

Organizational Culture and Financial Reporting Practices in Nigeria

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Abstract

Organizational culture is an important parameter for business survival and growth. Effective management must take into account not only the financial data, as they are presented in business annual financial statements, but the way culture affects quantitative and qualitative organizational variables as well. The purpose of this study is to present the importance of organizational culture in terms of business performance and its interactive relationship with financial statements. In order to achieve that the study made use of an ex-post facto design for data collection from both primary and secondary sources. The data were analyzed using a simple regression model. The study revealed that Organizational culture does significantly influence financial reporting practices in Nigeria. The study concluded that the financial reporting practice is a socially dynamic process. It is a socially constructed reality involving interplay between individual, social values and organizations. Indeed, it can be seen that financial reporting practice reflects the ideas on an ethical social relationship. The study therefore recommended that compliance with regulations is determined by organizational culture. Thus a company with an ethical culture will more likely be committed to compliance with regulation and to quality financial reporting practice.

Keywords: Clan Oriented Culture, Adhocracy Oriented Cultures, Market Oriented Cultures Hierarchy Oriented Cultures, Financial Reporting Practice

1.0 INTRODUCTION

1.1 Background of the study

It is widely acceptable that each company, each firm acts like a live organism. In other words, a company follows identical steps to any other biological entity, in the sense that after its foundation it goes through the maturing process which ends with the arrest of its function.

Business environment is a crucial parameter for the creation and formation of the organizational culture. Economy, society, government and technology are constantly sending messages about the consumers' needs in services and products, the quality requirements and the accepted behaviors in the business era. All of the aforementioned and especially the unique nature of each company and its founders' character create such an inimitable phenomenon as the organizational culture. The organizational culture has been a research object studied by many researchers throughout the years (Barney 1986, Deal & Kennedy 1982, Denison 1990, Ouchi 1981, Pettigrew 1979, Schein 1985, 1990). As a result, a series of definitions has been provided so as to explain the meaning of the term "organizational culture". Despite the differences in these definitions, some common characteristics seem to exist in all of them. First of all, they tend to take into consideration parts of the organizational culture, elements that are widely acceptable among the company's employees. Elements that are being accepted only by minorities or small groups are classified indifferent subcultures.

Secondly, all the definitions are accepting that organizational culture consists of different layers. The core elements are the fundamental assumptions and the different organisational values that exist since the day of the company's foundation. These two elements are resistant to change and determine the accepted behavioral norms.

Even though behavioral norms are not written, employees understand their existence and learn how to incorporate them in their labour behaviour.

Usually, behavioural norms can change in order to meet updated needs or in order to meet a new strategic plan (customer oriented or market oriented plans). Moreover, the strength of behavioural norms can create written or unwritten rules about the widely acceptable organizational behaviour. These patterns of behaviour are compulsory for all employees and cannot be disregarded. These obligations, even though many employees find them difficult to accept, create a sense of unity and team working.

In order to increase this feeling top management usually creates a series of artifacts and symbols. The firm's brand, commercial spots, unions' uniforms, organizational ceremonies and others are some of the most obvious elements of an organizational culture. These elements are communicating messages about the company and even if they are easily changeable, they are related with the company's core values.

Taking into consideration all of the above, we can define the organizational culture as the sum of those patterns of common convictions, rituals, fables and sentiments that become collectively acceptable from the members of an organization (Stokes, Harrison 1992).

1.2 Statement of the problem

Organizational culture is an important parameter for business survival and growth. Effective management must take into account not only the financial data, as they are presented in business annual financial statements, but the way culture affects quantitative and qualitative organizational variables as well.
Current studies of financial reporting have been dominated by the positive accounting research paradigm framework, which addresses particular problems to be analysed using mathematical and statistical techniques, and which is aimed at explaining and predicting how self-interested individuals behave when facing economic consequences of particular accounting issues (Holthausen 1990; Watt and Zimmerman 1986). However, empirical studies have not provided conclusive and convincing evidence to support the claims made for the usefulness of financial reporting.
It is recognised that the current research in accounting and corporate governance is alert to the fact that actors' behaviour is modified by procedures, rules, and incentives and other economic factors. The examinations to date have all but ignored the role of institutions and culture play in financial reporting practice. Financial reporting practice does not exist in a vacuum, but operates in an environment characterised by a specific culture. The call for studying accounting within its environmental context has been suggested by many scholars (Adams 2002; Adams 1997; Gordon and Miller 1976; Gray 1992; Gray 1988; Hopwood 1983; Miller 1994; Neimark and Tinker 1986). Such a call is mainly stimulated by a belief that accounting is a socially constructed reality (Hines 1988; Morgan 1988; Munro 1998).
Following a view that accounting is a socially constructed reality, financial reporting practice cannot be separated from its cultural context. Indeed, culture plays important roles in constructing social structure and institutions (Hofstede 1984; Schein 2004; Taylor 2004; Velayutham and Perera 1996; Zucker 1988). Scott (1995) also believes that culture is a carrier of cognitive, normative and regulative rules into organisations. Consequently, culture influences the financial reporting practices of a company (Adams 2002; Adams and Kuasirikun 2000; Geriesh 2003; Hofstede 1987; Jaggi 1975; Perera 1989; Thomas 1989).
In particular, this study aims at examining how organizational culture influences financial reporting practice.

1.3 Research hypothesis

Ho: There is no significant relationship between organizational culture and financial reporting practices.

2.0 LITERATURE REVIEW

2.1 Organizational culture

Organizational culture is the behavior of humans who are part of an organization and the meanings that the people react to their actions. Culture includes the organization values, visions, norms, working language, systems, symbols, beliefs, and habits. It is also the pattern of such collective behaviors and assumptions that are taught to new organizational members as a way of perceiving, and even thinking and feeling. Organizational culture affects the way people and groups interact with each other, with clients, and with stakeholders.

Ravasi and Schultz (2006), state that organizational culture is a set of shared mental assumptions that guide interpretation and action in organizations by defining appropriate behavior for various situations. At the same time although a company may have their "own unique culture", in larger organizations, there is a diverse and sometimes conflicting cultures that co-exist due to different characteristics of the management team. The organizational culture may also have negative and positive aspects which can affect employees own perceptions and identification with the organizational culture.

Schein (1992), Deal and Kennedy (2000), Kotter (1992) and many others state that organizations often have very differing cultures as well as subcultures.

According to Needle (2004), organizational culture represents the collective values, beliefs and principles of organizational members and is a product of such factors as history, product, market, technology, and strategy, type of employees, management style, and national cultures and so on. Corporate culture on the other hand refers to those cultures deliberately created by management to achieve specific strategic ends.

2.2 Types of organizational culture

According to Quinn and Cameron there are four types of organizational culture: Clan, Adhocracy, Market, and Hierarchy.

- **Clan O**riented **C**ultures are family-like, with a focus on mentoring, nurturing, and “doing things together.”
- **Adhocracy O**riented **C**ultures are dynamic and entrepreneurial, with a focus on risk-taking, innovation, and “doing things first.”
- **Market O**riented **C**ultures are results oriented, with a focus on competition, achievement, and “getting the job done.”
- **Hierarchy O**riented **C**ultures are structured and controlled, with a focus on efficiency, stability and “doing things right.”

There’s no correct organizational culture for an arts organization. All cultures promote some forms of behavior, and inhibit others. Some are well suited to rapid and repeated change, others to slow incremental development of the institution.

For example, Quinn and Cameron associate the lower two cultures (Hierarchy and Market) with a principal focus on stability and the upper two (Clan and Adhocracy) with flexibility and adaptability. A Hierarchy culture based on control will lead mainly to incremental change, while a focus on Adhocracy will more typically lead to breakthrough change.

The right culture will be one that closely fits the direction and strategy of a particular organization as it confronts its own issues and the challenges of a particular time.

2.3 Organizational culture and financial reporting practices

The relationship between the organizational culture and the financial statements has to do with the interaction between them and is focused on two distinct points. The first point is whether organizational management is affected by the manner the organizational culture shapes various elements that appear in the annual financial statements. It is rather interesting to investigate if the current type of organizational culture can be recognized from the financial statements and whether it can affect its structure.

The organizational culture's parameters and the data from the financial statements can indicate the way an organization is managed and to support an analysis about its viability, growth and operational efficiency. These two elements reliably represent both quantitative and qualitative parameters of the organizational operation. National Accounting Standards can offer an analytical and accurate statement about the financial parameters that characterize an organization. The organizational quantitative parameters can be presented by the various types of organizational culture as they are shown in the Quinn & Cameron's Model. The coordination of financial data and cultural elements is a rather important factor for the effective management of any kind of organization.

The second point is referring to the existence or absence of an internal desire for cultural change and the way this desire could be described in financial statements. Empirical results (Pardalis 2006) indicate that employees are willing to change their organizational culture if that has a positive impact at the overall organizational performance. The desired type of organizational culture can fit better to employees' mentality or it can be in better coordination with the organizational strategy. So, it is rather interesting to investigate if National Accounting Standards are related with the desired culture.
Empirical results (Pardalis, 2006) have been collected. In particular, 336 top managers from the Greek market were interviewed in order to shape a clear view about theirs organizational culture and the way they handle financial statements. The results are revealing that Greek managers are having a rather hierarchical culture; they tend to support bureaucratic procedures and inflexible structures. At the same time, top managers seem to understand theirs' weaknesses and they have a strong desire to change the organizational culture to more flexible and market oriented characteristics. In order to achieve this scope they formulate organizational plans and try to change procedures and strategies by changing some organizational parameters. These parameters are best expressed through financial statements.

The results indicate that the financial statements indicate top management's intensions to change orientation or organizational structures. In other words, financial statements can provide useful information about movements from one type of culture to another. This is a slow procedure that must be controlled carefully but its results are rather clear. After the cultural change financial data tend to differentiate. Financial statements can also give clues about whether the cultural change had a positive or a negative impact on the financial performance.

In order to reach such kind of conclusions, the appropriate accounts from the Greek National Accounting Standards must be selected, which can provide us with crucial pieces of information about the successive or not management of business organizations. Therefore we present a number of accounts that seem to be influenced by organizational culture and at the same time have the ability to inform as if an organization has managed to reform in the desirable way into the present culture.

One of the most important issues that business organizations have to deal with in a multinational level is their reserves management. Therefore relevant reserve accounts must be examined carefully, since they can provide pieces of information correlated to its organization's management profile.

Account 41 "reserves" is one of those that can be used as a criterion about management performance. Reserves are a portion of Net Equity and derive from Retained Earnings and others from law dispensations. It must be noted that reserves can also derive from the managements' effective performance. For each organization reserves are important since they are used for fixed assets acquisitions and for deficit financing.

Reserves management is correlated to the organizational culture. Organizations that are characterized by Hierarchy Culture tend to manage their reserves in a more conservative manner. On the other hand, organizations with a more external orientation, present a riskier reserves management. Therefore through this account's data it can be concluded whether the organization has an internal or external orientation and whether this orientation differentiates diachronically due to management decisions.

Another crucial account is 43, "investment properties". Through this account fixed assets' investments are monitored. Through investments fixed assets can be increased and improved. Organizations that invest in fixed assets tend to be characterized by a more external orientation and vice versa. This conclusion is a rather logical one since organizations that are focused on growth have to analyze their external environment and at the same time develop their infrastructure in terms of fixed assets.

Each and every organization unit has to manage successfully its supplier's network, no matter if they supply products or services. Every organization's management focuses on reducing liabilities towards suppliers. Effective management is correlated to this factor in a very strong manner. Therefore account 50, "suppliers", that monitors liabilities towards suppliers is a very crucial one. At the same time there is a strong relationship

between organizational culture and the relationship that each organization unit develops with its suppliers. Usually, organizations that have an internal orientation tend to develop more solid relationships with their suppliers and vice versa. Through account 50 pieces of information about this relationship can be obtained. At the same time it is very crucial for each organizational unit to reduce its expenses in an effective and diachronic manner. This effort to reduce expenses must not have a negative impact on the organizational performance. All organizational units develop programs in order to reduce their expenses concerning payroll and staff expenses, third parties fees. These efforts can be monitored through account 60, "payroll and staff expenses" and account 61, "third parties fees". Organizations with internal orientation tend to focus intensively to expenses reduction and vice versa. Therefore, once more, we can verify that there is a correlation between accounting accounts and organizational culture.
Until this point a number of accounting accounts were presented, which are considered as critical in the effort to evaluate a wider strategic planning and practice of administrations of Greek business organizations.

2.4 Organizational culture and performance

Performance is one of the most important organizational factors. Stated-owned or private, nationally or internationally operated, small or large, each organization has to pay attention to performance. From the early 1980's, it is widely acceptable that performance is based upon some factors in order to be achieved (Porter, 1980).

The first one is the barriers of entrance to the market. In order to avoid competition each company tries to put some barriers to entrance. In general, such barriers are the need for large investments, the low production cost, the economies of scale, the need for specialised technology and the control of the suppliers. If these barriers exist it is difficult for new entrants to compete successfully and high levels of profitability and performance are achieved.

The second factor is the absence of products or services that can substitute the existing ones. In that case the market can be controlled through the supply chain. The customers have a specific preference for specific products and demands which no other competitor can offer. Another factor is controlling a large market share. In that case the company can proceed to large investments, creating economies of scale and retaining its competitive advantage and its market shares.

The forth factor is the absence of negotiation power from the customers' side. That happens when customers cannot pressure so as to achieve a price reduction, which is common in monopolies and in cases that the product or the service is priceless, such as the health sector. In such cases the supplier or the suppliers are able to gain profitability and to increase their performance. The same applies for the demand as well. For instance, that could occur when the customers, even though they are numerous, cannot negotiate the price but in contrast they must outbid, because only one can have the product. Such an occasion occurs in the art sector and in the army's weapon sector.

These factors seem to be able to interpret the success, the efficient operation or the profitability of each organization. Reality, though, is completely different. In particular, there were companies in U.S.A. during the last twenty years that didn't have even one of the aforementioned factors (Pfeffer, 1995). Moreover, none of the companies above had a unique technology or a great market share.

This situation raises questions about the factors that make an organization successful and operating in high performance, while others are less successful even though they operate under better conditions. In order to answer this question many researchers have focused on the relationship between organizational culture and performance. These researchers have come to the conclusion that both theoretically and empirically this relationship is real and rather intense (Siehl & Martin 1990, Calori & Sarnin 1991, Kotter & Heskett 1992, Smart & Hamm 1993, Lysons, Hatherly & Mitchell 1998, Belasen 1998, Walton & Dawson 1999, Lee & Yu, 2004).

These researches have deduced that the organizational culture may be an intangible parameter but a much more powerful one than the factors that have been mentioned before. Companies with high performance use their organizational culture in order to gain a sustainable competitive advantage (Quinn & Cameron 1999, Cameron

2004). Prevailed opinion that derives from these researches is that organizations seek the creation of a powerful and a viable organizational culture (Vogds, 2001).

This is a very logical thesis taking into consideration that organizational culture provides employees with widely acceptable patterns of behavior. Moreover, it influences the way employees conceive their every day organizational operation. A strong culture facilitates employees to understand in depth the internal and external developments and to have a solid opinion. Communication codes and internal networks are formed by organizational culture and all these cultivate improvements in cooperation and team working.

Taking into consideration all of these facts it is understandable why many researchers are still trying to expand the relationship between culture and organizational performance (Fey & Denison 2000, Vogds 2001, Stewart 2001, Eige 2002, Berrio 2003, Smart 2003, Cameron, 2004; Lee & Yu, 2004).

According to the results of these researches, organizational culture tends to influence companies in two ways. Firstly, it influences the way companies operate internally and try to manage their activities. Secondly, it influences the way companies focus on the market and operate externally. It is clear that organizational culture affects organizations both internally and externally and that way it must be taken into consideration.

It has been proved (Pardalis, 2006) that organizational culture is a crucial element that must be taken into consideration from the Greek enterprising companies' management as well. The current organizational culture can interpret behaviors, perceptions and patterns that are a part of the daily operation. So it contains information that can be used for both the short--term and the long--term decision making processes.

So there is great interest about the way financial management can be affected by organizational culture. In order to investigate this relationship accounting principles must be used. Accountancy is a science that offers concentrated and classified financial data, which can be used through the decision making process and can, facilitate the effective management. In particular, following strictly determined methods and principles, it provides the ability to record, point out and analyze financial data through standardized statements. It is interesting to investigate how a qualitative parameter such as the organizational culture is can be connected with quantitative data such as the ones that accountancy can provide. This relationship is rather important so that companies can be managed effectively and reaches their desired performance.

3.0 Research methodology

The research design adopted for this study was ex-post facto. The data were collected from both primary and secondary sources. In collecting the data from the primary source, the instrument used was Organizational Culture and Financial Reporting Practices in Nigeria (OCFRPN). This was a 20 item questionnaire constructed by the researcher and aimed at eliciting information from the respondents on the variables of the study. The items were based on existing literatures on organizational culture and financial reporting practices. The questionnaire contained items seeking information to measure the major variables of the study as the items were scored based on a four (5) point Likert scale, beginning with all positively worded items as follows: Very Strongly Support (VSS) scored 5 points, Strongly Support (SS) 4 points, Undecided (U) 3 points, Moderately Support (MS) 2 points, and No Support (NS) 1 point.
The basic model estimated is stated thus:

$FRP = b_0 + b_1 OC + e$ …………… (1)

Where:

FRP = Financial Reporting Practices

OC = Organizational Cultures

4.0 Findings

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	69.145	1	69.145	4.086	.045[a]
	Residual	2792.172	165	16.922		
	Total	2861.317	166			

a. Predictors: (Constant), OC

b. Dependent Variable: FRP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	20.667	1.948		10.612	.000
	OC	.164	.081	.155	2.021	.045

a. Dependent Variable: FRP

The regression results showed that the estimated coefficient of the regression parameter have a positive sign and thus conform to our a priori economic expectation. The implication of this sign is that the dependent variable Financial Reporting Practices (FRP) is influence by Organizational Culture (OC).

Testing the statistical significant of the overall model, the F-statistic was used. The model is said to be statistically significant at 5% level as indicated by the F-value of 4.086 (p 0.045).

Finally, the calculated t-value of 2.021 was found to be greater than the critical value, needed for significance at 0.05 alpha levels. With this result, the null hypothesis is rejected and alternative accepted. This means that organizational culture does significantly influence financial reporting practices in Nigeria.

5.0 Conclusion/Recommendations

To sum up, regardless of how beliefs, values and norms are institutionalized to shape individuals' behaviour, and to socially construct financial reporting practice, this study concluded that the financial reporting practice is a socially dynamic process. It is a socially constructed reality involving interplay between individual, social values and organizations. Indeed, it can be seen that financial reporting practice reflects the ideas on an ethical social relationship. Financial reporting practice in Nigeria shows that accounting is a social science. It is value laden.

The study therefore recommended that quality financial reporting practice is strongly influenced by the organizational culture of the company. It is true that regulations affect financial reporting practice. However, compliance with regulations is determined by organizational culture. Thus a company with an ethical culture will more likely be committed to compliance with regulation and to quality financial reporting practice. Taken-for-granted beliefs have shaped the behaviour of organizational members and have driven the company to commit to ethical culture. This ethical culture has also shaped its financial reporting practice.

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