W kierunku umiędzynarodowienia / Towards internationalization

The influence of culture on disclosures in financial statements prepared under International Financial Reporting Standards

JERZY GIERUSZ *, KATARZYNA KOLEŚNIK **

Abstract

The primary objective of this article is to investigate the impact of culture (as measured by Hofstede) on disclosures in financial statements prepared under International Financial Reporting Standards (IFRS) by firms from different countries. The sample comprises 2011–2013 consolidated financial statements of stock companies (excluding banks, insurance, and other financial institutions) from four countries representing different cultural areas: the United Kingdom (Anglo), Germany (Germanic), Poland (Central Eastern Europe; CEE) and Kuwait (Arab). The research material came from 312 annual consolidated financial statements from 104 companies. The results reveal that cultural values have a significant impact on financial disclosures even after the use of IFRS. The paper is one of the few comparative studies attempting to assess the effects of culture on financial disclosures in Western Europe countries, CEE countries and Arab countries. Most of the international comparative studies in this research area have neglected CEE and Arab countries.

Keywords: disclosures, culture, IFRS.

Streszczenie

Wpływ uwarunkowań kulturowych na zakres ujawnień w sprawozdaniach finansowych sporządzonych według Międzynarodowych Standardów Sprawozdawczości Finansowej

Głównym celem artykułu jest ocena wpływu uwarunkowań kulturowych (określonych przez Hofstedego) na zakres ujawnień w sprawozdaniach finansowych sporządzonych według Międzynarodowych Standardów Sprawozdawczości Finansowej (MSSF) w wybranych krajach świata. Przedmiotem badań empirycznych

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Introduction

For many years, accounting has served humans in the development of civilization. As an element of an information system, it is a reliable source of various data for regulatory, social, economic, and environmental purposes.

The type and extent of information presented in the financial statements vary between countries. The cultural variable is often provided as one of the reasons for these differences. As noted by G. Mueller et al. (1994, p. 1) “Accounting is shaped by the environment in which it operates. Just as nations have different histories, values, and political systems, they also have different patterns of financial accounting development”. Culture is a powerful influence underlying human behavior and social values, hence its impact on accounting practices cannot be neglected.

The problem of cultural differences has taken on special significance in the ongoing process of accounting harmonization, aimed at creating a uniform system of solutions on a world scale. A growing number of countries have adopted the International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board (IASB), and other countries plan to adopt or converge with IFRS in the future. Having realized the impact of cultural differences on economic life, it is easier to understand what a complex task the process of harmonizing is and how difficult, if not impossible, “implanting to a given country of new accounting solutions different in their essence and origin from the previous ones” (Kabalski, 2009, p. 18) may prove to be.

It should be stressed that the harmonization did not choose the way of compromise but constitutes an attempt to impose one viewpoint – an Anglo Saxon one – on the entire world. This means discarding the legacy of other countries, such as Germany or France. In the modern world, as L. Bednarski and J. Gierusz state (2001, p. 142) “what is English or American has the global dimension, and what comes from other countries has a local dimension”.

The primary objective of this study is to investigate whether culture (as measured by Hofstede) still plays a role in the financial disclosures of companies from different countries after the widespread use of IFRS. Previous studies show that cultural dimensions
developed by G. Hofstede (1980) have an impact on financial disclosures (Zarzeski, 1996; Sudarwan and Fogarty, 1996; Wingate, 1997; Jaggi and Low, 2000; Archambault and Archambault, 2003; Hope, 2003; Akman, 2011); however, the vast majority of these studies were made before the scope of use of the IFRS was expanded.

The study uses a sample of 104 firm-year observations from four countries representing different cultural areas: the United Kingdom (the Anglo cultural area), Germany (the Germanic cultural area), Poland (the Central and Eastern Europe cultural area; CEE) and Kuwait (the Arab cultural area). All listed companies in these countries are required to prepare their consolidated financial statements in accordance with IFRS. The study is based on 2011-2013 consolidated financial statements available on the companies’ website. To verify whether cultural values affect the financial disclosures, a disclosure checklist consisting of 271 mandatory items of information was developed, and statistical analysis was performed using the Spearman rank correlation coefficient.

This study contributes to the literature by investigating the impact of culture on financial disclosures in Western European countries (the United Kingdom, Germany), Central and Eastern European countries (Poland) and Arab countries (Kuwait). To extend previous research beyond a comparison of only well-developed countries from the United States, Europe, and Asia-Pacific, we looked for countries in the region where little cultural accounting research has been conducted. As a region, Central and Eastern European Countries and Arab countries have been relatively neglected in this stream of research (Borker, 2012; Dahawy et al., 2002; Koleśnik, Silska-Gembka, 2012).

Based on the evidence presented in our paper, we find no support for the argument that culture is unimportant in explaining a firm’s disclosure level even after the widespread use of IFRS. Thus our results are consistent with the view shared by researchers that cultural differences may be more “stubborn” and resistant to change than other institutional variables (Hope, 2003; Tsakumis, 2007).

The remainder of the article is structured as follows. In section 2, we present the theories of Hofstede’s cultural value dimensions and S.J. Gray’s accounting subculture. In section 3, we describe the country selection criteria used in the study. In section 4, we describe the research methodology. Finally, section 5 contains a discussion of the results and a recommendation for future research.

1. Culture and accounting

Hofstede defined culture as (2007, p. 17) “the collective programming of the mind which distinguishes the members of one human group from another”. In a major survey of employee attitudes in the worldwide subsidiaries of the IBM Corporation, he identified four contrasting sets of cultural dimensions that can be used to describe general similarities and differences in cultures around the world. These are:

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1 The distribution of the obtained results were not in line with the normal distribution.
2 The survey initially took place between 1968 and 1973, and involved over 60 countries.
1. **Large versus small power distance** – it describes the extent to which the members of a society accept that the power in institutions and organizations is distributed unequally. High Power Distance societies accept a hierarchical order in which everybody has a place, and this fact is not undermined. As for Low Power Distance societies, they strive for power equality and demand justification for power inequalities. The key issue of this dimension is how people handle inequalities between themselves when they occur. This has an obvious consequence for the way people build institutions and organizations.

2. **Strong versus weak uncertainty avoidance** – this dimension refers to the degree to which individuals feel threatened by uncertain or unknown situations. Strong Uncertainty Avoidance societies tend to be rigid in adhering to rules and are intolerant towards unorthodox behavior and ideas. Countries exhibiting Weak Uncertainty Avoidance maintain a more relaxed attitude in which practice counts more than principles. The fundamental issue of this dimension is how society reacts to the fact that the future is unknown: whether it tries to control the future or to let it happen. Like Power Distance, this dimension has consequences for the way people build their institutions and organizations.

3. **Individualism versus collectivism** – Individualism refers to a preference for loose social bonds wherein individuals are supposed to take care of themselves. Regarding its opposite – Collectivism, it stands for tight social ties in which individuals can expect their relatives or members of a particular group to look after them in exchange for unquestioning loyalty. This dimension relates to people’s self-concept: ‘I’ or ‘we.’

4. **Masculinity versus feminity** – Masculinity stresses traditional masculine values of performance such as achievement, heroism, assertiveness, and material success, while Feminity stands for a preference for cooperation, modesty, caring for the weak, and quality of life. The crucial issue of this dimension is the way societies allocate social roles to gender.

In later cited in: work, Hofstede (2007) added a fifth and sixth cultural dimension: Long- versus short-term orientation (also called ‘Confucian Dynamism’) and Indulgence versus restraint. According to him, societies with a short-term orientation “prefer to maintain time-honored traditions and norms while viewing societal change with suspicion” while those with long-term orientation “take a more pragmatic approach: they encourage thrift and efforts in modern education as a way to prepare for the future”

Indulgence stands for a society that allows the relatively free gratification of basic and natural human motivations related to enjoying life and having fun. Restraint stands for a society that suppresses the gratification of needs and regulates it by means of strict social norms.

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4 These value dimensions have not found acceptance like the others, especially in accounting (Akman, 2011); therefore, they are not included in this study.
Hofstede’s model of cultural patterns was extended by Gray (1988), who introduced a framework for analyzing the development of accounting systems by using accountants’ value systems (named a country’s accounting subculture), which derive from societal values. These societal values are shaped by external and ecological influences such as trade, investment, geography, economic system, history, etc. Accounting values, in turn, affect accounting systems; therefore cultural factors have an impact on the development and financial systems at a national level. These relations are presented in Figure 1.

**Figure 1.** Original framework

<table>
<thead>
<tr>
<th><strong>External forces</strong></th>
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<tbody>
<tr>
<td>Forces of nature</td>
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<tr>
<td>Trede</td>
<td></td>
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<tr>
<td>Investment</td>
<td></td>
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<tr>
<td>Conquest</td>
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<table>
<thead>
<tr>
<th><strong>Ecological influences</strong></th>
<th></th>
</tr>
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<tbody>
<tr>
<td>Geographic</td>
<td></td>
</tr>
<tr>
<td>Economic</td>
<td></td>
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<tr>
<td>Genetic/Hygienic</td>
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<tr>
<td>Historical</td>
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<td>Technological</td>
<td></td>
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<tr>
<td>Urbanisation</td>
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<table>
<thead>
<tr>
<th><strong>Societal values</strong></th>
<th></th>
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<tbody>
<tr>
<td>Legal system</td>
<td></td>
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<tr>
<td>Corporate ownership</td>
<td></td>
</tr>
<tr>
<td>Capital markets</td>
<td></td>
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<tr>
<td>Professional associations</td>
<td></td>
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<tr>
<td>Education</td>
<td></td>
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<tr>
<td>Religion</td>
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<table>
<thead>
<tr>
<th><strong>Accounting values</strong></th>
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<tr>
<td>Accounting systems</td>
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</table>


Gray proposed four accounting values, as follows (1988, p. 8):
1. Professionalism versus Statutory Control – a preference for the exercise of individual professional judgment and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control.
2. Uniformity versus Flexibility – a preference for the enforcement of uniform accounting practices between companies and the consistent use of such practices over time as opposed to flexibility in accordance with the perceived circumstances of individual companies.
3. Conservatism versus Optimism – a preference for a cautious approach to measurement so as to cope with the uncertainty of future events as opposed to a more optimistic, risk-taking approach.
4. Secrecy versus Transparency – a preference for confidentiality and the restriction of the disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open and publicly accountable approach.

Among the accounting values, secrecy is related to financial disclosure; thus, taking into account the subject matter of this paper, we limit our discussion only to Gray’s secrecy hypothesis.

As noted earlier, Gray (1988, p. 8) describes the accounting value of secrecy as “a preference for confidentiality and the restriction of disclosure of information about the business”. Secrecy manifests itself through a tendency to limit the scope of disclosures of information available to outsiders. Considering the interaction between Hofstede’s cultural dimensions and this accounting value, Gray (1988) offered the following hypothesis: The higher a ranking in terms of uncertainty avoidance and power distance and the lower the ranking in terms of individualism and masculinity, the more likely it is to rank highly in terms of secrecy.

The above hypothesis is summarized in Table 1.

<table>
<thead>
<tr>
<th>Gray’s Accounting Value</th>
<th>Hofstede’s Cultural Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Power Distance</td>
</tr>
<tr>
<td>Secrecy</td>
<td>Positive</td>
</tr>
</tbody>
</table>


According to Gray (1988):
1) Power distance is positively related with secrecy as less information is expected to preserve power inequalities.
2) There is a positive relationship between secrecy and uncertainty avoidance, as less information is expected to preserve security and avoid conflict and competition.
3) There is less secrecy in individualistic societies. Individualistic societies demand accountability and require extensive disclosure relative to collectivist societies.
4) There is a negative relationship between masculinity and secrecy. More caring societies (i.e., feminine societies) will tend to be more open, especially in the disclosure of socially related information.

Hofstede (1980) identifies ten cultural areas with distinctly different patterns of cultural values. For example, the Anglo cultural area (e.g., the United Kingdom, Canada, and the USA) is characterized by high individualism, low uncertainty avoidance and power distance, and moderate masculinity. The Less Developed Latin cultural area (e.g., Colombia, Ecuador, Mexico, and Venezuela) is the opposite and is described by low individualism, high uncertainty avoidance and power distance, and quite high masculinity. Gray applies his hypotheses to these cultural areas by positioning them along
an optimism/conservatism continuum and a secrecy/transparency continuum, as shown in Figure 2. The Anglo cultural area (e.g., the United Kingdom, Canada, and the USA) is characterized as a relatively low rank on secrecy (or high on flexibility). As the opposite pattern of a cultural area, Arab countries tend to rank relatively high in secrecy. The Germanic cultural area (e.g., Germany, Austria) is placed at high secrecy (Figure 2).

**Figure 2.** Gray’s accounting systems: disclosure and measurement practices

![Diagram showing cultural areas on a continuum of secrecy, transparency, optimism, and conservatism.]


A natural consequence of Hofstede’s and Gray’s theories were attempts at their practical verification, implemented in various countries and therefore also in different cultural environments. In most studies of this area, the cultural aspects were usually discussed in the context of their impact on the accounting practices applied in a given country (Eddie, 1990; Gray and Vint 1995; Salter and Lewis, 1995; Amat, et al. 1996; Askary, 2006; Noravesh et al., 2007; Tsakumis, 2007; Perera et al., 2012), the influence on the extent of information disclosed in financial statements (Sudarwan, Fogarty, 1996; Zarzeski, 1996; Wingate, 1997; Jaggi, Low, 2000; Archambault, Archambault, 2003; Hope, 2003; Akman, 2011), as well as the degree of diversity between national and international accounting standards (Ding et al., 2005).

Taking into account the subject matter of this paper, we focus only on those works in which cultural factors were analyzed regarding financial disclosures.
One of the first studies in this field was carried out in 1995 by S.J. Gray and H.M. Vint (1995; Hope 2003). When treating financial disclosures as a dependent variable and Hofstede’s cultural dimensions as an independent variable, on the basis of an analysis of corporate financial reports from 27 countries, they came to the conclusion that the influence of culture was important in terms of the uncertainty avoidance and individualism dimensions. These relationships were consistent with Gray’s hypotheses. On the other hand, the relationship between power distance and masculinity with financial disclosures has not been confirmed.

Another researcher, M. Zarzeski (1996), dealt with the influence of culture on the scope of disclosures in national and international financial reports from France, Germany, Hong Kong, Japan, Norway, the United Kingdom, and the USA. For this purpose, as in the previous study, Hofstede’s cultural dimensions were used. The analyses confirmed that the influence of culture was significant in terms of the uncertainty avoidance and masculinity dimensions. The degree of these dependencies was, however, greater for domestic companies than for international ones. However, no relation was found between the disclosures and individualism, the power distance.

A similar project was carried out by M.L. Wingate (1997), which analyzed the impact of Hofstede’s cultural dimensions on the extent of financial disclosures in 39 countries. The results of these studies confirmed, in turn, that the scope of disclosures was not dependent solely on power distance.

B. Jagii and P. Low (2000) analyzed the relationship between the scale of disclosures in accounting and culture and one more factor of the socio-economic environment – the legal system. They used data from 1991 from three countries with a common law system (Canada, the United Kingdom, and the USA) and three countries with a civil law system (France, Germany, Japan). The study covered a sample of 401 companies from these countries. In the case of the first group of units, the relationship between culture and accounting disclosures has not been confirmed, but concerning the latter – the influence of culture has proved important, but only for one dimension – individualism.

The work of Jagii and Low was continued by O.-K. Hope (2003). He stated that his predecessors researched too small a sample. In addition, Hope had reservations about the choice of countries – the accounting systems in Canada, the United Kingdom, the United States, France, Germany, and Japan have many common features. Hope expanded the research sample to 39-42 countries (depending on the test) by analyzing three years (1993-1995). With respect to Gray’s hypotheses, he obtained very different results, and concluded that "it is too early to cast aside culture as a variable explaining the level of disclosure in annual reports" (Hope, 2003, p. 22).

Another researcher, N.H. Akman (2011), analyzed the scope of disclosures in IFRS financial statements by companies from Australia, Germany, France, Italy, the Netherlands, and the United Kingdom. He came to the conclusion that, regardless of the application of the same standards, there are clear differences in reporting disclosures between firms from different countries, which are influenced by Hofstede’s four cultural dimensions: individualism, power distance, uncertainty avoidance, and masculinity.
In the light of these findings, it is apparent that culture does have an impact on firm disclosure level, but the association results are inconclusive.

2. Country selection

We selected the United Kingdom to represent the Anglo culture, Germany – the Germanic culture, Poland – the Central and Eastern European culture, and Kuwait – the Arabic culture.

Table 3 shows Hofstede’s cultural dimensions for each country in the sample.

Poland in this description is characterized by a strong level of uncertainty avoidance and a moderate intensity of power distance, individualism, and masculinity. In no way is Polish national culture defined as extreme.

In Germany, the value of individualism, uncertainty avoidance and masculinity are moderate, and the level of power distance is low.

<table>
<thead>
<tr>
<th>Country</th>
<th>Power Distance (PDI)</th>
<th>Individualism (IND)</th>
<th>Uncertainty Avoidance (UA)</th>
<th>Masculinity (MAS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>68</td>
<td>60</td>
<td>93</td>
<td>64</td>
</tr>
<tr>
<td>Germany</td>
<td>35</td>
<td>67</td>
<td>65</td>
<td>66</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>35</td>
<td>89</td>
<td>35</td>
<td>66</td>
</tr>
<tr>
<td>Arab Countries</td>
<td>90</td>
<td>25</td>
<td>80</td>
<td>40</td>
</tr>
</tbody>
</table>


The United Kingdom is characterized by a very high level of individualism, a moderate degree of masculinity, and low values of power distance and uncertainty avoidance.

Arab countries, on the other hand, have a very strong power distance and uncertainty avoidance, and low individualism and masculinity.

As noted earlier, Gray places the Anglo cultural area at the extreme transparency end of the secrecy/transparency continuum. Countries from this cultural area, which includes the United Kingdom, are natural candidates for inclusion in studies examining the impact of culture on accounting, as they act as a type of experimental control. Countries from any other cultural area are expected to exhibit a higher level of secrecy.

We selected Germany to represent a Germanic cultural area which is placed by Gray (1988) at high secrecy.

To extend previous research beyond a comparison of only well-developed countries from the United States, Europe, and Asia-Pacific, we looked for countries in the region where little cultural accounting research has been conducted. As a region, Central and Eastern European Countries and Arab countries have been relatively neglected in this stream of research.
Poland is one of the largest countries in CEE and is widely understood as being one of the most successful “transition countries” in Europe (Leśko, 2007). The Polish legal system is based on Roman law when “specific rules take precedence over general rules” (Kosmala-MacLullich, 2003, p. 468), unlike Common law when “general clauses such as true and fair view may override specific rules” (2003, p. 468). As A. Jaruga (1993) states, Polish tradition has more in common with the codified approach to accounting regulations than with common law. Moreover, Poland, like other countries in the CEE region, has experienced a framework of accounting drawn from the system under a communist regime where the lawmaking process did not involve consultation with society. With the transformation of Poland from a communist state to a democracy in 1989, accounting principles in Poland not only had to be reformed for a market economy but also aligned with the IFRS, which made the transition more complex than in other emerging markets (Kosmala-MacLullich and Gurau, 2004).

The Accounting Act of September 29, 1994, brought Polish accounting more in line with the European Union accounting directives, implemented selected International Accounting Standards (IAS), and allowed Polish companies listed on foreign capital markets to use IAS or U.S. Generally Accepted Accounting Principles instead of Polish regulation. However, the Act differed significantly from international standards in that it was conservative and rule-based (Dobija, Klimczak, 2010).

On May 1, 2004, Poland became a Member State of the European Union and, like the majority of EU countries, started applying the IFRS on a large scale on 1st January 2005. The implementation of IFRS made it necessary to overcome social and cultural differences in the perception of accounting and their role in the economy (Dobija, Klimczak, 2010). Whether the implementation of IFRS has been a success is still subject to discussion. Several researchers documented that the scope and quantity of information provided by companies have increased, but most companies choose not to disclose or provide information in a more narrative form if it is not directly required (Jaruga et al., 2007; Krzywda, Schroeder, 2007; Dobija, Klimczak, 2010).

Kuwait, like other Arab countries, represents Muslim culture. Islam commands authority over the totality of a Muslim’s being, not accepting any distinctions between sacred and secular. Economics, politics, religious and social affairs – even accounting – fall under the jurisdiction of the divine law of Islam – Sharia (Lewis, 2001).

The religious accounting aspect is closely linked to the Islamic concept of responsibility, which is one of the fundamental doctrines of Islam. This responsibility is expressed in the submission of the will of Allah in all areas of life and the conduct of his teachings. According to this approach, every act committed in the life of a Muslim is judged on the day of the final judgment. This evaluation, in accordance with the verse of the Quran, "God counts everything," is based on a comparison of the good and bad deeds recorded in books or registers. It should be emphasized that this concept does not limit a Muslim’s responsibility towards society, investors, employees or employers, but its secular dimension is ultimately considered in the light of responsibility before Allah.

N. Baydoun and R. Willet (2000) note that the basic characteristics characterizing Islamic financial reports are the principles of social responsibility and full disclosure.
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The latter directly follows from the Quranic command to proclaim the total truth. “And do not dress the truth in falsehood. And do not hide the truth, since you know...” (Sura II, verse 42, p. 92). Full disclosure does not mean, however, that entities should present all possible data, which in practice would be extremely difficult to implement. The principle referred to is the presentation of relevant information, which, on the other hand, involves the prohibition of omitting data in financial statements. From the perspective of Islam, the relevance of information is considered in a completely different context than it is in traditional accounting. In the light of Muslim religious norms, important information is data that will allow us to assess whether the Islamic economic entity, through its activity, fulfills its obligations primarily to Allah and then to the Muslim community (umma).

The consequence of such an approach is the full disclosure of at least the following items in the financial statements (Hameed, Yaya, 2005, p. 88):

• all economic transactions banned in the Quran have been completed,
• zakat tax liabilities, both those realized and payable,
• actions in the area of social responsibility, including, e.g., charity acts, salaries paid to employees, undertakings undertaken for the protection of the environment.

Researchers dealing with Islamic accounting point to many areas of non-compliance with the Western accounting concept to the challenges posed by the values of Islam. This issue is of interest to many authors. The main allegations concerning traditional accounting concepts concern (Hameed, 2001, p. 4):

• its contradictions with the teachings of Islam,
• the lack of connection with the purposes of Islamic accounting, and
• insufficient focus on Islamic socio-economic goals.

From the point of view of “Muslim stakeholders”, the disclosures created by conventional accounting are inadequate, as they focus only on material economic events. Therefore, they do not provide information on whether an Islamic economic entity, by its activity, fulfills its obligations towards Allah and the Muslim community.

In the light of the above discussion, all these countries are a worthy subject for cross-cultural accounting research.

3. Methodology

3.1. The sample

The subject of the empirical research was the annual consolidated financial statements of listed companies (excluding banks, insurers, and other financial institutions) prepared for the years 2011–2013 according to IFRS.

The research carried out was of a comparative nature. The analysis included four countries representing different cultural areas of accounting, i.e.:
1) the United Kingdom – the Anglo culture,
2) Germany – the Germanic culture,
3) Poland – the CEE culture,
4) Kuwait – the Arabic culture.

Our goal was to obtain data from large companies qualified for the following indices: WIG30 (Poland), DAX (Germany), and the FTSE100 (the United Kingdom); and from small companies included in the following indices: SWIG80 (Poland), SDAX (Germany), and the FTSEsmall (the United Kingdom). Due to the lack of indexes on the Kuwait stock exchange, the selection of large and small public companies was done independently, based on information on the capitalization of companies.

Twenty-six entities were selected from each state (13 large and 13 small) using random sampling. Therefore, the research material came from 312 annual consolidated financial statements from 104 companies. Overall near 91,500 mandatory items were analyzed. Data for the study came from the annual consolidated financial reports published on the companies’ website.

3.2. Disclosure Index

The key research tool used for the analysis was the mandatory disclosure index (MDI).

First, a list of mandatory disclosures required by individual IFRS was made. The disclosures were made for 22 areas of the financial statements, within which a number of specific problems were separated (Table 4). Ultimately, the checklist included 271 mandatory disclosure items. Appendix 1 presents an example of the mandatory disclosure items for “Operating segments” (IFRS 8).

The quantity rather than the quality of the disclosures was evaluated. Several approaches are available when developing a scoring scheme to determine the disclosure level of annual reports, and usually, both trends are the subject of investigation. Researchers that use quantitative disclosure measures most often use self-constructed checklists. Disclosure checklists include only mandatory disclosure items (Akhtaruddin, 2005), only voluntary disclosure items (Haniffa, Cooke, 2002; Hossain, Hammami, 2009) or both voluntary and mandatory disclosure items (Hassan et al., 2009; Akman, 2011). The number of disclosure items ranges from 17 to 224 (Akman, 2011). For example, researchers such as A.G. Hassan et al. (2009) and Akman (2011), use a disclosure index based on a group of 75 and 133 items concerning mandatory and voluntary disclosures, respectively. In M. Akhtaruddin’s (2005) study, the disclosure index was based on 160 mandatory items. In turn, in the studies of R. Haniffa and T.E. Cooke (2002) as well as M. Hossain and H. Hammami (2009), the disclosure index was constructed on the basis of a subjective selection of 65 and 44 voluntary items.

In the case of qualitative measures, each identified group of information is assigned appropriate weights, which indicate how big the role of disclosures is in a given area. The key aspect in this research procedure is to give a weight to individual areas of
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evaluation, which is most often carried out using the expert method (e.g., Zarzeski, 1996; Świderska et al., 2010; Lopes, Alencar, 2010).

Due to the fact that our research was conducted independently, the quality of disclosures was abandoned because, in our opinion, it would be susceptible to too much subjectivity.

The choice of the assessed areas was guided both by empirical research in the field of disclosures by Polish and foreign authors (e.g., Zarzeski, 1996; Akhtaruddin, 2005; Hassan et al., 2009; Akman, 2011; Świderska et al., 2010; Hońko, 2013) and many years of experience gained by the authors in the course of analyzing entities’ financial statements as statutory auditors. In our opinion, the above-mentioned groups of information are important from the point of view of the usefulness of financial statements prepared according to the IFRS and significantly affect their usefulness for various groups of recipients.

Table 4. List of mandatory items of information included in the disclosure index

<table>
<thead>
<tr>
<th>Group of Information</th>
<th>Number of Mandatory Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>General features, Identification of the financial statements (IAS 1)</td>
<td>9</td>
</tr>
<tr>
<td>Notes, comprising a summary of significant accounting policies and other explanatory information (IAS 1)</td>
<td>5</td>
</tr>
<tr>
<td>The minimum scope of information (IAS 1)</td>
<td>18</td>
</tr>
<tr>
<td>Intangible assets (IAS 38)</td>
<td>30</td>
</tr>
<tr>
<td>Property, plant and equipment (IAS 16)</td>
<td>29</td>
</tr>
<tr>
<td>Investment property (IAS 40)</td>
<td>19</td>
</tr>
<tr>
<td>Financial instruments (IFRS 7)</td>
<td>20</td>
</tr>
<tr>
<td>Deferred tax assets and deferred tax liabilities (IAS 12)</td>
<td>5</td>
</tr>
<tr>
<td>Inventories (IAS 2)</td>
<td>9</td>
</tr>
<tr>
<td>Trade and other receivables (IAS 1)</td>
<td>2</td>
</tr>
<tr>
<td>Equity (IAS 1)</td>
<td>11</td>
</tr>
<tr>
<td>Trade and other payables (IAS 1)</td>
<td>1</td>
</tr>
<tr>
<td>Provisions (IAS 37)</td>
<td>7</td>
</tr>
<tr>
<td>The minimum scope of information (IAS 1)</td>
<td>9</td>
</tr>
<tr>
<td>Revenue (IAS 18)</td>
<td>3</td>
</tr>
<tr>
<td>Costs (IAS 1, IAS 19, IAS 36, IAS 38)</td>
<td>7</td>
</tr>
<tr>
<td>Current tax and deferred tax (IAS 12)</td>
<td>4</td>
</tr>
<tr>
<td>Statement of changes in equity (IAS 1)</td>
<td>13</td>
</tr>
<tr>
<td>Statement of cash flows (IAS 1, IFRS 5)</td>
<td>13</td>
</tr>
<tr>
<td>Risks arising from financial instruments (IFRS 7) instruments</td>
<td>14</td>
</tr>
<tr>
<td>Related party transactions (IAS 24, IAS 27, IAS 28, IAS 31)</td>
<td>23</td>
</tr>
<tr>
<td>Operating segments (IFRS 8)</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>271</strong></td>
</tr>
</tbody>
</table>
The calculation procedure of the mandatory disclosures index for a given country included three stages.

**Step 1:** Calculate the mandatory disclosure index for each company by dividing the number of financial disclosures required by IFRS included in the consolidated financial statements in the year by the maximum number of mandatory disclosures in the consolidated statement required for the year. The structure of this index was based on the answers to the questions contained in the checklist. The answer to each was a one-to-one, where 1 meant that mandatory information (i.e., required by IFRS) was disclosed by the company, and 0 – no information. In the absence of a given issue or when disclosure is deemed irrelevant for a specific company, the item was ignored in the computation of the index.

**Step 2:** Determine the arithmetic mean of the mandatory disclosure ratio for an individual company by dividing the sum of the mandatory disclosure ratios for the entity by the number of periods analyzed.

**Step 3:** Designation based on calculations from the second stage of the mandatory disclosures as the arithmetic mean of the disclosure scores for each country.

### 3.3. Hypothesis

Based on the prior literature, we hypothesize that culture (as measured by Hofstede) is correlated with a firm’s disclosure levels in financial statements prepared in accordance with IFRS.

The mandatory disclosure index developed from the disclosure checklist was the dependent variable, and Hofstede’s cultural dimension scores were the independent variables.

To verify our hypothesis we used the Spearman rank correlation coefficient test. The statistical significance level was assumed 0.05.

### 4. Results

#### 4.1. Descriptive statistics

The descriptive statistics for the values of the mandatory disclosure ratios for the years 2011-2013 are presented in Table 5. To assess whether there were significant differences between the countries, we used the Kruskal-Wallis and U Mann-Whitney tests. The statistical significance level was assumed 0.05.

The results of the significance tests are presented in Tables 6 and 7 (statistically significant values are marked in bold).

The results show that the average level of mandatory disclosure (MDI) for the years 2011-2013 for large companies from Poland, Germany, and the United Kingdom was high (Table 5). The differences between these countries are statistically insignificant (Table 6). The MDI maximum value in these countries was above 90%, while the minimum value ranged from 70.97% (Poland) to 81.31% (Germany).
In the case of large companies from Kuwait, the average level of mandatory disclosures was moderate and, compared to other countries, it differs statistically significantly (p-value < 0.05; Table 6). Also, here the test results are not varied.

As far as small companies are concerned, the MDI was lower in all analyzed countries was lower than in large companies in all analyzed countries; however, these differences are statistically insignificant (except for the United Kingdom, Table 7). For companies from Poland, Germany, and the United Kingdom, the level of MDI was still at a high level, while for companies from Kuwait – it was moderate. Similarly, the results for this group of units from Kuwait differ significantly from the results of other countries (p-value < 0.05, Table 6). The best MDI was recorded in Germany (90.06%), and the worst in Kuwait (43.41%) (Table 5).

Table 5. Descriptive statistics of the values of mandatory disclosures in the analyzed countries for the years 2011–2013 (data in %)

<table>
<thead>
<tr>
<th>Mandatory Disclosure Index</th>
<th>Poland (N = 13)</th>
<th>Germany (N = 13)</th>
<th>United Kingdom (N = 13)</th>
<th>Kuwait (N = 13)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>83.47</td>
<td>75.76</td>
<td>81.98</td>
<td>84.35</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>8.08</td>
<td>12.22</td>
<td>8.81</td>
<td>6.86</td>
</tr>
<tr>
<td>Coefficient of Variation</td>
<td>9.68</td>
<td>16.14</td>
<td>10.75</td>
<td>13.68</td>
</tr>
<tr>
<td>Max</td>
<td>96.15</td>
<td>89.58</td>
<td>90.31</td>
<td>74.86</td>
</tr>
<tr>
<td>Min</td>
<td>70.97</td>
<td>54.11</td>
<td>59.49</td>
<td>53.33</td>
</tr>
</tbody>
</table>

Source: own study.

Table 6. The results of the Kruskal-Wallis and U Mann-Whitney significance tests for mandatory disclosures – comparisons between the surveyed countries

<table>
<thead>
<tr>
<th>Countries Compared</th>
<th>Large</th>
<th>Small</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland-Germany</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– United Kingdom</td>
<td>$\chi^2 = 28.18$</td>
<td>$\chi^2 = 24.34$</td>
<td>$\chi^2 = 51.81$</td>
</tr>
<tr>
<td>– Kuwait</td>
<td>$\epsilon^2 = 0.54$</td>
<td>$\epsilon^2 = 0.47$</td>
<td>$\epsilon^2 = 0.50$</td>
</tr>
<tr>
<td>Poland-Germany</td>
<td>$z = 1.05$</td>
<td>$z = 1.15$</td>
<td>$z = 1.59$</td>
</tr>
<tr>
<td></td>
<td>$p-value = 0.293$</td>
<td>$p-value = 0.249$</td>
<td>$p-value = 0.111$</td>
</tr>
<tr>
<td>Poland-United Kingdom</td>
<td>$z = 1.03$</td>
<td>$z = 1.05$</td>
<td>$z = 1.52$</td>
</tr>
<tr>
<td></td>
<td>$p-value = 0.305$</td>
<td>$p-value = 0.293$</td>
<td>$p-value = 0.129$</td>
</tr>
<tr>
<td>Poland-Kuwait</td>
<td>$z = 3.97$</td>
<td>$z = 3.26$</td>
<td>$z = 5.11$</td>
</tr>
<tr>
<td></td>
<td>$p-value = 0.000$</td>
<td>$p-value = 0.001$</td>
<td>$p-value = 0.001$</td>
</tr>
<tr>
<td></td>
<td>$\epsilon^2 = 0.78$</td>
<td>$\epsilon^2 = 0.64$</td>
<td>$\epsilon^2 = 0.71$</td>
</tr>
</tbody>
</table>
Table 6. The results of the Kruskal-Wallis and U Mann-Whitney significance tests for mandatory disclosures – comparisons between the surveyed countries (cont.)

<table>
<thead>
<tr>
<th>Countries Compared</th>
<th>Large</th>
<th>Small</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany-United Kingdom</td>
<td>z = 0.26</td>
<td>z = 0.85</td>
<td>z = 0.58</td>
</tr>
<tr>
<td>p-value = 0.798</td>
<td>p-value = 0.397</td>
<td>p-value = 0.564</td>
<td></td>
</tr>
<tr>
<td>$\varepsilon^2 = 0.05$</td>
<td>$\varepsilon^2 = 0.17$</td>
<td>$\varepsilon^2 = 0.08$</td>
<td></td>
</tr>
<tr>
<td>Germany-Kuwait</td>
<td>z = 4.33</td>
<td>z = 3.98</td>
<td>z = 5.82</td>
</tr>
<tr>
<td>p-value = 0.000</td>
<td>p-value = 0.000</td>
<td>p-value = 0.000</td>
<td></td>
</tr>
<tr>
<td>$\varepsilon^2 = 0.85$</td>
<td>$\varepsilon^2 = 0.78$</td>
<td>$\varepsilon^2 = 0.81$</td>
<td></td>
</tr>
<tr>
<td>United Kingdom-Kuwait</td>
<td>z = 4.33</td>
<td>z = 4.33</td>
<td>z = 6.17</td>
</tr>
<tr>
<td>p-value = 0.000</td>
<td>p-value = 0.000</td>
<td>p-value = 0.000</td>
<td></td>
</tr>
<tr>
<td>$\varepsilon^2 = 0.85$</td>
<td>$\varepsilon^2 = 0.85$</td>
<td>$\varepsilon^2 = 0.86$</td>
<td></td>
</tr>
</tbody>
</table>

Source: own study.

Table 7. The U Mann-Whitney significance test results for mandatory disclosures – comparisons between large and small companies of the surveyed countries

<table>
<thead>
<tr>
<th>Companies Compared</th>
<th>Poland</th>
<th>Germany</th>
<th>United Kingdom</th>
<th>Kuwait</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large-Small</td>
<td>z = 1.46</td>
<td>z = 1.56</td>
<td>z = 2.28</td>
<td>z = 1.56</td>
</tr>
<tr>
<td>p-value = 0.144</td>
<td>p-value = 0.118</td>
<td>p-value = 0.022</td>
<td>p-value = 0.118</td>
<td></td>
</tr>
<tr>
<td>$\varepsilon^2 = 0.29$</td>
<td>$\varepsilon^2 = 0.13$</td>
<td>$\varepsilon^2 = 0.45$</td>
<td>$\varepsilon^2 = 0.31$</td>
<td></td>
</tr>
</tbody>
</table>

Source: own study.

4.2. Testing the hypothesis

As noted earlier, to verify whether culture (as measured by Hofstede) is correlated with a firm’s disclosure levels in financial statements prepared in accordance with IFRS, we use the Spearman rank correlation coefficient test. The mandatory disclosure index developed from the disclosure checklist was the dependent variable and Hofstede’s cultural dimension scores were the independent variables.

The correlation between dependent and independent variables is presented in Table 8.
The influence of culture on disclosures in financial statements prepared under International...

### Table 8. Correlation Between Mandatory Disclosure Index and Hofstede Cultural Dimensions Assessed with the Rank Correlation Coefficient of Spearman (ρ)

<table>
<thead>
<tr>
<th>Hofstede Cultural Dimensions (Independent Variable)</th>
<th>Mandatory Disclosure Index (Dependent Variable)</th>
<th>ρ</th>
</tr>
</thead>
<tbody>
<tr>
<td>PDI</td>
<td></td>
<td>−0.656</td>
</tr>
<tr>
<td>IND</td>
<td></td>
<td>0.615</td>
</tr>
<tr>
<td>UAI</td>
<td></td>
<td>−0.316</td>
</tr>
<tr>
<td>MA</td>
<td></td>
<td>0.656</td>
</tr>
</tbody>
</table>

Source: own study.

The conclusions that can be drawn from the results obtained are as follows.

1. Hofstede’s cultural values have an impact on the scope of information disclosed in financial statements prepared under IFRS (for all dimensions of p-value <0.05).
2. The dependences of the MDI on the variables of individualism and masculinity are positive and statistically significant (p-value). The above means that the higher the value of these cultural dimensions, the better the level of compulsory disclosures in the financial statements. The relationships between these variables were strong (rho: 0.615 for individualism and rho: 0.656 for masculinity).
3. Between the MDI and the power distance and uncertainty avoidance variables, the correlations are negative and statistically significant (p-value <0.05). Therefore, as the intensity of these cultural dimensions increases, the scope of disclosures in financial statements gets smaller and smaller. The strength of this relationship is strong in the case of power distance (rho: -0.615) and moderate for uncertainty avoidance (rho: -0.316).

The results of the study partially support Gray’s hypothesis regarding secrecy. With regard to one dimension – masculinity – the direction of the relationship was opposite to that indicated by Gray (1988). For the other indices, the relationships were the same.

### Conclusion and future research

Our study investigated the role of national culture in shaping disclosure levels after the use of IFRS. We used the cultural dimensions identified by Hofstede as a proxy of culture and analyzed the financial statements of listed companies for three years: 2011, 2012 and 2013 from four countries: the United Kingdom, Germany, Poland, and Kuwait. The research material came from 312 annual consolidated financial statements from 104 companies. The empirical results indicate that the power distance, individualism, uncertainty avoidance, and masculinity cultural dimensions significantly affect the financial disclosure levels of the sample companies. Thus, our findings suggest that
culture does appear to be an important factor in explaining variations in company-level disclosures after the use of IFRS. We also obtain partial support for Gray’s secrecy hypothesis. With regard to one dimension – masculinity – the direction of the relationship was opposite to that indicated by Gray (1988). For the other dimensions, the relationships were the same.

Our study is consistent with the results obtained by Akman (2011) and provides evidence of the generalizability of Gray’s secrecy hypothesis to the CEE and Arabic cultural areas.

The results of the study also suggest that mandatory disclosures indices in the United Kingdom, Germany, and Poland were similar. The lowest values were observed for Kuwaiti companies. Given the specifics of Islamic economics and the resulting socio-economic goals of accounting, it seems reasonable to assume that the disclosures required by conventional accounting do not meet the expectations of “Muslim stakeholders”.

The conclusions of the study also raise questions about the prospects for the development of accounting systems in the world. Their classic division into continental and Anglo-Saxon in the era of continuous harmonization of accounting may be outdated. It is worth mentioning here the opinion of Luty (2010 cited by: Zuchewicz 2011), who states that in the near future three pillars will lead in the world:

Pillar I – Europe, the USA, and developed countries,

Pillar II – Arabic countries,

Pillar III – China.

In light of the results of the study, this view seems justified.

Our study is part of intercultural research on the ongoing harmonization of accounting. It certainly does not exhaust all the issues raised in the paper but nevertheless opens the field for further theoretical and empirical research in this field of study. The literature review made by K. Koleśnik and S. Silska-Gembka (2012) in terms of determining how much the issues concerning cultural conditions of accounting are present in the national literature, clearly indicated that this issue is poorly recognized in Poland. The subject matter is presented only in the theoretical aspect, which mainly refers to the presentation of Hofstede’s cultural dimensions and Gray’s accounting subculture model. To the best of our knowledge, no empirical research in this area has been carried out in Poland so far. Meanwhile, cultural aspects are raised in the work of Polish researchers in other areas of research, including intercultural psychology (e.g., Bilewicz, 2007; Borkowska, 2007; Sorokowski, 2010) and intercultural management (Sułkowski, 2002).

One limitation of the present study is that it uses quantitative rather than qualitative measures. In our opinion, the assessment of the quality measures would be subject to too much subjectivity, especially since the research was conducted independently. The key aspect in this research procedure is to give a weight to individual areas of evaluation, which is most often carried out using the expert method (e.g., Zarzeski, 1996; Karmańska et al., 2010; Lopes and Alencar, 2010). The findings are also based on observations of a relatively small number of companies. This raises further uncertainty about the extent to which the results are generalizable. These limitations, however, do
not diminish the value of the study; they open up a new research area in Poland in the field of cultural aspects of accounting.

The problems to be considered in subsequent empirical studies may relate to the influence of cultural determinants on the quality of disclosures in financial statements and IFRS interpretation. The latter issue is of particular interest, given that in interpreting many facts, international standards often require estimates and subjective assessments. Moreover, our study uses measures of disclosure for a period of three years (2011–2013), so future studies could include more recent financial statements to investigate the continuing effects of culture on financial disclosures. Cultural orientation with respect to accounting systems is only one of many factors that determine a country’s success in implementing IFRS. Nevertheless, awareness of cultural orientation helps governments, firms and standard setters cope with change by anticipating challenges and opportunities.

Appendix 1. An example of the mandatory items used in the disclosure index for “Operating segments” (IFRS 8)

1) Accounting policies for factors used in identifying the entity’s reportable segments, including the basis of the organization (for example, by geographical area, products and services, or a combination of factors, and whether operating segments have been aggregated).
2) Information regarding the types of products and services from which each reportable segment generates revenues.
3) Disclosure is a measure of profit or loss for each reportable segment, and a measure of total assets and liabilities for each reportable segment if those amounts are regularly provided to the chief operating decision-maker.

Information for each reportable segment if the information is included in the measure of segment profit or loss reviewed by the chief operating decision-maker, or is otherwise regularly provided to them, even if not included in that measure of segment profit or loss:
4) revenues from external customers;
5) revenues from transactions with other operating segments of the same entity;
6) interest revenue;
7) interest expense;
8) depreciation and amortization;
9) material items of income and expense disclosed in accordance with IAS 1 para 86;
10) the entity’s interest in the profit or loss of associates and joint ventures accounted for by the equity method;
11) tax income or expenses; and
12) material non-cash items (other than depreciation and amortization).
Reconciliations of the following:

13) the total of reportable segments’ revenues to the entity’s revenue;
14) the total of the reportable segments’ measure of profit or loss to the entity’s profit or loss before tax and discontinued operations, unless items such as tax income and expenses are allocated to segments, in which case the reconciliation may be to the entity’s profit or loss after those items;
15) the total of the reportable segments’ assets to those of the entity;
16) the total of the liabilities of the reportable segments to those of the entity (where segment liabilities are reported);
17) for any other material item the total of the reportable segments’ amount to the corresponding amount for the entity.
18) Information about the extent of the entity’s reliance on its major customers. If revenues from transactions with a single external customer are 10% or more of the entity’s revenues, that fact shall be disclosed, along with the total amounts of revenues from each such customer and the identity of the segments reporting the revenues.
19) Information about the reportable segment in which the non-current asset (or disposal group) classified as held for sale or sold is presented.
20) Information about the amount of impairment losses recognized in profit or loss and directly in equity during the period, and the amount of reversals of impairment losses recognized in profit or loss and directly in equity during the period.

References


Internet Sources
