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ABSTRACT

This study attempts to model an alternative approach to explain corporate disclosure proxied by corporate culture. The starting point is that the prior studies (see Ahmed and Courtis, 1999) which focus on corporate characteristics such as firm size (as measured by value of assets), listing status, sales, audit firm status, leverage, profitability and liquidity are inadequate in explaining the reasons for observed corporate disclosures. These studies ignore the institutional factors (Hopwood, 2000) that impact on the efforts of managers to retain control of the disclosure process.

The central thesis of this study is that the organizational culture is a better and more meaningful predictor of the observed level of corporate disclosures in firms. The data of the study will be collected from a survey of 1500 small, middle-sized, and large firms in Finland. These firms will also include those which are financially distressed. The effect of the background (size, financial status, industry) of firms on disclosure will later be analyzed using correlations and regression analysis.

The study will contribute to developing a specific guide for assessing disclosures in business firms which is useful in providing a local benchmark for demanding increased corporate disclosure in relation to International Accounting Standards. The study by focusing on business firms in general helps obtain a clear understanding of a general view of industry disclosures and thereby also contributing to business literature.

KEY WORDS: corporate disclosure, disclosure practices, corporate culture

1. INTRODUCTION

1.1. Background to the study

The existing literature on accounting is filled with studies of financial disclosure based on the research that uses results in the annual report to explain disclosure. Most of these studies have proceeded from a market or regulatory theories' standpoint which postulates that disclosure is a function of the incentives or disincentives that it generates (Owusu-Ansah 2000). These studies use structural performance and market-related variables such as firm size, listing status, sales, audit firm status, leverage, profitability and liquidity to explain the level of disclosure in the firm. The problem with these variables is that they are also created or reported as part of the incentive or disincentive regime.

The role of organizational culture in explaining corporate financial disclosure has thus far not been adequately addressed. Neither has there been an attempt to use field studies Adams (1997) to investigate the process of developing the numbers that are included in the corporate annual reports. The institutional and social determinants of financial disclosure are thus still relatively unexplored (Hopwood 2000). Institutional and social characteristics here refer to the value types in a group and the culture of the organization. Disclosure studies seem to have failed to focus on the supply-side forces and their impact on disclosure and therefore further progress in the study of disclosure will depend on improvement in theory and empirical tests rather than continued application of the current state of art.

1.2. Motivation of the study

The motivation of this study is based on the grounds that organizations must arrange themselves into some pattern that sustains their existence if to be considered as social relationships based on a set of shared values and norms. This form can best be understood by looking at the context in which financial disclosure occurs. The way in which financial disclosure is managed can have significant consequences for the organization (Gibbins et al. 1990). If we understand how financial disclosure is managed, we should be able to make better predictions of the outcomes. Corporate financial disclosure is therefore viewed as a managed activity in the organization just like other functions. The motivation, events and processes, structures and people behind financial disclosure, if understood clearly provide a better perspective of its outcomes which in turn facilitate the improvement of an understanding of disclosure.

This study therefore goes away from the usual perception of the existing empirical theories of financial disclosure and adopts a cultural perspective to organizational theory to model disclosure. Although there is no single accepted definition of culture Reichers & Schneider (1990), culture is an internally consistent package of cultural manifestations that produce organization-wide consensus (Martin & Frost 1996: 602). It's a core symbol that represents a shift from comparison with physical objects to comparison with other social phenomena which have an undetermined status. Culture as a core symbol promotes a view of organizations as expressive norms and manifestation of human perception. Organizations are understood and analyzed not mainly in economic or material terms but in terms of their expressive, ideational, and symbolic aspects.

According to the cultural theory of organizations, preferences are endogenous, that is, internal to the organization, so that they emerge from social interaction in defending or opposing a given position. The key issue when it comes to disclosure is in which way do people sharing values (goal similarity) act to strengthen their organizations? How do they select data so as to convert it into information that will support the mode of

organization they wish to maintain (Wilkins and Ouchi 1983)? Hofstede (2001) recognized that corporate culture is linked to organization theory in a way that not only organizations are culture-bound, theories about organizations are equally culture-bound. Organizations are specific collectivities of people whose activities are coordinated and controlled in and for the achievement of defined goals (Ashkanasy, Wilderom & Peterson 2000: 58). The emphasis here is on the socio-cultural qualities that develop within an organization, even though organizations themselves are fixed in a wider cultural context if we proceed on the premise that the wider cultural context has a bearing on organizational qualities. This conception of cultural can be based on a structure in which we express patterns of dependent relationships in which case the pattern of relationships expressed would explain financial disclosure as an alternative for survival. Organizations exist in a largely determinant relationship with their environment which presents essentials for behavior that managers perform in their organizations and later contributing to its overall systemic balance and effectiveness. If this study can identify the qualities that contribute to effectiveness, then it should be able to predict organizations that are effective that is to say, organizations with strong task environments that enhance financial corporate disclosure (Peters and Waterman 1982).

1.3. The Research Problem

Disclosure studies such as Ahmed and Courtis (1999) have up till now assumed that knowledge of disclosure process is perfect and the ability to measure the outputs is also high. This implies that the reporting framework is characterized by well-structured tasks and highly measurable outputs without a need to understand how disclosure is managed (Gibbins, Richardson and Waterhouse 1990). The majority of disclosure studies have focused on corporate characteristics which are in fact the reported results rather than the process that produces the reports which include these characteristics. This approach to disclosure studies (known as the demand side approach) adopts the view that ‘...the first stage in understanding any process should be an examination of its products’.

Such a view however does not take into account the organizational, social and environmental factors Hopwood (2000) that impact on the efforts of managers to achieve their own goals. The interaction of organizational factors does indeed reduce structure and measurability, especially when it comes to the disclosure of estimates on which performance (and rewards) is predicted to a large measure. The litany of corporate failures that is revised in disclosure literature affirms that demand side attributes do not satisfactorily explain the collapse of firms. The existing disclosure theories are also based on the premise that preferences are exogenous, that they are external to the system being considered (Thompson and Wildavsky 1986: 275). This means that disclosure of information is either dictated by the 'invisible' hand of the market or by regulation of the organization.

There has thus been a consistent failure to relate the effect of institutional and social aspects (as supply side factors) and the quality of corporate disclosures in companies' financial statements (Hopwood 2000). While the institutional context is acknowledged as affecting accounting choices and reporting objectives, there has not been any effort to explain the form and nature of that influence. In this light, this study aims at providing additional insights into understanding that the organizational environment (the set of habits/practices that are followed during the disclosure process) has an influence on corporate disclosure. By approaching the study of disclosure using research that examines management's propensity and behavior, this study should be able to predict the extent of a firm's disclosure (in terms of both quality and quantity) better as well as investigate the adequacy of corporate disclosure practices by business firms in light of the institutional environment in which disclosure occurs.

The recent accounting scandals in several multinational corporations such as Enron, WorldCom, Xerox and Parmalat show that existing disclosure predictors fail to explain the misrepresentation and manipulation of information. All these firms had the capacity to spend resources on increasing information availability. They were/are audited by big firms and their chief finance officers were/are Certified Public Accountants (CPAs).

The failure to disclose cannot therefore be wholly explained by structural, performance and market-related variables hereto advanced. It is therefore necessary to rethink the disclosure and pattern. This study is intended to offer a new postulation of what drives disclosure and what we should expect if we understand the process that creates the disclosures found in corporate annual reports.

1.4. Objectives of the study and the study approach

The objective of the study is to follow and determine the extent to which organizational culture (supply-side factor) can be used to explain corporate disclosure (both quality and quantity) as opposed to structure, performance and market related variables. The study adopts the use of a survey approach in order to achieve this objective. A related objective addressed by this study is to investigate the relationship between organizational cultures and corporate disclosures in business firms.

1.5. Contributions of the Study

This research will widen the scope of earlier studies on disclosures by developing an alternative paradigm for predicting financial disclosure. Following Gibbins, Richardson and Waterhouse (1990), it is assumed that disclosure is a managed activity which can be explained by a study of the specific context in which it occurs. The research will therefore contribute to the above study by identifying variables from an organizational perspective which will be used to explain corporate disclosure.

The study will also contribute to earlier literature on disclosure by extending the work of Ahmed and Courtis (1999) in terms of developing a specific guide for assessing disclosures in business firms. This will be useful in providing a local standard for

demanding increased corporate disclosure in relation to International Accounting Standards for business firms.

Finally, by focusing on business firms in general, the study will help in obtaining a clear understanding of a general view of business firm's disclosures and therefore provide additional insights into corporate disclosures by business firms.

1.6. Structure of the Study

The study consists of four sections organized as follows; the first section gives the introduction to the study in which the background of the study, its motivation, the research problem, objectives of the study and study approach, and finally the contributions of the study are presented. The second section deals with literature on corporate disclosure. It presents the corporate attributes influencing financial disclosure in detail, describes how disclosure is measured in practical terms and finally goes ahead by presenting the legal framework for disclosure in Finland. The third section introduces literature on organizational culture, presents the influence of culture on accounting, and finally addresses the work values related to the different cultures from which the study hypotheses are developed. The last section presents the methodology of the study.

3. CORPORATE FINANCIAL DISCLOSURE

This chapter describes the concept of corporate financial disclosure and is structured as follows: first it presents the definition of corporate disclosure and proceeds by describing the different corporate attributes influencing financial disclosure. The evidence provided here shows that some attributes have mixed findings. Following is an overview of the legal framework for disclosure in Finland.

3.1. Definition of Corporate financial disclosure

Corporate financial disclosure has been defined by different writers (Cerf 1961; Singhvi and Desai 1971; Buzby 1974; Chandra 1974; Wallace 1988; Marston and Shrivies 1991; Gibbins et al. Richardson and Waterhouse 1990; Chow and Wong-Boren 1995; Botosan 1997; Owusu-Ansah 1998) as the release of organizational information concerning the economic performance, position or prospects of the organization particularly as measured in monetary terms. It includes measurement, adjustment, qualification and application of accounting rules and any other shaping of data prior to its release and also any subsequent interpretation. Corporate financial disclosure is a multidimensional selection of managed activities, which occur in varying contexts and has various costs and benefits in factor markets (Gibbins et al. 1990).

Disclosure can be either mandatory or voluntary. Mandatory disclosure is the minimum standard of disclosure in corporate annual reports expected by the regulatory forces. Corporate mandatory disclosure implies the presentation of a minimum amount of information in corporate reports, sufficient to permit a reasonable evaluation of the relative risks facing an organization (Owusu-Ansah 1998). Regulatory forces have been identified as consisting of the stock market, legislation and accounting practice (Ahmed and Nicholls 1994). The law of the company regarding corporations (company law) is used to define the minimum level (mandatory) of disclosure. Such law encompasses the regulatory environment regarding industry and stock market requirements. Voluntary

disclosure on the other hand refers to the additional disclosures over and above those required those required by the regulatory forces that govern mandatory disclosure. Voluntary disclosures include such things like miscellaneous company information, management discussion and analysis (MDA), information on future directions and key non-financial statistics (Botosan 1997: Appendix 11). Adequate disclosure in corporate financial reports is a function of quantity and quality of information disclosed therein, the form in which it is presented, and how frequent and timely reporting occurs (Owusu-Ansah 1998). There are four major methods that have been distinguished for the study of corporate disclosure.

1. Research that uses results in the annual report to explain disclosure
2. Research that would initiate a controlled experiment to explain management overview
3. Qualitative interviews of external advisors of the business
4. Research that tries to explain managements' propensity and behavior by means of internal interviews and questionnaires.

3.2. Corporate attributes influencing financial disclosures

Corporate attributes have been used by a number of writers as a basis for explaining the level of disclosure in the corporate annual report. As predictors of the comprehensiveness of disclosure, they have been classified into three categories (Wallace et al., 1994). The categories are structure related, performance related and market variables. Structure related variables describe a firm on the basis of its underlying structure (size and gearing). Corporate size variables commonly studied are total assets and sales, and gearing (debt/equity) ratio. Performance related variables vary from time to time and represent information that may be of interest to accounts users. They include liquidity, earnings return, and profit margin. Market related variables are qualitative in nature (Wallace, *et al.*, 1994) unlike the previous two categories that are quantitative. Market related variables might be time-period specific and/or relatively stable over time. They refer to a firm's behavior which results from its

association with other firms in its operational environment. Three variables identified in this category include industry type, listing status and auditor type. In the accounting context, these corporate attributes are demand-side variables because they are a function of the need to report desirable or undesirable results. The benefits derived by management from reporting good or bad performance must be analyzed in the context of the bonus plan, political costs and the size of debt hypotheses.

1. Corporate Size

Prior studies have indicated that the size of a firm has a strong influence on financial disclosures in Corporate Annual Reports (Archamdault 2003; Akhtaruddin 2005; Hossain 2000; Low 1998; Wallace and Naser 1995; Zarzeski 1996; Inchausti 1997; Lang & Lundholm 1993; Chow and Wong-Boren 1987; Cooke 1989, 1992; Raffournier 1995; and Owusu-Ansah 1998). The size variables considered in these studies include sales, total assets, number of employees, and number of shareholders. It has been argued that large firms compared to small firms are more motivated to provide higher financial disclosures in their annual reports because of the following reasons. First, large firms have high competitive cost advantages (Lang & Lundholm 1993; Lobo & Zhou 2001). Related to this is the direct cost of complying with disclosure requirements, since gathering, generating and disclosing detailed data is a costly activity, small firms may not be able to afford such costs from their resource base and thus disclose less than larger counterparts for whom this is relatively less costly because they are assumed to produce this information for internal purposes. Large firms have the expertise and resources to produce sophisticated reports and hence they have a higher level of disclosure. They are also more likely to need to raise capital through the stock exchange, and the stringent requirements of the stock exchange force them to disclose more information. Chow and Wong-Boren (1987) argue that agency costs increase with the size of the firm and in order to reduce these costs, managers increase the level of financial disclosure. This is in line with the argument by Lobo & Zhou (2001) that firms wishing to enhance their value may do so by increasing the level of financial disclosure. Secondly, large firms have a broad-based ownership which requires more comprehensive and detailed disclosures to meet the information needs of the various

groups of investors. Consequently, management of such companies requires internal information systems which enable them to make operational and strategic decisions concerning the broad business units and to ensure that all units are performing adequately in relation to the overall corporate objectives.

2. Profitability

Previous studies (Wallace and Naser 1995; Inchausti 1997; Akhtaruddin 2005) have used profitability as an attribute influencing the extent to which companies disclose information items in their corporate annual reports. Researchers have used net profit of sales, return on assets and return on equity as proxies for profitability while measuring disclosures in organizations. Empirical results on profitability are mixed. Findings of Wallace et al. (1994), Karim (1996), Owusu-Ansah (1998), Wallace and Naser, (1995), and Hossain (2000) suggest that highly profitability firms are more likely to signal to the market its superior performance by disclosing more information in its annual reports than those with lower profitability. However, Lang & Lundholm (1993: 251) argue that disclosures are likely to be related to a firm's profitability only if perceived information asymmetry between managers and investors is high. Lang & Lundholm (1993: 250) continue their argument by noting that the influence of a company's profitability level on disclosure can be positive, neutral and negative depending on its performance. The studies on profitability have also argued that profitability is a measure of management performance, and as such management of a profitable company is likely to disclose more information to support its performance-related compensatory schemes. Inchausti (1997) employs signaling theory to argue that management, when in possession of 'good news' due to better performance are more likely to disclose more information to the stock market. Good news would lead to an increased share price valuation on the stock market and also support a continuance of companies' positions and remuneration. A counter argument is that unprofitable companies are also inclined to release more information to defend their poor performance (Owusu-Ansah 1998).

3. Company Age

The age of a company has also been considered as influencing disclosure (Owusu-Ansah 1998). He argues that older, more experienced and well-established companies are likely to disclose more information in their annual reports in order to enhance their reputation and image in the market than younger companies. This can be seen in the sense that younger companies may suffer competitive disadvantage if they disclose certain items such as information on research expenditure, capital expenditure and product expenditure which may then be used by other competitors to disadvantage them. On the other hand however, older companies may alternatively be motivated to disclose such information as their presentation may not affect their competitive position. It should also be noted that, the cost and ease of gathering, processing and disseminating the required information may not be affordable by younger companies. Contrary to other studies, in the study of Akhtaruddin (2005: 410) he found no support for age as an influencing corporate attribute on disclosure level.

4. Number of Shareholders/Ownership Structure

Distribution of ownership is assumed to be associated with disclosure of information. Investors owning large percentages of a company are more in position to obtain information directly from the company. A wider dispersion of share ownership is assumed to be associated with more disclosure (Cooke 1989; Owusu-Ansah 1998). This assumption is based on agency theory of accounting in which companies are characterized by a separation of ownership and management. This generates agency costs resulting from conflicting interests between management and owners and across classes of owners. Agency costs tend to be higher for companies with a large number of shareholders as they press for more adequate information for monitoring purposes. Such companies also employ professional managers who have an incentive to make adequate information disclosures. This professionalism also comes with the technical ability to produce such information disclosures as shareholders may demand. A contrary argument to the agency theory postulation above was expounded by Zeckhauser and Pound (1990), cited in Owusu-Ansah (1998) who argued that dispersed individual shareholders are not a frightening influence on corporate outcomes including disclosure policies and practices, even if the net benefits are great enough to provide

significant incentives to become informed. Individual public shareholders, where share ownership is widely dispersed, do not have the power to access internal information of the company.

5. Multi Nationality of the firms

Multi-National Corporation (MNC) status is believed to have a positive association with financial disclosure level. Firms with a MNC affiliation are likely to disclose more information. MNCs are expected to demand more information because as a result of internationalization of business and of capital markets, firms are being challenged to meet the information needs of diverse groups of investors with different cultural backgrounds and in order to do so, firms will be required to disclose more detailed information. If for example investors' in different countries have detailed information needs or even some in a few locations have limited information needs there will be a positive association between multi-nationality and financial disclosures simply because multinational will have to meet both information needs of the different investors.

6. Principal accounting Officers Professional Qualifications

Ahmed and Nicholls (1994) have argued that the primary responsibility of preparing corporate annual reports lies with the principal accounting officer. Professionally qualified accountants, because of their thorough training and examinations, are more likely to provide more information in the annual report than non-qualified accountants.

7. Capital structure (Leverage)

Capital structure is used to refer to the debt/equity ratio or leverage of the company. Corporate information disclosure is often considered as an instrument to reduce the monitoring costs for creditors. Because of this, there is an expectation of a positive link between firm's disclosure level and its indebtedness since in the event of high leverage,

creditors will urge the firm to disclose more information to help them handle their own credit risk (Hossain et al. 1994). Capital structure as one of the corporate attributes that have an influence on disclosure has had mixed results. Ahmed and Courtis (1999: 51), Jaggi and Low (2000) and Wallace et al. (1994) have reported a positive relationship between leverage and financial disclosure levels. Zarzeski (1996) however argues that financial disclosure decreases with leverage on the ground that debtors would have direct access to information. This argument would however be valid if firms have private debt rather than public debt. In such a case, if firms have a higher level of public debt, debt-holders are more likely to have close relationship with the firms and consequently leading to an agency problem and hence requiring detailed financial disclosure to ensure observance to debt contracts. Alternatively, in the case of public debt, a positive association would be expected as indicated by findings of several prior studies.

8. *Listing Status*

Registration of a firm's equity for trading on a stock market can be influenced by total market capitalization Salter (1998), and also by the listing requirements of that stock exchange (Wallace *et al.* 1994: 47). Such rules provide for specific disclosures in the corporate annual report over and above those that may be required by other regulators since companies listed have to comply with the minimum disclosure requirements of market regulation authorities. Based on this evidence, we expect that firms with a stock exchange listing would have a greater extent of disclosure in their corporate annual report, than unlisted firms for both qualitative and quantitative disclosures.

9. *Quality of External Audit or Audit Firm Size*

Support for examining audit firm size as one of the corporate attributes influencing disclosure levels has come from several studies (Ahmed and Nicholls 1994; Raffournier 1995; Patton and Zelenka 1997). The audit firm responsible for reporting to shareholders can significantly influence the amount of information disclosed in the corporate annual report (Ahmed and Nicholls 1994; Owusu-Ansah 1998). The value of

an external audit depends on how users perceive auditors' reports in the CAR. This perception is based on the ability of the auditor to detect errors and willingness to properly report those errors. Large audit firms are more likely to report mis-statement and errors, and to ensure compliance by their clients with statutory and regulatory reporting rules than small independent firms. Larger audit firms invest more to maintain their reputation as providers of quality audit than smaller firms. They therefore have a larger incentive to report inadequate disclosure. Another possible explanation for this relationship is the fact that large firms have a greater potential exposure to legal liability and this provides further incentive for greater disclosure. Some studies have however found no relationship between audit size and disclosure for example Ahmed and Courtis (1999: 53) based on a meta-analysis and also Wallace et al. (1994) based on his study on Spanish firms found no relationship between the two.

10. Industry Type

Association between the level of disclosure and industry type provides mixed results. Owusu-Ansah (1998) cites Sprouse (1967) as the originator of this variable. Since accounting policies and techniques may vary across industries, disclosure is not likely to be the same across different industries. Some industries are highly regulated due to their strategic importance and are therefore subject to more thorough controls. Other industries are, by their nature, constrained in reporting certain aspects of their business such as depreciation, depletion and exploration in the mining industry. This is because it may not be possible to make realistic judgments about these estimates. Industry-induced variations may affect the level of disclosure in the CAR, because of the way they impact on company image and public perception (Wallace *et al*, 1994). The relationship between industry type and disclosure was not found to be significant in the findings of Inchausti (1997), Cooke (1992), Raffournier, (1995) and Owusu-Ansah's (1998) studies. Conversely, other studies have found no differences in disclosure level between industries (Watson et al. 2002)

11. Liquidity

Wallace *et al.* (1994: 49) has argued for a link between liquidity and the level of disclosure in the corporate annual report. According to Wallace & Naser (1995), regulatory bodies as well as investors and lenders are particularly concerned with the going-concern status of companies. Companies that are able to meet their short-term obligations without recourse to liquidation of their assets, desire to make this fact known through disclosure in their annual reports (Belkaoui and Kahl 1978). Liquidity is measured by the quick ratio¹ as it is a more stringent measure of corporate liquidity (Owusu-Ansah 1998).

H1a: The size, profitability level, ownership structure, multi nationality, external audit quality, capital structure, age and listing status of a firm are positively associated with corporate disclosure.

H1b: The type of industry in which a firm belongs is not associated with corporate disclosure

3.3. The legal framework for disclosure in Finland

Corporate financial accounting and reporting by business firms in Finland is governed by a number of statutes. For example, Finland's 1997 Companies Act (which states disclosure requirements in financial statements that is balance sheets, income statements, interim reports and annual statements), Accounting Act and Ordinance (which regulates accounting and book keeping in general), the Audit Act and Ordinance, Securities Market Act, the Ministry of Trade and Industry, the Business Income Taxation Act (which directly influences the financial statements given the fact

¹ Quick Ratio = (Current Assets - Inventory)/Current Liabilities. The ratio measures ability to settle current liabilities using quick assets, i.e. (debtors and cash).

that taxation is based on the annual accounts), the Finnish Accounting Board (a state body that can issue statements and instructions on both the application and interpretation of the Accounting Act as well as other matters related to it), the International Financial Reporting Standards (IFRS) adopted by the Finnish Institute of Authorized Public Accountants (a professional accountancy body) and the Helsinki Stock Exchange provisions provide the framework for corporate disclosures by business firms in Finland.

The accounting profession in Finland is governed by the Finnish Institute of Authorized Accountants. This institute is responsible for developing accounting practices as well as giving recommendations on generally accepted practices in Finland. It carries out its recommending function following the International Standards on Auditing (ISA) of the International Federation of Accountants, IFAC. It should be noted from the above that accounting standards have had an important contribution towards harmonization and reporting practices in individual countries and Finland in particular.

The Helsinki Stock Exchange authority governs disclosure in corporate reports as a part of listing requirements. The Securities and Exchange Commission (SEC) in Finland plays a central role in monitoring and enforcing disclosure compliance of listed companies. The purposes of monitoring corporate annual reports are to examine whether they adhere to regulatory frameworks and to encourage compliance. Listed companies are obliged to comply with its listing requirements on disclosure and reporting and to disclose information that is sufficiently complete not to mislead investors and must be consistent in their disclosure policies. Listed companies when preparing financial statements are required to address all key financial statement items specified under the Securities Market Act and the Ministry of Finance Decree. They are also required to take into consideration the provisions of the Companies Act, the Accounting Act, the Securities Market Act and the Ministry of Finance Decree issued thereunder while preparing annual financial reports and also when preparing interim reports take into consideration the provisions of the Securities Market Act and the Ministry of Finance Decree issued thereunder. The listing rules of the Helsinki Stock Exchange require that the company publishes annual accounts in accordance with the

accounting laws applicable to the company. The stock exchange requires companies to provide the market with information that is timely, reliable, accurate and up-to-date as well explaining their financial positions and performances. It must therefore be noted that all in all apart from the concern of ensuring compliance with the financial reporting standards and disclosure rules as seen from above, a really important concern of the legal framework is to see to it that the accounting information is manipulated and disclosed by companies in such a way to reflect a true and fair state of their affairs and this is done through the compliance of disclosure rules set by the governing bodies listed above.

2. ORGANIZATIONAL CULTURE IN A PERCEIVED WORK CONTEXT

2.1. Prior Literature on Organizational Culture

Academic literature is replete with definitions of what organizational culture is or should not be. The term organizational culture² (OC) is generally defined in terms of shared meanings – patterns of belief, rituals, symbols and myths that evolve over time, serving to create conformity. Stein (1995: 9) defines organizational culture as ‘...a pattern of basic assumptions that a given group has invented, discovered or developed in learning to cope with its problems of external adaptation, and that have worked well enough to be considered valid and therefore to be taught to new members as the correct way to perceive, think and feel in relation to these problems.’ Hofstede et al. (1990) defines OC as symbols, heroes and rituals. At the core of these rituals are values which define people’s perceptions of what should be. Culture is therefore a core symbol that represents a shift from comparison with physical objects to comparison with other social phenomena which have an undetermined status. Culture as a core symbol promotes a view of organizations as expressive norms and manifestation of human perception. Organizations are understood and analyzed not mainly in economic or material terms but in terms of their expressive, ideational, and symbolic aspects.

There is no compromise on the operational definition of the organizational culture concept but the connection of organization theory and culture theory is manifested in areas like comparative management, corporate culture, organizational cognition, organizational symbolism, and processes and organization. In the first two, culture is either an independent or dependent variable, external or internal organizational variable. In the last three, culture is not a variable but a symbol for conceptualizing organizations. Considered together, they show that culture is a promising concept for the study of organizations. Most writers however agree that organizational cultures are holistic,

² The terms organization culture and organizational climate refer to the same phenomena. The former is used in British Academic literature while the latter is used in American literature. The two are used interchangeably here. They are also used interchangeably with work culture, institutional culture, corporate culture and organization climate.

historically influenced, related to anthropological concepts, socially constructed, soft and relatively stable (Hofstede 2001). Organizations are symbolic units which function according to understood models. These models are culturally determined (Hofstede 2001) and therefore bound to vary from region to region. As implicit models, organizations use rituals to reduce uncertainty, create simplicity and make sense in a confusing world.

OC and organizational performance were explored as a relationship by Wilkins and Ouchi (1983) who argued that particular properties of local organizational culture were more important than others in explaining organizational performance (effectiveness). Clans in organizations appeared to address the performance problem by socializing parties in such a way that though self-interested, their objectives in the exchange were similar rather than mutually exclusive. The idea of goal similarity helps understand the motivation of members to cooperate and how much motivation enables members to act in the interest of the clan. From a transaction cost perspective, it becomes easy to see how organizational culture will affect efficiency. If participants understand what is in the best interests of the group and that there is a perception of goal similarity, the clan provides shared frameworks, language and goes ahead to help members start from similar assumptions in solving a problem. This is so even when they are limited in their ability to understand and process information. In studying the relationship between OC and organizational performance, the theory of clan control provides several implications listed below:

1. The level of uncertainty, difficulty and interdependence of transactions – clans are more efficient than bureaucracies and markets where these conditions are high.
2. The rate of change in the nature of transactions. If the nature changes quickly, then clans may not adapt quickly because they need to much social agreement.
3. The cost of developing and maintaining a clan or organization specific culture – high costs reduce efficiency of the clan, and
4. The level of analysis where clan like sub-units can be efficient but determined to overall organization performance.

The Wilkins and Ouchi (1983) implications above lead to a need to critically focus on the practical issue of control. The questions that arise from this focus are:

1. In what way can an insight into the culture of an organization contribute to controlling the organization? How do we lead it to where we want it to go or predicting what will happen if it does not take action and
2. In what way can we obtain an insight into the organization's culture - how can we measure that culture (Hofstede 1986)?

To many writers OC is viewed as measurable and its association with accounting phenomena has been growing with time, especially with respect to the functionalist example which as opposed to the interpretive example views culture as something that can be determined and objectively measured (Reynolds 1986; Goddard 1997). Contemporary writing on culture reflects three recurring themes in organizational culture. These are:-

1. A socio-structural system composed of the perceived functioning of formal structures, strategies and management processes
2. A cultural system that embodies the organizations' myths, values and ideology and
3. The individual actors with their particular endowments, experience and personality (Reynolds 1986).

The first and second aspects that emphasize the socio-structural and the expressive and affective systems are the most meaningful in measuring and therefore predicting or explaining the features of an organization. These aspects have been reviewed and consolidated into 14 dimensions which combined have been recognized as a reliable measure of the perceived work context (see Reynolds 1986: 334).

- External vs. internal emphasis: emphasis on the task of satisfying customers (external) versus a focus on internal organizational activities such as committee meetings and reports.

- Task vs. social focus: focus on organizational work versus concern for the personal and social needs of organizational members.
- Safety vs. risk: tendency to be cautious and conservative in adopting different programmes or procedures versus a predisposition to change products or procedures especially when confronted with new challenges and opportunities.
- Conformity vs. individuality: organizations vary in the way to which they tolerate or encourage participants to be distinctive or idiosyncratic in their contributions and social life. This can involve toleration of variation in clothing, work styles, and personal activities away from work. On the other hand, an organization may encourage substantial homogeneity and uniformity in all aspects of work and life.
- Individual vs. group rewards: organizations provide rewards to members such as job continuity, systematic raises and the prestige of being associated with an organization. In terms of specific work performance, rewards may be distributed to all members of a work unit or in response to individual contributions.
- Individual vs. collective decision making: the way to which individuals make major decisions and proceed with implementation versus collective decisions which represent the input of various individuals.
- Centralized vs. decentralized decision making: centralized procedures imply that those in key positions, individuals or groups, may have considerable impact on the programmes and actions of the organization. In contrast, decentralization of decision-making may allow individuals or work teams to make decisions about their own situation.
- Ad hocery vs. planning: organizations may vary considerably in their tendency to anticipate and plan for change. Some develop ad hoc responses to all changes; others may create elaborate plans that anticipate most future scenarios.
- Stability vs. innovation: reluctance to adopt any new procedure that is not well established versus a constant search for novel and distinctive goods, services and procedures.
- Cooperation vs. competition: whether individual members consider their work peers as competitors for scarce rewards (salary and bonuses, status and influence) or trusted colleagues assisting in the competition with outsiders.

- Simple vs. complex organization: tendency of organizations to develop elaborate procedures and structures. Refers to formal complexity as well as the ambiguity and complexity of informal structures and political processes within the organization. A complex work context would take longer to learn and master.
- Informal vs. formalized procedures: tendency to have formal mechanism for all procedures and decision-making. A high degree of formalization is related to extensive, detailed rules and procedures and elaborate forms and written documents to justify any and all actions. Minimal formalization would involve verbal discussions and approval on major issues.
- High vs. low loyalty: whether members' loyalty is placed with the organization or other groups (family, professional colleagues).
- Ignorance vs. knowledge of organizational expectations: the degree to which individual members know what they are expected to do and how their efforts will contribute to the accomplishment of organizational tasks.

Work culture on the other hand refers to how people do their job, how they react to their company, their boss, their colleagues, and their work and how it is like to work in their company (Hofstede 2001). Work culture can therefore be seen as a pattern of what employees believe is true in the organization, important within the organization, how they are expected to act in specific situation relative to their work. If employees for example believe that promotion is based on performance, they will try to understand those performance standards and achieve them and if promotion is based on seniority and working relationships, they will try to stay out of trouble and gain the favor of influential persons. Similarly, if workers or managers believe that it is important to seek opportunities for new business or operational improvements to identify problems and resolve them or to improve customer service, working conditions, or operations, they are more likely to do so while if they believe that it is important to maintain the status quo and keep a low profile, they will do so. Therefore, the set of cultural characteristics of an organization have a strong influence on the outcome which in the case of this study is disclosure of information.

3.1. Cultural influence on accounting

It is reasonable to suggest the existence of an effect of culture on accounting practice but the mechanisms by which such an effect might be transmitted are still the subject of many tentative hypotheses. The most well known attempt to relate culture and accounting in the extant literature is associated with Gray's (1988) theorization of a connection between Hofstede's (1990) cultural values and accounting values. Gray identified four accounting values namely; *Professionalism, Uniformity, conservatism and Secrecy*. Professionalism means 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. Uniformity is a preference for the enforcement of uniform accounting practices between companies and for the consistent use of such practices over time, as opposed to flexibility in accordance with unique circumstances of individual companies. Conservatism is the preference for a cautious approach to measurement as a generalized view of the uncertainty of future events. Secrecy is a preference for confidentiality and the restriction of disclosure of business information to those who are closely associated with management and financing, as opposed to the more transparent, open and publicly accountable approach.

Gray's (1988) central hypothesis is that, societies which have strong power distance and uncertainty avoidance cultures are bound to display low levels of professionalism as opposed to highly individualistic cultures. Similarly, societies that exhibit a strong power distance and uncertainty avoidance culture are bound to be highly secretive. He also hypothesized that the higher a country ranks in terms of uncertainty avoidance and power distance, and the lower it ranks in terms of individualism and masculinity, then the more likely it is to rank highly in terms of secrecy. Salter and Niswander (1995) quoted in Hofstede (2001) operationalized and tested Gray's hypotheses on data from 29 countries. They found that secrecy was positively related to uncertainty avoidance but negatively related to individualism.

Sudarwan and Fogarty (1996) examined the relationship between cultural characteristics and reporting practices of Indonesian firms. They found that an empirical relationship exists between cultural values and accounting values. Power distance, uncertainty avoidance and individualism were found to have significant relationships with one or more accounting values. Specifically, uncertainty avoidance was found to be significantly associated with secretive accounting practice. Individualism is negatively and significantly associated with secrecy - a decreasing trend in individualism was found to be associated with an increasing trend in secrecy.

3.2. Work values

Values are “an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposition or converse mode of conduct or end-state of existence” (Rokeach 1973: 5). Values are also defined as a broad tendency to prefer certain states of affairs over others (Hofstede 2001). Schwartz (1992: p.2) defines values as “...*desirable states, objects, goals, or behaviors, exceeding specific objects or situations and applied as normative standards to judge and to choose among alternative modes of behavior.*” Values are latent constructs that define or refer to the way that people evaluate activities or outcomes. They may be held collectively within groups, even though this would not preclude conflict between different value domains.

If values are viewed from the context of specific domains, then they have a more specific meaning within that context. Thus in the work domain work values are considered to be relevant, basic and influential. They are a source of motivation for individuals in performing organizational roles. Work values emerge from the projection of general values onto the work domain. They influence work activity through attitudes and goals - they are a source of motivation for individual action. There are basically two types of values considered to be attributes of organizational culture according to (Quinn 1988) and these are control and flexibility values from which the former refers to

predictability, stability, formality, rigidity and conformity while the later refers to spontaneity, change, openness, adoptability and responsiveness.

Work Values on the other hand refer to the rewards people seek through their work (Schwartz 1999). They are the expressions of human values in the general work setting. The core values identified are intrinsic (personal growth, autonomy, interest, and creativity), extrinsic (pay and security), social (contact with people and contribution to society) and power (prestige, authority, influence). Work values are more specific than individual values in the way that they refer to goals in the work place. The search for power and extrinsic values is more likely to be associated with favorable reporting to gain influence, while intrinsic and social values would be associated with a more professional attitude (independence) and openness. Values influence the way employees see the organization and how they conform to shared perceptions.

At a cultural level, values clearly help us define what is good or right for example in societies where individual ambition and success are highly valued, the organization of economic and legal systems is likely to be competitive. In contrast, a cultural emphasis on group well-being is likely to be expressed in more cooperative economic and legal systems. Cultural values will determine work-related attitudes and behavior and also depending on how people view their work and its importance in their lives, they will exhibit certain value emphases showing the importance of work values.

A society's cultural emphasis determines which values are rewarded and the goals managers choose to motivate workers will be more effective if compatible with prevailing cultural emphases. Different cultures are seen to be associated with different value types within organizations particularly during disclosure of information and these are, **rational culture** (which reflects an orientation toward efficiency and profit with an emphasis towards planning, productivity and goal clarity), **hierarchical culture** (reflects bureaucracy and stability and emphasizes the enforcement of roles, rules and regulations) both associated with control values and **developmental culture** (relies on adoptability and readiness to attain growth, innovation, and creativity) and **group**

culture (which sees cohesion, team work and morale as a means of increasing development, empowerment and commitment of human resources) associated with flexibility values. Considering the evidence of multiple values in the study by Kakabadse (1982), different managerial focuses of each level leads to different cultures.

It can therefore be seen from the above discussion that managers with control values will disclose more information in financial reports given their cultural backgrounds and emphasis on clarity, enforcement of roles, rules and regulations. It can also be noted that managers with flexibility values can perform well during financial information disclosure on the grounds of team work, creativity and the other cultural aspects they encompass. There is therefore a likelihood that there will be high levels of financial disclosure due to the involvement of more organizational members in the disclosure process. It is therefore hypothesized from the above discussion that:

H2: Corporate disclosure is positively associated with cultures emphasizing control values

H3: Corporate disclosure is positively associated with cultures emphasizing flexibility values.

4. RESEARCH METHODOLOGY

The study will be carried out using a survey of a sample of 1500 business firms located in Finland. These business firms will include small, middle-sized and large firms with a couple of them being financially distressed and later all these firms will be compared. The selection the survey of these business firms will help in obtaining a variance which will make it easier for the study to make comparison among the different business firms.

The study will use a non-probability sampling method in which purposive (judgment) sampling where respondents will be selected on the basis of their expert knowledge in the subject under investigation (Sekaran 2000: 237; Saunders, Lewis and Thornhill 1997) will be adopted during the data collection process. To ensure homogeneity (Saunders, Lewis and Thornhill 1997), sampling will focus on all institutional actors responsible for reporting any form of financial data used in disclosure. Business firms in general have been selected for the study because by the nature of their business are subject to standards of reporting.

As this study also looks at the usefulness of the institutional context (proxied by corporate culture) in predicting the adequacy of corporate disclosure as opposed to structural performance and market related variables (Owusu-Ansah 1998), it will involve the development of an alternative explanatory model based on culture to explain corporate disclosure and the argument that disclosure is a managed activity (Gibbins, Richardson and Waterhouse 1990).

The investigation in the study will also involve a correlation survey design to measure which factors best explain the observed outcomes. The study will use both primary and secondary data. Primary data will be collected from each organization using a standard survey instrument (questionnaire). These will be issued to one-to-three managers per business firm using postage, internet and/or personal delivery means. For small sized business firms however, questionnaires will be issued to business firm owners.

Secondary data will be collected from the *voitto*⁺ database where financial data on the sample companies will be obtained. Secondary data will also be obtained alternatively from the companies themselves in cases where it's not yet published by application for a copy/copies of the latest corporate Annual Reports.

The Perceived disclosure deficiency approach measures the perceived deficiencies in accounting information needs of the users of annual reports. It has been adopted by some studies for example Bikki & Pek, (2000) and will be adopted in this study as well. This method assesses whether annual report preparers are fulfilling the accounting information needs of the different corporate annual report users. It's an indirect way of measuring the adequacy of disclosure and involves the use of a questionnaire survey of a particular user group on a two-dimensional rating scale. The dimensions are the current state of art of corporate reporting and disclosure practices and the expected corporate reporting and disclosure practices. Under this approach, respondents to the questionnaire survey are asked to evaluate each information item on the two dimensions using a rating scale. The perceived deficiency (or expectation gap) is then calculated by subtracting the rating of how much is disclosed from how much is expected to have been disclosed. Disclosure for a certain item is then perceived to be adequate if the difference between the two is positive and deficient if the difference is negative.

Despite the fact that this approach is useful in ascertaining the opinions of the various users of corporate annual reports as to the amount, nature and importance of each information item for policy-making purposes, it suffers from several shortcomings. The approach is rather costly in terms of time and money to undertake a questionnaire survey and it may be biased toward the interest of a particular user group, which may not be representative of other groups. The technique cannot combine the rating of each information item into a meaningful composite summary for the whole annual report.

Organizational culture will be measured using the measurement method applied in the study of Henri (2006) where respondents will be asked to distribute 100 points among four cultural types along the different cultural dimensions. The dominant-value type

score will be derived from a cultural type score and a value type score. The cultural type score will be collected for each culture by averaging the ratings obtained on the four cultural dimensions. Then the value score will be calculated for the control/flexibility continuum and then the dominant-type score will be obtained by subtracting the control-value score from the flexibility score. From the results, a positive score will then represent a flexibility dominant type while a negative score will represent a control dominant score.

The types of investigation that will be involved will be explanatory hypothesis testing research design (Saunders, Lewis and Thornhill 1997; Sekaran 2000) to examine and explain the relationship between corporate culture and corporate disclosure. This design will be adopted for practical reasons associated with access to the firms in the study. The study will also adopt the use of correlation to analyze the relationship between the independent variable (corporate culture) and dependent variable (corporate disclosure) and regression to examine the impact corporate culture has on corporate disclosure. Hypothesis will be tested using two models with the first model (corporate culture) having two variants where variant 1 will use the constructs derived from a factor analysis of the dimensions of corporate culture variables and variant 2 will be modeled on the basis of the mean scores for the original variables without taking into account the effect the factor analysis will have on these variables. The second model will be the traditional disclosure model which will consist of structure, performance and market related variables (Wallace, Naser & Mora 1994 and Owusu-Ansah 1998). Hypothesis will be tested by comparing the performance of the two models (leading to a combined model of both model 1 and 2). The combined model will tell whether the cultural variables include additional information over the traditional ones. Hypothesis testing will then be applied in explaining the nature of the relationship and to determine the predictive power of the model of supply-side factors (Hopwood 2000) in disclosure measurement.

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