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THE EFFECTS OF ORGANISATIONAL CULTURE ON CHOICES OF ACCOUNTING DISCLOSURE: AN AUSTRALIAN PERSPECTIVE

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1. Introduction

A number of researchers have considered that the design of accounting systems is influenced by environmental and organisational factors such as organisational size, environmental uncertainty and technology (Hayes, 1977; Gordon and Narayanan, 1984; Govindarajan, 1984). More recently, Thomas (1989) has highlighted the potential for an inter-relationship between organisational culture and external reporting methods thus adding another dimension to external reporting practices.

Organisational culture has been said to influence many aspects of an organisation's business activities. Desatnick (1986) stated that culture strongly influences business results while finding that most organisations in the banking sector displayed an elite culture type. The research by Denison (1984) supports this claim. His results demonstrated that organisations with a participative management style outperformed their non-participative management style competitors by as much as two-to-one in such key financial performance measures as return on investment and return on sales over a five-year period. Barney (1986) also proposed that a firm's culture can be a source of sustainable competitive advantage if that culture is valuable[1], rare[2] and imperfectly imitable[3], but did not empirically test this.

Thomas (1989) argues that environmental factors, organisational rules, attitudes, beliefs and values[4], contribute to a professional ideology which permeates the firm and gives rise to a particular management philosophy. He argues that management philosophy is reflected in both the management accounting and financial accounting systems operating within the firm. Thomas' results showed that companies with a strong accounting sub-culture tend to expense development expenditure whereas those with a weak accounting sub-culture capitalise these costs.

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1 It must enable a firm to do things and behave in ways that lead to high sales or in other ways add additional value to the firm.

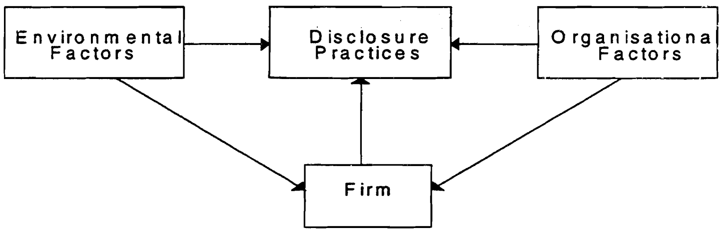
2 It must have attributes and characteristics that are not common to the cultures of a large number of other firms.

3 Firms without these cultures cannot engage in activities that will change their cultures to include the required characteristics.

4 These were Thomas' (1989) measures of culture. He used a questionnaire to assess the level of importance given by the firms in his sample to each of these variables. By using factor analysis he then classified the firms into culture types.

Similarly, companies with a strong accounting sub-culture tend to write-off goodwill immediately to the profit and loss account, whereas those with a weak accounting sub-culture amortise it through the profit and loss account. Companies with a strong sub-culture tend to publish a statement of value-added whereas those with a weak sub-culture do not. Thomas' investigations did not provide any explanation as to why the firms in his sample adopted different disclosure practices but his results suggest that culture may be an intervening variable in the disclosure practices adopted by firms:

Figure 1



Using a different measure for firm culture but a similar rationale to that used by Thomas (1989), this study proposes to examine the relationship between firm culture and the accounting disclosure practices that organisations choose to use. In the Australian context, firms are required to follow the reporting practices prescribed in the accounting standards when disclosing information on their financial statements. However, many of these standards allow for more than one method of dealing with expense/revenue/asset/liability items under consideration, and require the firm to select one. For example, leases may be treated as operating leases or finance leases; goodwill may be capitalised or expensed. This study hypothesises that the disclosure practices selected, e.g. whether, for example, to capitalise goodwill or write it off, will be largely influenced by the firm's culture, and that certain cultures will prefer one method to another.

Non-Voluntary Disclosures

The accounting standards chosen for testing in this context (hereafter referred to as non-voluntary disclosures) are as follows:

1. The treatment of goodwill under AASB 1013: *Accounting for Goodwill.* Goodwill may be brought to account as an asset and systematically amortised through the profit and loss account i.e. capitalised; or written off immediately to the profit and loss account (expensed).

2. The treatment of development expenditure i.e. whether it is capitalised or expensed, including those items falling under AASB 1011: *Accounting for Research and Development Costs* and AASB 1022: *Accounting for Extractive Industries.*

3. The classification of leases as either "operating leases" or "finance leases" under AASB 1008: *Accounting for Leases.*

4. The placement of Equity accounting disclosures under AASB 1016 will be examined.

In arriving at the above list of non-voluntary standards to be tested, several factors had to be considered. First, the standards chosen had to offer a choice of accounting techniques. Where a choice of accounting methods is allowed, the possible relationship between disclosure practices and corporate culture may be investigated.

Second, comparability with previous research was a major factor, as it was felt that an indirect comparison of the US and Australian situations would add an interesting dimension to the study. The majority of the (voluntary/non-voluntary) disclosure practices selected in this study were also selected by Thomas (1989); however, a full, exact match was not possible due to differences in legislation between the countries.

Third, the disclosure practices selected had to be applicable to a broad industry range in order to enhance the external validity of the sample. Little statistical benefit would be gained from selecting obscure examples that related to only a few firms or a few industries.

Voluntary Disclosures

Accounting standards do not apply to all accounting information, and in the absence of a relevant standard, firms have the option of publishing/not publishing certain information[5]. It is hypothesised that a firm's decision to publish this non-compulsory (voluntary) information will also be influenced by its culture.

The voluntary information chosen for testing in this context (hereafter referred to as voluntary disclosures) are as follows:

1. Whether value-added statements are provided;

2. Whether environmental or social costs and activities such as pollution control, sponsorships of sporting bodies and projects to improve relationships with community groups, are reported;

3. Whether employee reports are published.

The factors influencing these choices are identical to those relating to non-voluntary disclosures with one addition to be made to the list namely the disclosures had to be "well known" and must have received considerable support in the literature.

2. The Importance of studying Firm Culture and Disclosure Practices

An organisation's culture is the result of its beliefs, values, philosophies and traditions (Peters and Waterman, 1990). Culture was described by Desatnick (1986) as "the personality or the totality of the organisation's characteristics". Thomas (1989) defined culture as "the learned aspects of human society".

Thomas (1989) developed a theoretical framework for studying the effects of organisational culture on choices of corporate reporting practices. He concluded that culture may explain the conflicting results found in two areas: studies that examined the effects of environmental variables and organisational attributes on management's choice of external reporting methods; and second, studies investigating the effects of environmental variables and organisational attributes on the design of management accounting systems

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5 for example, the publication of value added statements and the publication of employee reports is not compulsory as yet. Neither does the legislation cover mandatory disclosure of the firm's treatment of and reaction to, environmental issues.

(see Watts and Zimmerman, 1978; Hagerman and Zmijewski, 1979; Thomas, 1986; Gordon and Narayanan, 1984; Govindarajan, 1984, Chenhall and Morris, 1986; Mia and Goyal, 1991; Mia, 1993). Thomas (1989) takes the view that firm culture and firms themselves are inextricably linked, therefore, firm culture and the meaning and significance of accounting practices are also linked.

Previous research has suggested that culture comprises five main elements: symbols, language, ideology, rituals and myths (Pettigrew, 1979). Accounting information used as an organisational *symbol* attempts to demonstrate the rationality and legitimacy of organisations (Wildavsky, 1976; Meyer and Rowan, 1977; Burchell et. al., 1980; Feldman and March, 1981; Boland and Pondy, 1983; Meyer, 1983; Berry et. al., 1985). Corporate annual reports communicate information about managerial efficiency and the quality of financial control, and are also used to communicate information that supposedly reflects the organisation's awareness of its responsibilities to society (Thomas, 1989).

Accounting as a *language* provides a means of understanding the nature of the transactions in which a firm becomes involved, as well as its underlying attitudes, values, beliefs etc. Uncertainty as to the meaning of accounting reports and how they should be interpreted gives rise to discussion and negotiation, which is an essential component in arriving at an understanding of firms and what accounting information they present in their annual reports as well as how they use it in decision-making (Gordon and Narayanan, 1984; Thomas, 1989).

Third, accounting plays an important role in resource allocation and income distribution and therefore, forms a major role in an organisation's *ideology*. The ideological role of accounting can be viewed in terms of which interests are bolstered and which interests are undermined by the accounting measures an organisation uses, particularly in situations of economic and political conflict or uncertainty (Cooper and Sherer, 1984).

For example, when decision-makers perceive the environment to be uncertain, they tend to seek external, non-financial information in addition to the more traditional information that is typically sought[6] (Gordon and Narayanan, 1984).

Fourthly, the literature has likened accounting methods to *rituals* or ceremonies (Meyer and Rowan, 1977).

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[6] for example quantitative accounting-type information.

Rituals, in the form of generally accepted accounting techniques, are frequently put into action prior to some important action or event (Thomas, 1989). Such rituals consist of the use of capital budgeting techniques prior to the acquisition of a major asset or the use of cost-based models for fixing product prices.

Finally, accounting is said to function as a *myth* due to the presence of an appearance of rationality and legitimacy:

> Maintaining a clear rational accounting, in any organisation, involves a great many fictions ..; accounting structures are myths ..; they describe the organisation as bounded and unified, as rational in technology, as well-controlled and as attaining clear purposes..; and they legitimate the organisation with the controlling external environment (Meyer, 1983).

Previous empirical studies in the areas of contingency theory and agency theory which examine the relative income effects of accounting methods have assumed a direct relationship between environmental variables such as firm size or the level of environmental uncertainty and the attributes of accounting systems, such as the type of accounting information used to evaluate managerial performance. In the light of Thomas' research this may be an over-simplification. Greater attention needs to be accorded to cultural variables such as those discussed earlier, as it may be the case that they have an influence on the way(s) in which a firm presents its financial and non-financial information, and its commitment to doing so[7].

The present study is designed to demonstrate the degree of influence that firm culture has on financial and non-financial reporting, and to provide some explanations as to why some firms adopt certain reporting methods while other do not.

The results of the study will be important for the following reasons: for future standard setting, as those responsible for setting standards will need to consider firm culture and its potential impact on the acceptance of, and adherence to, new standards; for universities, as the effect of culture will need to be acknowledged in the subjects that deal with financial reporting and disclosure. In teaching the various accounting standards to a class, university and TAFE lecturers will need to instruct students on the effects of certain cultures on the choice of firms' disclosure practices.

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[7] what Thomas (1989) refers to as the firm's professional accounting sub-culture (PASC).

Students will also have to be trained to monitor a firm's culture in case it changes, as a change could affect the type of reporting practices the "new" culture will embrace. Firm culture will also have implications for the training and activities of auditors, as knowledge of a firm's culture will provide them with an indication of the types of disclosure practices that may be expected from client firms being audited.

3. Prior Research on the Topic

PASC and Financial Disclosure

Thomas' (1989) and Kabanoff's (1991) theoretical framework suggest that companies with a strong professional accounting sub-culture (PASC) tend to adopt more conventional measurement practices, disclose more information and utilise innovative reporting techniques. Companies with a weak accounting sub-culture are less intense in relation to such activities often relying on factors such as commitment to shared values, group cohesion etc. as measures of task performance.

As a symbol, the use of conventional measurement practices allows organisations to demonstrate a presumably legitimate choice of accounting methods. As a language, the adoption of conventional accounting practices creates shared meaning and values, and acts as a means of achieving consensus amongst the various participants. Conventional accounting practices serve as a ritual due to their absorption of uncertainty and presentation of seemingly more accurate data which is defensible in situations of economic conflict (Pettigrew, 1979). Companies with a strong PASC would be more likely to implement accountancy-based performance measures, such as budgets and variance analysis, in order to evaluate employees and firm performance (Thomas, 1989).

Voluntary Disclosures

The tendency for companies with a strong PASC to disclose more information and utilise innovative techniques arises from the main elements of organisational culture discussed above (Thomas, 1989). Thomas argues that as a symbol, voluntary disclosures provide organisations with a means of demonstrating their apparent superior ability to gather, handle and make sense of larger amounts of information.

It symbolises the presumably progressive nature of management in the adoption of new techniques and recognition of changes in social beliefs, giving the appearance of managerial competence and awareness of social responsibilities. Voluntary disclosures also reinforce and create new myths by providing additional explanations of past events and new concepts of organisational performance (Thomas, 1989). The voluntary disclosures considered within this study are as follows: Value Added Statements, Employee Reports and Environmental Reports.

Value Added Statements

During the 1970s the use of Value Added Statements (VAS) in financial reports became more frequent, particularly in the UK, Europe and also in Australia (McLeay, 1983). The VAS basically rearranges the data in the profit and loss statement in order to reflect the wealth created by and distributed to the firm's stakeholders (Gay, Farley and Peirson, 1993). The term "stakeholders" is a deliberate choice in the literature, as the utility of the VAS is meant to spread beyond the shareholders. Value added statements provide an alternative explanation of the firm's activities with regard to the creation of wealth, and promote a view of the enterprise as a collection of different groups of interested stakeholders[8] (Thomas, 1989).

Thomas hypothesised that companies with a strong PASC tend to publish a statement of value added in their annual returns compared to those companies exhibiting a weak PASC. He found a highly significant result ($p < 0.01$) was found in relation to value added statements which provides convincing evidence of the relevance of a PASC in terms of making voluntary disclosures.

Thomas (1989) did not specifically test for the effect of firm size on his result; however, Gray and Maunders (1980) indicate that large companies are more likely to provide a statement of value added than small companies. This was supported by Gay, Farley and Peirson (1993).

Proposition 1: *Companies exhibiting a strong PASC publish a statement of value added in their annual report.*

[8] for example employees, government, suppliers of capital, competitors.

Employee Reports

Thomas (1989) also hypothesised that firms with a strong PASC will publish an employee report. Financial reporting to employees is not a new practice (Lewis et al, 1984), and attracted a great deal of attention in the UK and Australia in the 1970s and 1980s. They are special-purpose documents containing financial and operating information relating to the firm's current status and recent performance and are usually written expressly for employees. The Employee Report normally appears as a stand-alone document, quite distinct from the usual information presented to shareholders in an annual report (Parker, Ferris and Otley, 1989).

The rationale for providing an Employee Report has many strands[9], however, the more convincing of these seem to rest on a "benefits" approach or the employees' "right to know" approach. Parker (1976) argued that employee reports provide **benefits** to managers, to employees, and to the firm as a whole. Craig and Hussey (1982) believe that both shareholders **and** employees have a **right to know** the financial realities of the business and that management has an responsibility to keep employees informed. Whatever the reason for publishing an Employee Report the scope and content of such reports can vary considerably. (Parker, Ferris and Otley, 1989).

Essentially, this study will treat as Employee Reports, any information of a financial/non-financial nature that is clearly directed to the employees of the firm.[10]

Thomas' (1989) study found no support for his hypothesis that firm culture will determine whether firms publish an Employee Report or not. However his study was implemented at the parent company level, whereas Employee Reports may also be addressed at the subsidiary level.

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9 see Parker, Ferris and Otley (1989) p134 for a full discussion on the rationales for preparing employee reports.

10 the following is a list of items that have been typically found in employee reports, and which will be used in this study to decide whether the firms in the sample actually prepare employee reports:

. Chairman's/Directors' review
. Divisional highlights
. Personnel-related information: statistics; profiles; benefits; safety and training programs.
. Sales and cost analyses
. Ownership profiles and statistics
. Organisational objectives, structure, locations and major operations
. Products and services profiles
. Statements of past performance and future plans.

It may also be the case that employee information may not be published in the annual report; rather it may be given to employees in the company magazine. Marsh and Hussey (1978) indicated that firm size may also be an intervening variable as large companies are more likely to distribute an Employee Report than small companies. This study will review external and internal documentation at both the parent and subsidiary level and will test the hypotheses using a sample of large and small firms.

Proposition 2a: *Large companies exhibiting a strong PASC will publish an Employee Report.*

Proposition 2b: *Small companies exhibiting a strong PASC will not publish an Employee Report.*

Environmental Reports

There is paucity of previous research regarding voluntary environmental reporting disclosures[11] in annual reports. A variety of terms have been used to describe environmental reporting, including "social accounting", "social responsibility accounting", "social reporting" and "social responsibility disclosure". However, all describe the same activity. The Environmental Report is essentially concerned with the creation and maintenance of:

> organizational social information systems designed to evaluate an organization's social impact, assess the effectiveness of its social programs, and report on the overall discharge of its social responsibilities.
>
> (Parker, Ferris and Otley, 1989, p169-70)61.5

This study proposes that firms that produce Environmental Reports in their published accounts will possess a different set of cultural values to a firm that elects not to publish such information. Dent (1985) noted that the orientation of accounting reports in British Rail (BR) changed significantly as BR moved from a railway culture to a more profit-oriented culture. Burke (1980) found that larger firms are more likely to release Environmental Reports, which was later confirmed by Teoh and Thong (1984).

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[11] For the purposes of this study, voluntary environmental reporting has been considered in the context of whether the firm discloses the extent of its efforts in preserving the ecology and environment, and whether it is involved in sponsoring and supporting sporting and community organisations.

Teoh and Thong also found that national origin of corporate ownership affected the extent to whether firms released Environmental Reports. Companies with a UK or US origin were more prepared to make environmental disclosures than say, Malaysian firms.

Proposition 3: *Companies exhibiting a strong PASC will publish an environmental report.*

Non-Voluntary Disclosures

As stated in the Introduction to this proposal, the Non-Voluntary Disclosures chosen for analysis within this study are as follows: Accounting for Development Expenditure; Accounting for Goodwill; Accounting for Lease; and Equity Accounting.

Development Expenditure

Development expenditure falls under the jurisdiction of several accounting standards depending upon the industry classification. In general, AAS 9: *Expenditure Carried Forward to Subsequent Accounting Periods,* AASB 1011: *Accounting for Research and Development Costs*[12] and AASB 1022: *Accounting for Extractive Industries*[13] state that development expenditure should normally be expensed in the year incurred unless the

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12 Clause .30 states that Research and Development costs shall be charged to the profit and loss account as incurred, except to the extent that they meet the criterion for deferral specified in clause .31.

Clause .31 states that Costs incurred during the financial year on a research and development project shall be deferred to future financial years to the extent that such costs, together with unamortised deferred costs in relation to that project, are expected beyond any reasonable doubt to be recovered.

13 The method required to be used by this standard for determining whether costs arising from exploration, evaluation, development and construction are carried forward or written off is known as the "area of interest method". The area of interest implemented is not required to be disclosed under this standard. For any one area of interest, the exploration and evaluation costs are carried forward so long as a reasonable probability of success in that area exists. If the search is unsuccessful or evaluation produces a negative result, the costs associated with the area are written off.

Clause .11 states that costs arising from exploration and evaluation related to an area of interest shall be written off as incurred, except that they may be carried forward provided that rights to tenure of the area of interest are current and provided further that at least one of the following conditions are met:

(a) such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and

(b) exploration and evaluation activities in the area of interest have not at balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

potential future benefits can be assessed with reasonable certainty in which case it may be deferred to be matched against future revenue. There is an explicit assumption that the 'proper' treatment of development expenditure is to expense it in the year incurred. Thomas (1989) found a weak significance for the relationship between development expenditure and a PASC. Previous research (see Thomas, 1986) indicates that small companies expense development costs whereas large companies capitalise these costs. A contradictory result was found by Daley and Vigeland (1983), who found that firms which capitalise research and development expenditure tend to be smaller in size. Thomas (1989) hypothesised, that organisational culture may be an intervening variable in this instance. Consequently, the following proposition is offered:

Proposition 4: *Companies exhibiting a strong PASC expense development expenditure, whereas those companies exhibiting a weak PASC capitalise these costs.*

Goodwill

Under AASB 1013: *Accounting for Goodwill*, purchased goodwill should normally be written off against the Profit and Loss Account immediately on acquisition[14]. However, it may be amortised over its useful economic life to the extent that future benefits are probable. Thomas (1989) concluded that companies with a strong PASC tend to write off goodwill against reserves whereas those with a weak PASC amortise it through the profit and loss account. However his sample contained only a small number of firms who amortised goodwill, thus any findings should be treated with caution. The sample in the current study will contain a sufficient number of firms who amortise goodwill to improve its external validity.

Proposition 5: *Companies exhibiting a strong PASC write off goodwill against the profit and loss account, whereas those companies exhibiting a weak PASC amortise goodwill through the profit and loss account.*

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[14] Goodwill is brought to account as an asset only when it satisfies the following asset recognition criteria:

(a) it is probable that the future benefits embodied in the unidentifiable assets will eventuate: and,

(b) it possesses a cost or other value that can be measured reliably.

Leases

Leases are permitted to be classified as either operating or finance[15] leases under AASB 1008: *Accounting for Leases*. Essentially, operating leases are disclosed off balance sheet, whereas finance leases require both the liability and asset arising from the lease agreement to be disclosed on the balance sheet. It is proposed that the 'proper' or 'conventional' treatment of leases is to disclose them "on balance sheet", and that firms with a strong PASC will be more willing to accept the risks and benefits associated with "ownership" of the lease.

Proposition 6: *Companies exhibiting a strong PASC tend to classify leases as "finance lease"" whereas those companies with a weak PASC classify their leases as "operating leases"*

Equity Accounting

AASB 1016: Disclosure of Information about Investments in Associated Companies states that all material investments in associated companies shall be disclosed by way of a note to the accounts. The conventional presentation is a note to the accounts following the financial statements, and firms with a professional accounting sub culture tend to adopt the conventional approach to presenting equity accounting information (Thomas, 1989). A recent trend among some organisations has been to provide the equity note by way of a third column on the financial statements[16]. This approach is not discussed in AASB 1016, but does not contravene it as the information **is** disclosed, albeit in a different format.

However the approach is not the conventional one, which indicates that firms that use this format are non-conventional and are therefore unlikely to have a strong PASC.

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15 The classification of a lease depends upon its economic substance. Where substantially all of the risks and benefits incidental to ownership of the leased property effectively remain with the lessor, the lease is an operating lease. Where substantially all of these risks and benefits effectively pass to the lessee, a finance lease exists.

This classification is subject to manipulation, however, due to paragraph (iv) of Commentary which sets out definitive guidelines.

16 Rather than disclose their ownership in other organisations as a note to the financial statements, some companies report this information on the financial statements themselves. This treatment has been labelled the "third column" format, as it is shown as an additional column of figures on the Balance Sheet.

Proposition 7: *Companies exhibiting a strong PASC tend to disclose information relating to investments in associated companies as a note to the financial statements, whereas those companies exhibiting a weak PASC tend to disclose this information as a "third column" on the financial statements.*

the following diagram depicts the aforementioned discussion to this point.

Figure 2

Professional Accounting Sub-Culture (PASC)

Disclosures	Strong PASC	Weak PASC
Value Added Statements	Publish (Yes)	Do not Publish (No)
Environmental Reporting	Publish (Yes)	Do not Publish (No)
Employee Reports	Publish (Yes)	Do not Publish (No)
Interest	Expensed	Capitalised
Goodwill	Written-off	Amortised
Development Expenditure	Expensed	Capitalised
Lease	"Finance"	"Operating"
Equity Accounting	Follow the Financial Accounts	"Third Column"

Firm Culture

Culture defined

There is little consensus on the definition of organisational culture. Corbett (1986) defined the elements which create corporate culture as the shared values among employees, the heroes they create and stories they tell, and the structure on which an organisation centres.

Peters and Waterman (1990) defined organisational culture as ...a complex set of values, beliefs, assumptions and symbols that define the way in which a firm conducts its business.

Commenting on the definitional dispute amongst researchers on culture, Barney (1986) notes ...few concepts in organisational theory have as many different and competing definitions as organisational culture (p.657).

Rousseau (1990) argues that agreement does exist among researchers that organisational culture involves

> ...A set of cognitions that are shared by all or many members of a social unit; these cognitions are acquired through social learning and socialisation processes, and they include values, common understandings, and patterns of beliefs and expectations (Rousseau, 1990, p154)

A variety of these components of organisational culture were identified by Kabanoff (1992) as contributing to the lack of consensus, such as the unconscious assumptions implied in organisation members' actions and speech (Schien, 1985); the nature of organisational 'myths' and 'heroes' (Trice and Beyer, 1984), and the values and beliefs held by organisational members (Rousseau, 1990).

The deepest, most subjective measures of culture are the set of fundamental assumptions embraced by the firm (Kabanoff, 1991). These can best be explained by the saying "That's how we've always done things around here".

On the opposite end of the spectrum, cultural artifacts are the most objective and easily measured expressions of culture. These include such measures as the number of levels in the firm's hierarchy, the extent of formal rules and procedures, the lavishness of executive offices, the use of titles, and the magnitude of pay differentials. This research will measure culture at the artefact level; however, inferences will be drawn as to the patterns of behaviour, norms and fundamental assumptions underlying the cultural measures used.

The Theoretical Model for this Study

Kabanoff (1992) investigated the impact of culture on four types of organisational documents for the years 1986 to 1990. Eighty-eight organisations were requested for copies of their annual reports, internal company magazines, any mission statements or statements of company objectives and any documents which were designed as a form of management-employee communication. The espoused[17] cultures of these organisations were analysed using cluster analysis to categorise the firms into four culture types - Elite, Leadership Focused, Meritocratic and Collegial. An organisation-strategy typology was outlined by Kabanoff (1991) based upon a firm's structure and process (see Figure 3).

Figure 3

A Two-Dimensional Typology of Firm Culture

		Power Structure	
		Centralised/Hierarchical	Dispersed/Democratic
Process	Inequitable Treatment	Elite Culture	Meritocratic Culture
	Equitable Treatment	Leadership Focused Culture	Collegial Culture

Two dimensions are outlined in the model - a power structure and a process or operating mechanism, that explain the characteristics of firm culture. "Structure" refers to the nature of an organisation's power distribution or degree of centralisation. "Process" or "operating mechanism" refers to an organisation's policies and procedures.

Power flows along a continuum with equitability and differentiation of organisational power at opposite ends.

Differentiation occurs when power is highly centralised, hierarchical and "unequal". Conversely, equitability is designated by widely dispersed, democratic or shared power (Kabanoff, 1992).

Process flows along a continuum with "inequitable" and "equitable" at opposite extremes. An equitable process occurs where the firm's system treats all employees similarly,

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[17] The study dealt with a firm's *espoused* values rather than *enacted* cultures. A description was given based on what organisation say they do, rather than what they actually do.

whereas an inequitable process differentiates between individuals. For example, an organisation with a policy of differentiation in resource and reward allocation would allocate more resources to certain sections of the organisation than others, perhaps through favouritism, the status or "pecking order" and so on. An equitable distribution of resources ensures that all departments or sections receive an equitable amount of resources irrespective of previous successes, favouritisms etc..

The essential qualities of each of Kabanoff's four culture types are outlined below.

Collegial

Collegial is the most integration-oriented culture, in which power, rewards and resources are equitably distributed. This type of culture is based on a commitment to shared values, loyalty and individual responsibility for actions as the basis for task-achievement. It places less emphasis on tangible rewards, and the organisation exercises relatively little direct control over employees' activities. For example, a university's resource allocation pattern may reflect egalitarian concerns and assumptions as reflected in the manner in which funds are distributed to departments according to size rather than productivity because each organisational member is seen as having an entitlement.

Since a collegial culture emphasises equality in resource and reward allocations it reduces the likelihood of reliance on accountancy-based measures (Kabanoff, 1991) and would therefore be expected to exhibit a very weak PASC.

Proposition 8: Firms exhibiting a Collegial culture will have a weak PASC.

Meritocratic

This culture type shares many of the integration-oriented qualities of the collegial culture but with increased emphasis on performance and rewarding employees. A set of collegial, interpersonal values is matched with a stronger set of task-performance values.

For example, in a university, a proportion of research funds may be set aside and allocated not on the basis of departmental size but on the quality of research projects submitted by different individuals and groups (Kabanoff, 1991).

However the integrative qualities still form the core values of this culture:

> Concerns about perceived inefficiency become secondary to perceptions of a threat to core values
>
> (Kabanoff, 1991, p433)

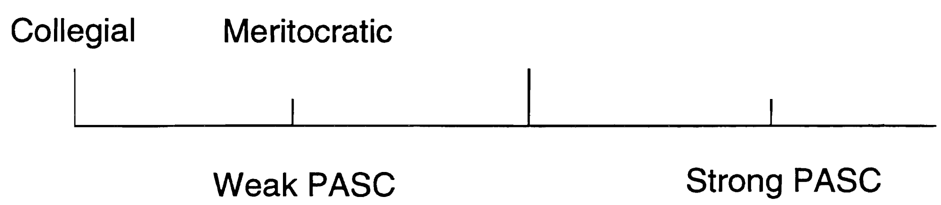
This culture type is therefore best described as one that is fundamentally concerned with hierarchical values[18] but which is prepared to trade off some of these qualities in favour of productivity gains. It is proposed that because of the integrative and cohesive qualities still associated with meritocratic cultures that such firms will not have a strong PASC.

Proposition 9: *Firms exhibiting a Meritocratic culture will have a weak PASC.*

However the presence of a dispersed, democratic power structure may dilute the result in this type. That is, the weakness of the PASC in such a culture is not expected to be as great as in a collegial culture.

On a continuum demonstrating the degree of PASC existing in the firm the placement of the two cultures discussed so far would be as follows:

Figure 4
The PASC Continuum



[18] Lei, Slocum and Slater (1991, p30) define hierarchical values as "non-quantitative factors such as inter-divisional co-operation, team performance, long-term relations with suppliers and customers, and participation."

Elite

The Elite is the least integration-oriented, most differentiated culture. Power, resources and rewards are concentrated at the apex of the organisation. Economic and performance measures dominate interpersonal values. The reward system reinforces the distinction between the strategic, general management responsibilities of the elite and the specialist, implementation responsibilities of those lower down in the hierarchy (Mintzberg, 1979). A few receive large rewards for their contributions, whereas most receive small rewards. The Elite culture type has the strong combination of differentiation in resource and reward allocations and centralised, hierarchical power (see Figure 1). This type exhibits the strongest PASC of all cultures due to the heavy reliance on accountancy-based performance measures which is re-enforced by the concentration of authority and power at the apex of the organisation.

Proposition 10: *Firms exhibiting a Elite culture will have a strong PASC.*

Leadership-Focused

Although the Leadership-focused type is also inequitable in its distribution of power, it seeks to build integration through creating a system of leadership and teamwork throughout the organisation.

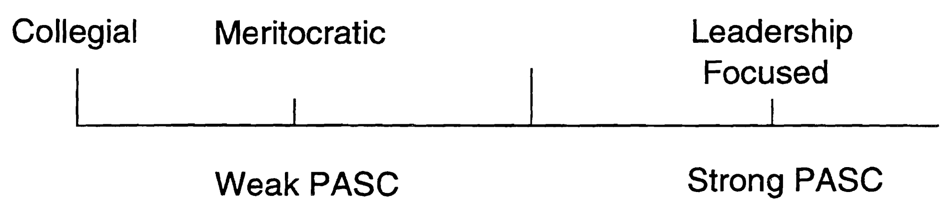
This is achieved by having a loyal, cadre of leaders below the apex who are delegated a degree of the elite's power (Kabanoff, 1991). A good example of this culture type is the armed forces (Keegan, 1976). Responsibility areas and job descriptions are usually well defined thus reducing potential for conflict (Kabanoff, 1992).

Leadership-focused cultures place a heavy emphasis on performance evaluation and reward systems, and therefore are likely to utilise accounting measures to quantify performance (Lei, Slocum and Slater, 1991). As a result, it is expected that this type of culture will exhibit a relatively strong PASC, although not as strong as that within an elite culture.

Proposition 11: *Firms exhibiting a Leadership-focused culture will have a strong PASC.*

The PASC continuum may now be depicted as in Figure 5.

Figure 5
The PASC Continuum



As the strength of the PASC within each of Kabanoff's (1991) culture types have now been modelled, the information presented in Figure 2 can be extended to include the respective firm culture types, and is depicted in the figure shown.

Figure 6

Culture Type

Disclosures	Strong PASC		Weak PASC	
	Elite	Leadership Focused	Meritocratic	Collegial
Value-added Statements	Yes	Yes	No	No
Environmental Reporting	Yes	Yes	No	No
Employee Reports	Yes	Yes	No	No
Interests	Expensed	Expensed	Capitalised	Capitalised
Goodwill	Write-off	Write-off	Amortised	Amortised
Development Expenditure	Expensed	Expensed	Capitalised	Capitalised
Leases	"Finance"	"Finance"	"Operating"	"Operating"
Equity Accounting	Follow the Financial Accounts	Follow the Financial Accounts	"Third Column" Format	"Third Column" Format

4. Hypotheses, Problems or Questions

The hypotheses have been developed by integrating the qualities and espoused values of the four culture types presented by Kabanoff (1991) with the PASC classification adopted by Thomas (1989). Given the characteristics organisations' cultures espouse, and where a choice of accounting methods exist, the accounting technique adopted is predicted. The propositions presented in the previous section are now combined in order to state the hypotheses.

Hypotheses which relate to voluntary disclosure practices are:

H_1: *Companies that publish a statement of value added in their annual report will have either a Elite or Leadership-focused culture, whereas those companies that do not publish such a statement will have a Collegial or Meritocratic culture.*

H_2: *Companies that publish or distribute an employee report will have a Elite or Leadership-focused culture, whereas those companies that do not publish such a report will have a Collegial or Meritocratic culture.*

H_3: *Companies that publish an environmental report will have a Elite or Leadership-focused culture, whereas those companies that do not publish such a report will have a Collegial or Meritocratic culture.*

H_4: *Companies that expense development expenditure will have a Elite or Leadership-focused culture, whereas those companies that capitalise these costs will have a Collegial or Meritocratic culture.*

H_5: *Companies that write off goodwill against the profit and loss account will have a Elite or Leadership-focused culture, whereas those companies that amortise goodwill through the profit and loss account will have a Collegial or Meritocratic culture.*

H_6: *Companies that classify their leases as finance leases will have a Elite or Leadership-focused culture, whereas those companies that classify their leases as operating leases will have a Collegial or Meritocratic culture.*

H_7: *Companies that disclose the Equity note following the financial statements will have a Elite or Leadership-focused culture, whereas those companies that disclose their*

Equity note as a "third column" to the financial statements will have a Collegial or Meritocratic culture.

5. Research Approach and Methodology

Over recent years, some researchers have attempted to quantify culture through the use of various techniques such as ethnography, content-analysis and questionnaires (Kabanoff, 1992). In reviewing the literature it appears that the questionnaire approach is the most common. However, the research has suffered from the traditional difficulties associated with this approach[19]. Although the field study approach has the advantage of hands-on in-depth knowledge, it does not facilitate a comparison of firms. Few studies have used content analysis for this purpose.

By way of contrast to the other methods, the content-analysis approach is an unobtrusive or non-reactive measure. It enables a longitudinal analysis of changes in organisation's concerns, a capability that is beyond the survey methodology.

While Thomas (1989) used a questionnaire based on the level of myths, rituals, symbols, language and ideology to determine corporate culture, this research will use content-analysis[20] to gain a quantitative measure of the independent variable i.e. to gain a measure of culture according to Kabanoff's four types. The paper will seek to provide support for the findings of Thomas (1989) while providing a different perspective for the quantification of culture.

The sample

As a result of the potential influence of firm size on the effect of PASC and financial disclosures, two samples will be analysed. The first will be a sample of 100 randomly selected Australian companies, chosen from the list of Australia's top 500 companies. This sample will ignore the consequences or influences of firm size, concentrating on the relationship between the type of disclosures made and firm culture.

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19 i.e. designing a series of questions that measure culture, as well as having suffered low response rates.

20 Content analysis has been defined as "any technique for making inferences by objectively and systematically identifying specified characteristics of messages" (Stone, Dunphy, Smith and Ogilvie, 1966). In practice, content-analysis usually involves counting or in some other way quantifying the presence of some 'target' words, or themes in written text against the words specified in a content analysis dictionary.

The second sample will comprise fifty large companies and fifty small companies[21]. The effect of firm size will be tested between these groups.

Methodology

Using the "Textpack" computer package[22], the descriptive sections

of the 1989 and 1990 annual reports of the firms in the sample will be scanned in order to classify the firms as either Elite, Leadership-focused, Meritocratic or Collegial in cultural type. Instead of relying on human ability to read and count the frequency of target words or statements, the authors elected to use the computer package.

That is, we set out to analyse what the different firms "say about themselves" in their annual reports, in order to assist in identifying their culture type.

Kabanoff (1992) analysed four types of documents in his research on culture type in Australian firms: annual reports; copies of its mission statement, objectives and strategies; company-wide magazines; and any other internal documents used to facilitate management-employee communication. However the authors feel that at least two of these may be combined; the annual reports usually state the firm's mission statement etc.. For the purposes of this study, two types of documentation will be analysed: the annual report and internal memos used by management to communicate with employees.

A spreadsheet will be used to match the culture type of the firm with its respective disclosure practices. The data will then be analysed in order to test for correlation between the variables, as well as for within-group and between-group differences.

6. Limitations and Key Assumptions

1. Content analysis has not received general "acceptance".

2. The time "window" is only over two years. Ideally a longer period of time is necessary.

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[21] taken from the top 100 companies and the bottom 100 companies as listed in the Busines Review Weekly's list of Australia's top 500 companies.

[22] this package scans documentation using cluster analysis to classify firms according to a pre-set word dictionary based on Kabanoff's (1990) four culture types.

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