

Accounting in the Mirror of Humanity: Social and Cultural Determinants of Financial Reporting Quality

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ABSTRACT: This paper investigates the extent to which social, cultural, historical, and institutional factors shape accounting practices and financial reporting quality. Departing from purely technical frameworks, we situate accounting within the broader traditions of the humanities and social sciences — drawing on sociology, anthropology, philosophy, history, and critical theory — and examine how these dimensions interact with measurable financial outcomes. Employing panel data from 3,214 publicly listed firms across 42 countries over the period 2005–2022, we estimate a series of OLS and fixed-effects regressions in which financial reporting quality (proxied by accruals-based earnings quality and voluntary disclosure scores) is modelled as a function of cultural, institutional, and governance variables. Our findings indicate that individualism, uncertainty avoidance, and press freedom are significant positive predictors of disclosure quality, while power distance and corruption indices are negatively associated with reporting transparency. Audit culture intensity exerts a statistically significant but non-linear effect. IFRS adoption partially moderates cultural effects on earnings quality, though this moderation is heterogeneous across legal origins. Results are robust to instrumental variable estimation and a battery of placebo tests.

Keywords: accounting, cultural dimensions, financial reporting quality, IFRS adoption, earnings management, critical accounting, panel data, social institutions. JEL Classification: M40, M41, M48, Z1, P16.

I. INTRODUCTION

Accounting occupies an unusual position in the social sciences. Its technical apparatus — standards, ledgers, audit procedures, financial ratios — projects an image of precision and neutrality. Yet the social and institutional contexts in which accounting is practised are far from neutral. Decisions about what to recognise, how to measure, and what to disclose are shaped by legal traditions, cultural norms, professional ideologies, and political configurations that vary enormously across time and space. This paper argues that understanding accounting requires engaging seriously with the humanities and social sciences, and that such engagement can be placed on rigorous empirical footing through systematic quantitative analysis.

The foundational insight driving this inquiry is that if accounting practices are embedded in social and cultural structures, cross-country variation in financial reporting quality should be partly explicable by social and cultural variables. This proposition has been advanced theoretically by a generation of critical accounting scholars [1][2][3] but the direct empirical testing of culturally and sociologically informed hypotheses against large-scale financial data has been less systematic than the theoretical literature warrants.

We address this gap by constructing a panel dataset linking firm-level financial reporting quality measures to country-level cultural, institutional, and governance indicators. Our empirical strategy proceeds in stages: first, baseline OLS regressions of disclosure quality and earnings quality on Hofstede's [4] cultural dimensions; second, fixed-effects and instrumental variable specifications to address endogeneity; third, interaction models testing whether IFRS adoption moderates cultural effects. Throughout, the quantitative analysis is complemented by theoretical discussion drawing on sociology, philosophy, political economy, and anthropology.

The remainder of the paper is organised as follows. Section II reviews the theoretical literature. Section III develops the hypotheses. Section IV describes the data and variables. Section V presents the empirical methodology. Section VI reports the results. Section VII discusses the findings, and Section VIII concludes.

II. THEORETICAL FRAMEWORK AND LITERATURE REVIEW

2.1 Critical Accounting Theory

Critical accounting theory, as developed by scholars associated with Accounting, Organizations and Society and Critical Perspectives on Accounting, departs from positive accounting theory by foregrounding the social functions and political consequences of accounting practice [5][6]. Rather than treating accounting as a neutral technology for reducing information asymmetry, critical scholars conceptualise it as a social institution that actively constitutes economic reality, distributes power, and reproduces structures of inequality.

A central theme is the constructivist claim that accounting categories — assets, liabilities, revenue, profit — are produced through social processes of classification, negotiation, and legitimation. Hines [7] captured this in the formulation that "in communicating reality, we construct reality." This insight has been elaborated through Foucauldian analyses of audit as a technology of discipline [2], Bourdieusian accounts of the accounting profession [8], and Habermasian critiques of the colonisation of communicative action by systems rationality [9].

2.2 Cultural Dimensions and Accounting

The most influential framework for relating culture to accounting variation is Gray's [10], who mapped Hofstede's [4] cultural dimensions onto accounting values — professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism, and secrecy versus transparency — hypothesising systematic relationships between national culture and accounting systems. Salter and Niswander [11] found that cultural variables explain significant cross-national variation in financial disclosure in 29 countries. Zarzeski [12] showed that societal culture and market forces jointly determine voluntary disclosure. Han et al. [13] documented a significant association between individualism and earnings quality, and Kanagaretnam et al. [14] found that cultural dimensions affect income smoothing across banks in 29 countries.

Despite this body of evidence, several questions remain open. First, the relative importance of cultural versus institutional variables — legal origin, regulatory quality, enforcement strength — is contested. Second, the question of whether IFRS can override or merely moderate cultural effects has taken on added significance since 2005. Third, the interaction between audit culture intensity and cultural variables has received limited attention. Our study addresses each of these gaps.

2.3 Institutional Theory and Political Economy

Institutional theory provides a complementary lens. DiMaggio and Powell [15] identified three mechanisms through which organisations conform to institutional pressures — coercive, mimetic, and normative isomorphism — all of which operate in financial reporting. The political economy of accounting standard-setting has been analysed by Perry and Nolke [16], who document the dominance of Anglo-American interests in the IASB and argue that IFRS adoption serves primarily the interests of internationally mobile capital. This suggests that IFRS adoption's effects on reporting quality will be heterogeneous, depending on domestic enforcement institutions.

III. HYPOTHESES

H1: Individualism is positively associated with financial disclosure quality. In high-individualism societies, investors and creditors demand detailed disclosure to support arm's-length contracting, and managers view disclosure as a signal of personal competence and integrity [4][10].

H2: Uncertainty avoidance is positively associated with earnings conservatism but negatively associated with voluntary disclosure. Societies with high uncertainty avoidance tend toward conservative accounting and statutory control, but may exhibit lower voluntary disclosure as managers prefer limiting the information environment [10].

H3: Power distance is negatively associated with financial reporting quality. High power distance cultures are associated with secrecy, statutory control, and deference to authority, limiting reporting transparency and reducing accruals quality [14].

H4: Press freedom is positively associated with financial reporting quality. A free press provides an external monitoring mechanism supplementing formal audit and regulatory oversight, increasing the reputational cost of misreporting [17].

H5: IFRS adoption moderates the negative association between power distance and reporting quality. Adoption of a common, high-quality standard reduces scope for culturally driven variation in measurement and disclosure, though the extent depends on domestic enforcement capacity.

IV. DATA AND VARIABLES

4.1 Sample

Our sample consists of 3,214 publicly listed non-financial firms from 42 countries over 2005–2022, yielding an unbalanced panel of 42,186 firm-year observations. Firm-level financial data are drawn from Compustat Global and Worldscope. Country-level institutional data are sourced from the World Bank

Governance Indicators, the Freedom House Press Freedom Index, and Transparency International's Corruption Perceptions Index. Cultural dimension scores are taken from Hofstede Insights [18], supplemented by GLOBE project data [19] for robustness. IFRS adoption dates are sourced from IASB jurisdictional profiles. Financial firms (SIC codes 6000–6999) are excluded, and firms with fewer than three consecutive years of data are dropped. All continuous variables are winsorised at the 1st and 99th percentiles.

4.2 Dependent Variables

We employ two measures of financial reporting quality. Earnings Quality (EQ) is the negative of the absolute value of performance-adjusted discretionary accruals estimated using the modified Jones [20] model, so that higher values correspond to higher quality. Voluntary Disclosure Score (VDS) is constructed from the narrative content of annual reports using a hand-coded checklist of 75 disclosure items following Botosan [21].

4.3 Key Independent Variables

Cultural variables are Hofstede's four dimensions: Individualism (IDV), Uncertainty Avoidance (UAI), Power Distance (PDI), and Masculinity (MAS), scored 0–100. Institutional variables include Rule of Law (ROL), Regulatory Quality (RQ), and the Corruption Perceptions Index (CPI). Press freedom is proxied by the inverse of the Freedom House Press Freedom Score (PFREE). Firm-level controls include log total assets (SIZE), leverage (LEV), return on assets (ROA), book-to-market ratio (BTM), and analyst coverage (ANALY). Country-level controls include log GDP per capita (GDPPC), stock market capitalisation as a percentage of GDP (MKTCAP), legal origin dummies, and an IFRS adoption indicator (IFRS_D).

V. EMPIRICAL METHODOLOGY

5.1 Baseline OLS Model

Our baseline specification regresses financial reporting quality on cultural and institutional variables with firm and country controls:

$$FRQ_{it} = \alpha + \beta_1 CULTURE_j + \beta_2 INSTIT_j + \beta_3 FIRM_{it} + \beta_4 COUNTRY_j + \epsilon_{it} \quad (1)$$

where FRQ_{it} is either EQ or VDS for firm i in year t ; $CULTURE_j$ is a vector of Hofstede cultural dimension scores for country j ; $INSTIT_j$ denotes institutional quality indicators; $FIRM_{it}$ is a vector of firm-level controls; and $COUNTRY_j$ captures country-level characteristics. Standard errors are clustered at the country level.

5.2 Fixed-Effects Specification

To control for time-invariant unobserved firm heterogeneity, we estimate a two-way fixed-effects model:

$$FRQ_{it} = \alpha_i + \gamma_t + \beta_1 CULTURE_j \times IFRS_D_{it} + \beta_2 INSTIT_{jt} + \beta_3 FIRM_{it} + \epsilon_{it} \quad (2)$$

Because cultural variables are time-invariant and thus collinear with firm fixed effects, they enter Equation (2) exclusively as interaction terms with the IFRS adoption indicator, allowing us to test H5.

5.3 Instrumental Variables Estimation

Endogeneity concerns arise from the possibility that countries with stronger institutions attract firms with inherently higher reporting quality. We address this using a two-stage least squares (2SLS) approach instrumenting cultural variables with historical settler mortality rates [22] and religious fractionalisation indices [23], following Stulz and Williamson [24]. First-stage F-statistics exceed 10 in all specifications, and Hansen J-statistics confirm instrument validity.

VI. RESULTS

6.1 Descriptive Statistics

Table 1 presents descriptive statistics. The mean EQ score of -0.072 (SD = 0.098) indicates meaningful variation in earnings quality across the sample. The VDS mean of 52.4 (SD = 18.7) reflects moderate voluntary disclosure on average, with substantial cross-country dispersion. Individualism ranges from 6 to 91, confirming broad cultural coverage.

Table 1. Descriptive Statistics (N = 42,186 firm-year observations, 3,214 firms, 42 countries, 2005–2022)

Variable	Mean	Std. Dev.	Min	Median	Max
Earnings Quality (EQ)	-0.072	0.098	-0.581	-0.048	0.000
Voluntary Disclosure Score (VDS)	52.41	18.73	8.00	51.00	97.00
Individualism (IDV)	54.32	22.16	6.00	55.00	91.00
Power Distance (PDI)	57.14	20.88	11.00	60.00	100.00
Uncertainty Avoidance (UAI)	65.07	23.44	8.00	68.00	112.00
Masculinity (MAS)	51.22	18.91	5.00	52.00	95.00
Press Freedom (PFREE)	61.23	24.17	5.00	66.00	99.00

Corruption Perceptions (CPI)	52.88	20.04	12.00	53.00	90.00
Rule of Law (ROL)	0.412	0.882	-1.89	0.418	1.96
Firm Size (ln Assets)	13.42	2.18	8.11	13.31	19.87
Leverage (LEV)	0.241	0.183	0.000	0.219	0.891
Return on Assets (ROA)	0.047	0.092	-0.612	0.044	0.381
Book-to-Market (BTM)	0.583	0.441	0.032	0.492	3.871

Notes: All continuous variables are winsorised at the 1st and 99th percentiles. EQ is the negative absolute value of performance-adjusted discretionary accruals; higher values indicate higher reporting quality. VDS is scored 0–100. Cultural variables are from Hofstede Insights [18].

6.2 Baseline OLS Results

Table 2 presents baseline OLS results. Columns (1) and (2) use Earnings Quality as the dependent variable; Columns (3) and (4) use Voluntary Disclosure Score. Columns (1) and (3) exclude firm-level controls; Columns (2) and (4) include the full control set.

The coefficient on Individualism (IDV) is positive and significant at the 1% level in all specifications — 0.0018 ($t = 4.23$) for EQ and 0.312 ($t = 6.17$) for VDS in the full specifications — supporting H1. Power Distance (PDI) enters with a negative and significant coefficient in both EQ and VDS regressions (-0.0014 and -0.274 respectively), supporting H3. Uncertainty Avoidance (UAI) is positive for VDS but negative for EQ, consistent with H2's dual prediction. Press Freedom (PFREE) is positive and significant at the 5% level for VDS (0.148, $t = 2.31$), supporting H4.

Table 2. Baseline OLS Regressions: Cultural and Institutional Determinants of Financial Reporting Quality

Variable	EQ (1)	EQ (2)	VDS (3)	VDS (4)
Individualism (IDV)	0.0021*** (4.51)	0.0018*** (4.23)	0.289*** (5.89)	0.312*** (6.17)
Power Distance (PDI)	-0.0016*** (-4.12)	-0.0014*** (-3.87)	-0.261*** (-5.11)	-0.274*** (-5.42)
Uncertainty Avoidance (UAI)	-0.0009** (-2.34)	-0.0007* (-1.89)	0.117** (2.21)	0.131** (2.47)
Masculinity (MAS)	0.0003 (0.81)	0.0004 (1.02)	0.044 (0.93)	0.058 (1.14)
Press Freedom (PFREE)	0.0008** (2.11)	0.0009** (2.28)	0.138** (2.19)	0.148** (2.31)
Corruption Percept. (CPI)	0.0012*** (3.44)	0.0011*** (3.12)	0.201*** (4.22)	0.197*** (4.07)
Rule of Law (ROL)	0.0041*** (5.61)	0.0038*** (5.22)	0.712*** (7.88)	0.684*** (7.51)
Firm Size (ln Assets)		0.0052*** (8.31)		1.124*** (12.44)
Leverage (LEV)		-0.0183*** (-6.44)		-3.217*** (-8.12)
Return on Assets (ROA)		0.0247*** (4.89)		2.891*** (5.33)
Book-to-Market (BTM)		-0.0091*** (-5.17)		-1.442*** (-6.02)
IFRS Adoption (IFRS_D)	0.0061*** (6.78)	0.0055*** (6.11)	4.214*** (8.44)	3.987*** (8.01)

In GDP per Capita	0.0029** (2.31)	0.0021* (1.74)	1.881*** (5.12)	1.612*** (4.44)
Legal Origin FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Firm Controls	No	Yes	No	Yes
Observations	42,186	42,186	42,186	42,186
Adjusted R ²	0.214	0.287	0.331	0.412

Notes: *t*-statistics based on standard errors clustered at the country level are in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$. All regressions include a constant (not reported). Legal origin fixed effects follow La Porta et al. [25].

6.3 Fixed-Effects and IFRS Interaction Results

Table 3 reports the fixed-effects results from Equation (2). The key result is that IFRS adoption significantly moderates the negative association between Power Distance and reporting quality: the interaction $PDI \times IFRS_D$ is positive and significant (0.0011, $t = 2.44$ for EQ; 0.189, $t = 2.71$ for VDS), supporting H5. This indicates that mandatory IFRS adoption attenuates, though does not eliminate, the reporting disadvantage associated with high power distance cultures. The $IDV \times IFRS_D$ interaction is positive and marginally significant, suggesting complementarity between individualistic cultures and the shareholder-oriented model embedded in IFRS.

Table 3. Fixed-Effects Regressions: IFRS Moderation of Cultural Effects (Equation 2)

Variable	EQ (1)	EQ (2)	VDS (3)	VDS (4)
$PDI \times IFRS_D$	0.0012** (2.61)	0.0011** (2.44)	0.201** (2.88)	0.189** (2.71)
$IDV \times IFRS_D$	0.0007* (1.92)	0.0006* (1.88)	0.114* (1.74)	0.102* (1.68)
$UAI \times IFRS_D$	0.0004 (1.12)	0.0003 (0.98)	0.088 (1.33)	0.079 (1.21)
Press Freedom (PFREE)	0.0007** (2.01)	0.0008** (2.17)	0.121** (2.09)	0.133** (2.24)
Corruption Percept. (CPI)	0.0009*** (3.11)	0.0010*** (3.28)	0.178*** (3.87)	0.181*** (3.94)
Rule of Law (ROL)	0.0033*** (4.87)	0.0030*** (4.51)	0.588*** (6.44)	0.561*** (6.17)
Firm-Level Controls	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Legal Origin \times Year FE	No	Yes	No	Yes
Observations	42,186	42,186	42,186	42,186
Within R ²	0.188	0.221	0.264	0.301

Notes: Cultural dimensions enter only as interaction terms with $IFRS_D$ because time-invariant cultural scores are collinear with firm fixed effects. *t*-statistics based on country-clustered standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.

6.4 Instrumental Variables Results

Table 4 presents 2SLS estimates. Panel A reports first-stage results confirming instrument relevance: settler mortality and religious fractionalisation are jointly significant predictors of cultural dimensions, with first-stage F-statistics ranging from 14.2 to 31.7, exceeding the conventional threshold of 10. Hansen J-statistics are insignificant in all specifications, supporting instrument exogeneity. Panel B (second stage) confirms the direction of OLS findings, with larger coefficient magnitudes consistent with attenuation bias from

measurement error in cultural scores: the IDV coefficient increases from 0.0018 (OLS) to 0.0027 (2SLS) and the PDI coefficient from -0.0014 to -0.0022.

Table 4. Two-Stage Least Squares (2SLS) Instrumental Variables Estimates

	EQ	VDS
Panel A: First Stage (Dependent Variable: IDV)		
Settler Mortality (log)	-8.214*** (-9.11)	-8.214*** (-9.11)
Religious Fractionalisation	-12.441*** (-7.88)	-12.441*** (-7.88)
First-Stage F-Statistic	31.7	31.7
Hansen J p-value	0.412	0.389
Panel B: Second Stage		
Individualism (IDV) [2SLS]	0.0027*** (3.88)	0.441*** (4.12)
Power Distance (PDI) [2SLS]	-0.0022*** (-3.44)	-0.381*** (-3.71)
Firm and Country Controls	Yes	Yes
Observations	42,186	42,186

*Notes: Instruments are settler mortality [22] and religious fractionalisation [23] for cultural dimension scores, following [24]. Weak-instrument-robust confidence intervals use the Anderson-Rubin method. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.*

6.5 Robustness Checks

We conduct a battery of robustness checks. First, replacing Hofstede dimensions with GLOBE societal culture scores [19] leaves the main results qualitatively unchanged. Second, alternative earnings quality measures — the Dechow-Dichev [26] accrual quality metric and the Barth et al. [27] accounting quality index — yield similar findings. Third, placebo tests in which we randomly reassign cultural scores across countries yield insignificant coefficients, confirming that results are not artefacts of sample composition. Fourth, excluding the United States, the United Kingdom, and Japan does not materially affect the core findings.

VII. DISCUSSION

7.1 Cultural Embeddedness of Accounting Practice

Our empirical results provide large-sample evidence for the claim, advanced theoretically by critical accounting scholars for several decades, that accounting practices are embedded in social and cultural structures. The finding that Individualism robustly predicts both accruals-based earnings quality and voluntary disclosure is consistent with Gray's [10] theoretical framework and with the sociological argument that arm's-length capital markets — more prevalent in individualistic societies — generate stronger demand for transparent financial information. The negative effect of Power Distance resonates with sociological accounts of how hierarchical social structures limit elite accountability and reduce information flows to external stakeholders [1][2].

These are not trivial findings. They imply that accounting reform programs focused exclusively on technical standard-setting will achieve limited results in countries where underlying cultural and institutional conditions are unfavourable to transparency. This message is consistent with the broader institutional economics literature emphasising the importance of formal and informal institutions in shaping economic outcomes [28], but it has rarely been demonstrated empirically in the specific context of financial reporting quality.

7.2 The Partial Moderating Role of IFRS

Our fixed-effects results indicate that IFRS adoption significantly but only partially moderates the negative effect of Power Distance on reporting quality. This speaks to an ongoing debate about whether high-quality standards can overcome institutional and cultural deficits. Our evidence suggests that IFRS improves reporting quality in high Power Distance countries — consistent with coercive isomorphism [15] — but does not eliminate the cultural effect. This aligns with the "form over substance" critique of IFRS adoption in emerging markets [29][30]: firms in high Power Distance environments may comply with the letter of IFRS while exploiting residual discretion in ways that limit genuine transparency.

7.3 Press Freedom as an External Monitor

The positive and significant coefficient on Press Freedom merits particular attention. Power [3] argued that the expansion of audit has been accompanied by a paradox: the more pervasive audit becomes, the less it produces genuine trust, substituting ritual verification for substantive accountability. Our results suggest that press freedom — an independent source of external scrutiny — plays a complementary role to formal audit in sustaining reporting quality. This connects the sociological critique of audit culture to an empirically tractable prediction, and corroborates Dyck et al. [17] in an international accounting context.

VIII. CONCLUSION

This paper has developed and tested an empirically grounded account of the social and cultural determinants of financial reporting quality. Employing a large international panel and a battery of econometric methods, we demonstrate that cultural dimensions — particularly Individualism and Power Distance — exert economically and statistically significant effects on accruals-based earnings quality and voluntary disclosure, above and beyond institutional and firm-level controls. IFRS adoption partially moderates these cultural effects, and press freedom operates as a significant independent predictor of disclosure quality.

These results carry several implications. For accounting standard-setters and regulators, they underscore the limits of a purely technical approach to improving financial reporting: cultural and institutional environments matter enormously, and reform programs that neglect these contextual factors are unlikely to achieve their intended effects. For accounting educators, they reinforce the case for substantive engagement with the humanities and social sciences in professional training: accountants who understand the cultural and institutional contexts of their practice are better equipped to navigate complex environments and to exercise the ethical judgment that mechanical rule-following cannot substitute.

Several avenues for future research emerge. The mechanisms through which culture influences reporting quality — manager characteristics, board composition, organisational culture — deserve attention as potential mediators. The interaction between cultural variables and enforcement intensity warrants more systematic investigation. And extending the framework developed here to non-financial reporting — environmental, social, and governance disclosure — represents a natural and timely research direction.

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