

NATIONAL CULTURE AND TRANSPARENCY: EVIDENCE FROM ISLAMIC BANKS

*Cultura nacional e transparência:
Evidências dos bancos Islâmicos*

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Abstract: The purpose of this paper is to investigate the effects of predominant cultural values on banking disclosure. On one hand, Islamic banks have practiced Islamic principles which are universal for all countries. Islamic banks are expected to provide transparent information especially in terms of social and Shariah (Islamic) compliant information as Islamic banks claim themselves to have social objectives as the prime consideration. Islamic banks also have Shariah supervisory body to ensure that the banking activities and business operations are in line with Islamic requirements. On the other hand, Hofstede's cultural dimensions and Gray's hypotheses have rendered remarkable contributions in financial and accounting practices among different nations. Examining 45 Islamic banks in 11 Moslem majority countries, this paper focuses on four particular cultural dimensions namely individualism/collectivism, masculinity/femininity, uncertainty avoidance, and power distance and whether these dimensions have an impact on transparency. This study found that two out of four national cultures still have significant effect on the transparency level in Moslem majority countries.

Key words: Cultural values; Shariah disclosure; Social disclosure; Islamic banks

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Resumo: O objetivo deste trabalho é investigar os efeitos de valores culturais predominantes na divulgação bancária. Por um lado, os bancos islâmicos praticaram princípios islâmicos que são universais para todos os países. Espera-se que os bancos islâmicos forneçam informações transparentes, especialmente em termos de informações sociais e da Shariah (islâmica), uma vez que os bancos islâmicos afirmam ter objetivos sociais como a principal consideração. Os bancos islâmicos também têm o órgão de supervisão da Sharia para garantir que as atividades bancárias e as operações de negócios estejam de acordo com os requisitos islâmicos. Por outro lado, as dimensões culturais de Hofstede e as hipóteses de Gray renderam contribuições notáveis em práticas financeiras e contábeis entre diferentes nações. Examinando 45 bancos islâmicos em 11 países de maioria muçulmana, este artigo enfoca quatro dimensões culturais específicas, a saber, individualismo / coletivismo, masculinidade / feminilidade, evitação de incertezas e distância do poder e se essas dimensões têm impacto na transparência. Este estudo descobriu que duas das quatro culturas nacionais ainda têm efeito significativo sobre o nível de transparência nos países de maioria muçulmana.

Palavras-Chave: Valores Culturais; Divulgação da Sharia; Divulgação social; Bancos Islâmicos

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INTRODUCTION

Each accounting system is a product of its specific culture and environment (Askary, Pounder, azdifar, 2008). The nature of accounting as social science makes it inseparable from environmental influence, social values, culture and also religion. Gray's paper in 1988 was a pioneering paper contributing the idea that culture might affect accounting practice (Chanchani and Willett, 2004). Gray proposed some hypotheses derived from Hofstede's societal values (Chanchani and Willett, 2004; Hofstede, 1991). Gray came up with four significant accounting value dimensions derived from accounting literature were offered, encompassing professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism, and secrecy versus transparency (Gray, 1988). Integrated with Hofstede's societal values, these accounting dimensions have been used to propose cultural areas categorizing the countries which can be grouped into areas on the basis of cultural characteristics. However, this study focuses on one accounting value dimension which is transparency. As Gray (1988) hypothesized that a country with higher uncertainty avoidance and power distance and lower level of individualism and masculinity tends to have higher level of secrecy.

Not many studies have been conducted in the scope of the influence of cultural dimensions in Islamic banks. Islamic banks are unique. Islamic banks are created based on the principles clearly mentioned in the Quran (Wan Ibrahim and Ismail, 2015). Social objectives of Islamic banks can be accessed through the disclosure of zakah, qardh hassan, charity, other social activities in the annual reports (Ali and Hasan, 2014; Aribi and Gao, 2012; Hassan and Harahap, 2010) and also profit sharing contracts as the implementation of no interest business (Asutay and Harningtyas, 2015; Ghayad, 2008;

Rosly, Afandi, & Bakar, 2003; Zarrouk, Jedidia, and Moualhi, 2016). This unique system of Islamic banks is universally practicable in all Islamic banks in the world regardless cultural differences.

The paper proceeds as follows. The first section provides literature on Hofstede's cultural dimensions being widely used in cross-cultural studies in accounting. This section then goes on to explore Gray's first work. The next section provides insight into profit sharing system. The next section explains the hypothesis of the study. The following section discusses the research methodology followed by analysis and discussion. The last section concludes the study.

LITERATURE REVIEW

Hofstede's Cultural Dimensions and Gray's hypotheses

Culture is often defined as a system of shared attitudes, values, and beliefs that characterizes individual or group perceptions, preferences, and behaviours (Anderson, Fedenia, Hirschey, Skiba, 2011) and influences all aspects of a society's and an individual's life (Gaygisiz, 2013). The impact of culture on has been carried out in many different studies. Studying the cultural impacts on accounting has become popular since Gray initiated his work in the late 1980s. He offered a contribution towards a theory of cultural influence on the development of accounting systems internationally.

Gray's hypotheses were based on four cultural dimensions. This study examines three out of six Hofstede's dimensions; Large versus Small Power Distance, Individualism versus Collectivism, and Strong versus Weak Uncertainty Avoidance. It excludes Masculinity versus Femininity, Long Term

Orientation versus Short Term Normative Orientation and Indulgence versus Restrain. Power distance can therefore be defined as the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally (Hofstede, 1991). As such, high power distance societies accept the unequal distribution of power and authority (Boubakri, Mirzaei, Samet, 2017). Hofstede defines individualism as a dimension pertaining to societies in which the ties between individuals are loose; everyone is expected to look after himself or herself and his or her immediate family. Uncertainty avoidance is defined as the extent to which the members of a culture feel threatened by uncertain or unknown situation (Boubakri et al., 2017; Laitinen and Suvas, 2016). In countries with strong uncertainty avoidance there tend to be more and more precise rules and laws than in those with weak uncertainty avoidance in which in a condition when rules and laws cannot be respected, they should be changed.

Gray's work in 1988 was a pioneering paper contributing the idea that culture might affect accounting practice (Chanchani and Willett, 2004). Gray proposed some hypotheses derived from Hofstede's cultural values. Gray proposed four hypotheses developed from Hofstede's cultural

values combined with four significant accounting values encompassing professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism, and secrecy versus transparency (Chanchani and Willett, 2004; Gray, 1983). However, this study mainly examine one out of four Gray's hypotheses stating that a country with higher uncertainty avoidance and power distance and lower level of individualism and masculinity tends to have higher level of secrecy.

Transparency through Islamic Banking Disclosure

Corporate disclosures relates to social and moral values. It can be said that this service is more related to Islamic banks (Abbasi et al., 2012). Islamic banks have the objective to uphold ethical financial system (Asutay and Harningtyas, 2015) with the final objective to promote the prosperity (Bukhari, Awan, Ahmed, 2013) both economic and social welfare (Dusuki, 2008). Islamic banks must also ensure the conformance with Shariah principles and requirements. Having more social responsibilities, Islamic banks are expected to involve more social activities. Islamic banks have the responsibility in terms of charity and Islamic charity called zakah and qard (Maali, Casson, Napier, 2006;

Nobanee and Ellili, 2016). Therefore, Islamic banks should have broader and more comprehensive disclosure (Haniffa and Hudaib, 2007).

HYPOTHESIS

This study aims to test one of Gray's hypotheses stating that a country with higher uncertainty avoidance and power distance and lower level of individualism and masculinity tends to have higher level of secrecy. However, Islamic banks have to disclose the similar information on zakah (obligatory charity), qardh hassan (benevolence loans), charity, other social activities in the annual reports (Ali and Hasan, 2014; Aribi and Gao, 2012; Hassan and Harahap, 2010) and also profit sharing contracts as the implementation of no interest business (Asutay and Harningtyas, 2015; Zarrouk et al., 2016). This should be commonly practiced in all Islamic banks in different nations regardless cultural dissimilarities.

Therefore, this study hypothesizes that uncertainty avoidance, power distance, individualism and masculinity do not have impact on transparency level (disclosure).

H₀: There is no significant impact of cultural differences (uncertainty avoidance, power distance, individualism and masculinity) on transparency level (disclosure) in Islamic banks in different countries.

H_a: There is asignificant impact of cultural differences (uncertainty avoidance, power distance, individualism and masculinity) on transparency level (disclosure) in Islamic banks in different countries.

RESEARCH METHODOLOGY

This is a quantitative research because its objective is to empirically examine the relationship and causality of several variables. The purpose of quantitative research is to test the hypotheses or make some predictions (Cooper and Schindler, 2011). This study examines the latest 45 Islamic banks' annual reports in eleven countries year of 2015. Numerous studies have utilized the published annual reports which are considered as the main source of information for the stakeholders (Lu and Abeysekera, 2014; Soana, 2011). The data will be analysed using regression.

Table 1. Measurements of the Variables

MAIN VARIABLES	VARIABLES	MEASUREMENT
DEPENDENT:		
DISCLOSURE	Disclosure	Disclosure index based on the proposed disclosure categorization including social and Shariah compliance disclosures
INDEPENDENT:		
SSB	Shariah Supervisory Board	SSB size
MOSLEM POPULATION	Muslim population	The percentage of muslim population in the country
COUNTRY VALUE	Individualism	Individualism index based on country ranks (Hofstede, 1983; Gray, 1988)
	Masculinity	Maculinity index based on country ranks (Hofstede, 1983; Gray, 1988)
	Power Distance	Power distance index based on country ranks (Hofstede, 1983; Gray, 1988)
	Uncertainty Avoidance	Uncertainty avoidance index based on country ranks (Hofstede, 1983; Gray, 1988)

The model specification is as follow:

$$DISC = MOSL + SSB + PD + UA + MAS + IND + e$$

Explanation:

DISC= *Shariah* and Social Disclosure

MOSL= Moslem Population

SSB= *Shariah* Supervisory Board Score

IND= Individualism

MAS= Masculinity

PD = Power Distance

UA = Uncertainty Avoidance

e = Error

ANALYSIS AND DISCUSSION

This section discusses the data analysis and the results.

Table 2 Descriptive Statistics

		Power Distance	Individualism	Uncertainty Avoidance	Moslem Population	Shariah Supervisory Board	Social & Shariah Disclosures
N	Valid	45	45	45	45	45	45
	Missing	0	0	0	0	0	0
Mean		79.9556	28.1778	58.2667	84.0533	3.2222	44.6667
Median		80.0000	26.0000	60.0000	86.4000	3.0000	43.0000
Skewness		.122	-.231	-.573	-.805	.033	.454
Kurtosis		.026	-1.653	-.784	-.329	-.388	-.677
Minimum		55.00	14.00	36.00	61.40	0.00	13.00
Maximum		104.00	41.00	85.00	99.70	7.00	86.00

The assumption of normality is measured by Skewness and Kurtosis. The value of Skewness and Kurtosis should range between +1 to -3. The value of Skewness and Kurtosis close to zero indicates that the distribution is symmetric (Cooper and Schindler, 2011). All the data have Skewness and Kurtosis values between the ranges. The data do not have multicollinearity as well which are concluded from VIF and Tolerance values. Variance inflation factors (VIF) are less than 10 for all variables. Tolerance values are all below 0.1. Overall, it indicates that multicollinearity is unlikely to be a problem (See table 4.4).

Table 3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.667 ^a	.444	.357	16.65404

a. Predictors: (Constant), Shariah Supervisory Board, Individualism, Uncertainty Avoidance, Moslem Population, Power Distance, Masculinity

Table 4 The Significance of the Model

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	7267.224	5	1453.445	5.064	.001
Residual	11704.776	39	300.122		
Total	18972.000	44			

The table above reveals that the model represents banking transparency through Shariah and social disclosure. The model is statistically significant at 1% significance level.

Table 5 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	112.887	81.763		1.381	.175		
Power Distance	.011	.580	.007	.019	.985	.102	9.848
Individualism	-1.030	.325	-.518	-3.165	.000*	.591	1.692
1 Uncertainty Avoidance	.090	.391	.057	.229	.820	.258	3.874
Moslem Population	-.394	.509	-.234	-.773	.444	.173	5.775
Masculinity	-2.860	1.397	-.453	-2.047	.048**	.298	3.353
Shariah Supervisory Board	-.003	2.384	.000	-.001	.999	.383	2.610

Dependent Variable: Social & Shariah Disclosures

Note: *significance at 10%, ** significance at 5%

This study refers to Gray's hypothesis that a country with higher uncertainty avoidance and power distance and lower level of individualism and masculinity tends to have higher level of secrecy. The model reveals that only Individualism and Masculinity affect the disclosure practices. Other two cultural values namely Uncertainty Avoidance and Power Distance do not statistically influence the transparency level. The null hypothesis of this study states that there is no significant impact of cultural differences (uncertainty avoidance, power distance, individualism and masculinity) on transparency level (disclosure) in Islamic banks in different countries. The null hypothesis is partially accepted.

Other variables such as Moslem Population and the Shariah supervisory board do not have a significant effect of the disclosure practices in Islamic banks. This is due to all Islamic banks Shariah supervisory boards (Hashim, Mahadi, Amran, 2015; Rashid and Jabeen, 2016) and the board size is similar among Islamic banks. The bigger number of Moslems in a country is assumed to expect more transparent information. However, Moslem population does not have significant impact because all the

countries examined are Moslem majority Countries having slightly same percentage of Moslem population.

CONCLUSION

Many studies have proven that cultural dimensions have a prevailing influence on human behaviours in some aspects including accounting and financial practices. Hofstede introduced cultural dimensions which became the reference of Gray's hypotheses on accounting value dimensions. This study attempts to examine one of Gray's hypotheses relating to transparency. Having the universal values and principles, Islamic banks are expected to provide the information (the same level of transparency). It is because religious values should surpass the cultural differences. This study finds that two out of four national cultures still have significant effect on the transparency level in Moslem majority countries.

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