Chapters 5 and 6.

3.5 SUMMARY

This Chapter has provided a review of the literature concerning the hypothesised association between national cultural values and accounting subcultural values. The theoretical framework developed by Hofstede (1980), and in subsequent works, to analyse culture has been reviewed. The model linking national cultural values to accounting subcultural values developed by Gray (1988) and extended by Perera (1989) was outlined in Section 3.2. These works provide the theoretical framework for the inclusion of culture in the current study.

Section 3.3 then applied the above theoretical framework and described the national cultural values and accounting subcultural values for the ten Asian-Pacific countries that are the subject of this study. Details concerning these countries cultural values were taken from various studies undertaken by Hofstede. Accounting subcultural values derived by Eddie (1990) were discussed. Tests of the association between Hofstede's measures of national cultural values and Eddie's measures of accounting subcultural values were reported. The national cultural values measured by Hofstede are used in this study to test their association with consolidation accounting disclosures. The accounting subcultural values measured by Eddie (1990) are not

used for any empirical tests in this study. Rather, measures of the extent of consolidation disclosure and degree of variation in the extent of consolidation disclosure are developed using a consolidation disclosure index which is described in Chapter 6.

These measures are argued to be related to accounting subcultural values in the following ways. First, the extent of disclosure is argued to be related to the accounting subcultural value of secrecy versus transparency and to a lesser degree the accounting subcultural value of professionalism versus statutory control. Second, the degree of variation in the extent of disclosure is argued to be related to the accounting subcultural value of uniformity versus flexibility. General predictions concerning the association between national cultural values and disclosure in corporate annual reports were discussed in Section 3.4. These general predictions are developed as formal hypotheses in Chapter 5.

Section 3.5 extended the discussion on contingency theory and proposed four possible approaches consistent with the general contingency models described in Chapter 2.4. The contextual contingency model reported in Figure 3.8, is used to provide a framework in the subsequent development of this study. The following Chapter reviews issues concerning consolidation accounting disclosure practices.