Integrated Reporting Quality with Hofstede's Six Dimension of National Culture: Case Studies from Indonesia

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Abstract. Integrated Reporting (IR) has gained significant interest in both academic and professional circles. However, ensuring high-quality reports remains crucial. While research on IR is abundant, few studies explore factors influencing its quality. This paper examines the impact of national culture, an external factor according to stakeholder theory, on IR quality. The study investigates listed companies in Asia during 2022. The research utilizes a cross-sectional analysis due to the unchanging nature of the independent variables (national culture dimensions). Through a regression model with SEM-PLS, the study finds a negative relationship between IR quality and four of Hofstede's cultural dimensions: power distance, individualism, masculinity, and indulgence. Uncertainty avoidance, however, showed a positive correlation with IR quality. Long-term orientation did not exhibit a significant influence. These findings contribute to the understanding of factors affecting corporate report quality and hold value for both managers and policymakers. By considering these cultural aspects, companies can enhance their IR quality, ultimately promoting global sustainable development and strengthening world capital markets.

Keywords: Integrated Reporting Quality, National Culture, Hofstede.

1 Introduction

Integrated Reporting (IR) has become a hot topic in both academic and business circles. However, ensuring the quality of IR reports remains a key concern. While research on IR is plentiful, few studies delve into factors that influence report quality. This study focuses on the potential link between a company's national culture and the quality of its IR reports. Developed by the International Integrated Reporting Council (IIRC), IR aims to provide a comprehensive picture of a company's value creation across various timeframes (short, medium, and long term). This approach seeks to improve the quality of information delivered to stakeholders and promote a unified method for corporate reporting. Unlike traditional reporting formats that focus solely on non-financial aspects like social and environmental issues, IR stands out for its interconnected approach to information. It essentially integrates various data points to present a holistic and sys-

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tematic view of a company's operations (IIRC, 2013). This allows managers to effectively showcase the company's interactions with stakeholders and highlight the established connections between different aspects of the business.

Integrated Reporting (IR) revolutionizes corporate disclosure by integrating it with value-driven frameworks and a holistic approach to business management. IIRC (2013) defines integrated thinking as the proactive analysis of connections between various business functions and the resources a company uses or influences. This approach fosters informed decision-making and actions that create value across short, medium, and long-term horizons. It also emphasizes aligning the interests of key stakeholders. As companies adopt integrated thinking, they naturally integrate information connectivity into their operations and decision-making processes.

Research confirms the increasing popularity and evolution of IR practices since its introduction (KPMG, 2017). Scholarly interest has grown significantly in recent years, with studies focusing on the impacts and determinants of IR adoption (e.g., Barth et al., 2017; Esch et al., 2019). However, a critical gap remains in understanding factors influencing IR quality. This study aims to fill this gap by investigating the impact of Hofstede's six cultural dimensions (Hofstede et al., 2010) on IR quality, offering a fresh perspective in this field.

By adopting a stakeholder theory lens, this research aligns with prior studies exploring the link between national culture and disclosure practices (García-Sánchez et al., 2013; Orij, 2010; Van der Laan Smith et al., 2005). This framework allows for interpreting managerial behaviors and disclosure practices through a dual lens. First, Ethical-Normative Perspective. This considers how cultural values influence managerial philosophies and shape companies' ethical obligations to disclose information. Second, Strategic-Managerial Perspective. This analyzes how companies adapt their disclosure practices to specific cultural contexts.

2 Literature Review

Stakeholder theory, introduced by Freeman (1984), views businesses as interconnected with various groups (stakeholders). Its core principle is that a company's success hinges on effectively managing these relationships. Donaldson and Preston (1995) categorize stakeholder theory into three distinct approaches. First, Descriptive Approach. This approach assesses how well companies consider stakeholder needs in their day-to-day operations (Brenner & Cochran, 1991).

Second, Instrumental Approach. This perspective emphasizes the strategic importance of stakeholder relationships. Companies prioritize stakeholders based on their influence and relevance to gain a competitive advantage (Freeman, 1984). Consequently, companies strive to develop best practices in managing stakeholder relationships, prioritizing stakeholders based on relevance and influence (Mitchell, Agle, & Wood, 1997). It focuses on building strong connections and balancing stakeholder interests to gain legitimacy (Ogden & Watson, 1999).

Third, Normative Approach. This approach grounds stakeholder theory in ethics. It emphasizes the inherent rights of stakeholders, regardless of their power (Evan & Freeman, 1988). Companies have a moral obligation to consider stakeholder expectations, including social and environmental concerns. This perspective also highlights the influence of national culture on shaping these ethical responsibilities.

3 Hypotheses Development

Building on prior research that explores the link between national culture and corporate social responsibility or non-financial disclosures (e.g., Coulmont et al., 2015; García-Sánchez et al., 2013), this study utilizes Hofstede's six cultural dimensions (Hofstede et al., 2010) as a framework to investigate the impact of national culture on IR quality. Hofstede's dimensions are widely recognized for their effectiveness in explaining social and economic phenomena across different cultures (Luo & Tang, 2013; Park et al., 2007; Vachon, 2010). This study examines all six dimensions. These dimensions are considered interconnected and form a comprehensive framework (Coulmont et al., 2015) (See Figure 1).

The first dimension, power distance, refers to a society's approach to inequality. In cultures with high power distance, there is a strong respect for authority and a clear hierarchy. People accept these inequalities. In contrast, societies with low power distance have a more egalitarian distribution of power, and people are more likely to question authority. Research suggests that cultures with lower power distance are more likely to embrace social and environmental initiatives due to a higher level of dialogue (Ringov & Zollo, 2007). Additionally, companies in these cultures tend to have more employee involvement and less polarization (Coulmont et al., 2015; Ringov & Zollo, 2007). Given this emphasis on stakeholder engagement, we expect companies in low power distance cultures to produce higher quality integrated reports that address stakeholder needs more comprehensively.

H1: Companies operating in countries with higher power distance tend to produce lower quality IR.

This passage defines individualism and collectivism, two cultural dimensions from Hofstede's framework (Hofstede et al., 2010). Individualistic societies emphasize independence and self-reliance, while collectivistic societies prioritize group loyalty and social connections. The passage then connects these cultural dimensions to potential impacts on integrated reporting quality. Individualistic cultures might be less concerned with broader social and environmental issues, leading companies to prioritize disclosures with less focus on these aspects (Ringov & Zollo, 2007). Conversely, collectivistic cultures might emphasize social responsibility, resulting in higher quality integrated reports that address these issues more comprehensively (Luo & Tang, 2013). Based on this reasoning, the hypothesis is introduced:

H2: Companies operating in countries with higher individualism tend to produce lower quality IR.

This passage defines masculinity and femininity, another cultural dimension from Hofstede's framework (Hofstede et al., 2010). Masculine societies value competition, assertiveness, and achievement, while feminine societies prioritize cooperation, caring, environmental concerns, and a good quality of life. The passage then explores the potential link between these cultural values and integrated reporting quality. Companies in more masculine cultures might be less concerned with environmental impact, focusing more on material success. In contrast, companies in feminine cultures might be more mindful of the environment and stakeholder needs (Park et al., 2007; Coulmont et al., 2015; Luo & Tang, 2013). This focus on social responsibility could lead them to produce higher quality integrated reports that address these issues more thoroughly. Based on this reasoning, the hypothesis is introduced:
H3: Companies operating in countries with higher masculinity tend to produce lower quality IR.

This passage defines uncertainty avoidance, another cultural dimension from Hofstede's framework (Hofstede et al., 2010). Societies with high uncertainty avoidance prioritize control and established rules to manage ambiguity. Companies in such cultures tend to be more risk-averse and value information as a tool to reduce uncertainty (Luo & Tang, 2013). Stakeholders with greater access to information might experience less uncertainty (Coulmont et al., 2015).
H4: Companies operating in countries with higher uncertainty avoidance tend to produce higher quality IR.

Long-term orientation refers to a cultural emphasis on future benefits over immediate gains. Individuals in these cultures value perseverance and long-term results. Short-term cultures, conversely, prioritize immediate returns. Disclosure might be seen as an immediate cost with uncertain future benefits in short-term cultures (Tata & Prasad, 2015). Research suggests short-term cultures might be less inclined towards sustainability initiatives (Coulmont et al., 2015).
H5: Companies operating in countries with a stronger long-term orientation tend to produce higher quality IR.

This passage defines indulgence and restraint, another cultural dimension from Hofstede's framework (Hofstede et al., 2010). Indulgent cultures encourage the fulfillment of desires with minimal restrictions. Restrained cultures emphasize control and regulation. Societies with high indulgence have less rigid social norms, prioritizing personal desires. Individuals in these cultures might be less interested in monitoring business practices (Coulmont et al., 2015).
H6: Companies operating in countries with higher indulgence tend to produce lower quality IR.

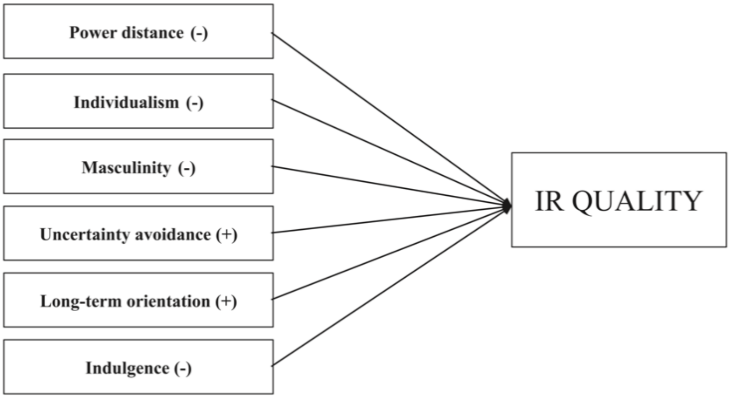

Fig. 1. Conceptual model of the relationship between national culture and integrated reporting quality

4 Methods

Our study focused on 101 national corporations that adopted Integrated Reporting (IR). We retrieved their reports from the International Integrated Reporting Council's (IIRC) website, specifically the "Leading Practices" and "<IR> Reporters" sections. Choosing the IIRC website ensured the reports followed the IIRC framework. All reports used in the analysis were from the year 2022.

Following Ringov and Zollo's (2007) approach, we employed regression analysis to explore the relationship between national culture and IR quality. We chose a cross-sectional approach, meaning data was collected at a single point in time (2022), as the cultural dimensions we examined (Hofstede's dimensions) are unlikely to change significantly over time. The specific variables used in our regression model will be explained in the following sections.

$$\begin{aligned} IRQUALITY = {} & \beta 0 + \beta 1PDI + \beta 2IDV + \beta 3MAS + \beta 4UAI + \beta 5LTO + \beta 6IVR + \\ & \beta 7ROE + \beta 8AGE + \beta 9SIZE + \beta 10ENVSEN + \varepsilon \end{aligned}$$

To account for factors beyond national culture, we incorporated additional control variables into our regression model. First, Return on Equity (ROE). We considered that a company's profitability might influence report quality due to the costs of preparing integrated reports. Companies with higher ROE might allocate more resources to this process. Second, Company Age (AGE). This variable represents the company's lifespan up to 2018. We expect older, more established companies to produce higher quality integrated reports. Third, Firm Size (SIZE) measured as the natural logarithm of total assets, firm size has been linked to IR adoption in previous studies (e.g., Frías-Aceituno et al., 2014; Ghani et al., 2018). Fourth, Environmental Sensitivity (ENVSEN). A dummy variable indicating the environmental impact of the company's industry. Industries with a significant environmental footprint (e.g., agriculture, energy, waste management) were assigned a value of 1, while others received a value of 0. This variable is based on research by Tagesson et al. (2009), Gamerschlag et al. (2011), and Branco & Rodrigues (2008).

5 Results

Table 1. Linear Multiple Regression Results

Variables	Coefficient	Standard Error	p-Value
Cons	75.628	9.111	0.000***
PDI	−0.136	0.058	0.020**
IDV	−0.075	0.044	0.090*
MAS	−0.073	0.027	0.010**
UAI	0.066	0.037	0.083*
LTO	−0.032	0.038	0.402
IVR	−0.182	0.054	0.001***
ROE	−0.019	0.033	0.576
AGE	0.003	0.014	0.789
SIZE	0.240	0.227	0.290
ENVSEN	0.027	1.179	0.982
N	101		
Adj. R^2	0.183		

****Significant at the 1% level; **Significant at the 5% level; *Significant at the 10% level.*

This study employed linear multiple regression analysis to test its hypotheses. The results, presented in Table 1, explore the relationship between Integrated Reporting (IR) quality and Hofstede's cultural dimensions. The model explains roughly 18.3% of the variation in IR quality (dependent variable). The findings confirm several hypotheses:

a. Power Distance (PDI): Companies in countries with high power distance tend to produce lower quality IR reports ($p = .020$).
b. Individualism (IDV): Firms in individualistic societies are less likely to disclose high-quality information in their reports compared to collectivistic cultures ($p = .090$).
c. Masculinity (MAS): Companies in more masculine cultures tend to provide lower quality IR reports ($p = .010$).
d. Uncertainty Avoidance (UAI): Interestingly, firms operating in societies with a high fear of ambiguity (high UAI) are more likely to disclose higher quality information ($p = .083$).
e. Long-Term Orientation (LTO): No significant relationship was found between long-term orientation and IR quality.
f. Indulgence vs. Restraint (IVR): Companies in cultures emphasizing indulgence (free gratification of desires) are less likely to generate high-quality IR reports ($p = .001$).

These findings suggest that national culture plays a significant role in shaping the quality of integrated reporting practices.

6 Discussion

The primary lenses through which to interpret the results are the ethical-moral (normative) and strategic-managerial (instrumental) approaches within stakeholder theory. These perspectives offer valuable insights into the motivations driving companies to produce high-quality reports that encompass financial, environmental, social, and governance dimensions.

One interpretation of the results is through the ethical-moral (normative) approach. From this standpoint, managers acknowledge stakeholders' entitlement not only to information but also to balanced, comprehensive, transparent, and effective information. Acknowledgment of this entitlement is inherently tied to the set of values and cultural norms shaping business practices and stakeholder relationship management. National culture serves as the foundation upon which corporate culture is molded.

From a strategic management perspective, companies might prioritize high-quality IR to gain legitimacy with stakeholders. This perspective views disclosure as a way to meet stakeholder information needs. The surrounding environment, particularly stakeholder characteristics, influences both the disclosure process and its outcome. Companies strategically implement disclosure mechanisms to bridge the gap between their perceived legitimacy and stakeholder expectations. In essence, high-quality IR becomes a tool for companies to achieve and maintain legitimacy within a specific cultural context. National culture shapes this context by defining stakeholder expectations, to which companies must adapt their disclosure practices.

Regarding individual cultural variables, as elucidated in the preceding section, hypotheses concerning the impact of PDI, IDV, MAS, UAI, and IVR on integrated reporting quality are validated.

The results highlight that companies operating in Indonesia deliver higher-quality integrated reports. Lower power distance societies exhibit reduced hierarchical levels and a more equitable power distribution. Consequently, such companies are more attentive to stakeholder involvement and foster greater dialogue conducive to the development of integrated social and sustainable initiatives. The heightened focus on non-financial management aspects translates into disclosure practices that encompass not only financial performance but also environmental, social, and governance dimensions. This goes beyond mere adoption of integrated reporting to encompass the nature and content of information provided, report format, and enhanced information connectivity.

Our findings align with previous research conducted by Gray and Vint (1995), Luo and Tang (2013), and Coulmont et al. (2015) regarding this cultural dimension. Additionally, our results indicate that companies operating in Indonesia present superior-quality integrated reports. These societies exhibit a heightened concern for environmental and social issues, reflecting a stakeholder-oriented rather than shareholder-oriented approach. Consequently, companies in these contexts prioritize integrated disclosures that encompass not only financial aspects. This observation resonates with the conclusions drawn by García-Sánchez et al. (2013) and Coulmont et al. (2015) regarding this cultural aspect.

Moreover, our findings underscore that companies in Indonesia deliver higher-quality integrated reports due to cultural values such as quality of life, cooperation, sustainability, care for the weak, environmental stewardship, and modesty. Such cultural contexts promote a holistic approach to business management that transcends financial metrics, emphasizing well-being across various spheres. Orij (2010), Luo and Tang (2013), and García-Sánchez et al. (2013) have similarly observed these tendencies within this cultural dimension.

Furthermore, our results reveal that companies operating in Indonesia provide superior-quality integrated reports due to a cultural inclination towards aversion to unknown or ambiguous situations. In such contexts, stakeholders benefit from increased access to information regarding financial performance and the social and environmental impacts of companies, thereby reducing uncertainty. This underscores the importance of high-quality disclosure in mitigating risks and uncertainties associated with business activities. Luo and Tang (2013) have previously identified similar trends within this cultural dimension.

Additionally, our findings suggest that companies in Indonesia offer higher-quality integrated reports due to a cultural disposition towards prioritizing a plurality of interests over individual desires. This multi-stakeholder approach fosters an improved quality of disclosure by integrating sustainability-related aspects into business operations. Coulmont et al. (2015) have also observed comparable patterns within this cultural dimension.

Our study hypothesized that companies in cultures with a long-term focus would produce better IR reports, despite the initial costs of disclosure. However, the results did not support this hypothesis. This unexpected finding might be explained by several factors:

a. Faster-paced environment: The rapid flow of information in today's world blurs the line between short-term and long-term considerations compared to the past.
b. Market reaction: Stock prices and market value often react immediately to events that might have long-term financial implications. This reduces the perceived trade-off between short-term and long-term goals for companies.
c. Quicker benefits: Certain financial benefits, like market value, can be realized quickly. This incentivizes companies, even in short-term oriented cultures, to provide high-quality disclosures.

This study investigated the influence of national culture on Integrated Reporting quality using Hofstede's framework. We found that companies in cultures with lower power distance, higher uncertainty avoidance, greater collectivism, femininity, and restraint tend to prioritize sustainability, ethics, and good governance. Consequently, these companies produce higher quality integrated reports.

7 Conclusion

This research breaks new ground by identifying national culture as a key factor influencing Integrated Reporting (IR) quality. Prior studies focused on internal factors, but our findings highlight the significant external influence of cultural context. We differentiate ourselves from García-Sánchez et al. (2013) who linked culture only to IR adoption, not quality. Our results suggest that a strong national emphasis on stakeholder orientation creates a more cohesive and systematic environment for high-quality IR.

These findings offer valuable insights for managers. From an ethical standpoint (normative perspective), promoting a corporate culture that prioritizes social, environmental, and governance aspects, regardless of the cultural context, is crucial. Managers, particularly in less sustainable cultures, should champion a shift towards integrated thinking and high-quality disclosure practices. Strategically (instrumental perspective), tailoring disclosure systems and quality standards to the cultural values of the operating environment is essential.

Our research also carries weight for policymakers, regulators, and educational institutions. Policymakers should consider both ethical and strategic viewpoints when developing regulatory frameworks. These frameworks should be culturally-sensitive and promote high-quality disclosure systems that integrate economic, social, environmental, and governance dimensions.

However, this study faces certain limitations. Firstly, the reliance on Hofstede's dimensions as proxies for national culture, despite being common in cross-cultural research, has been subject to criticism in the literature. Secondly, the increasingly globalized nature of business poses challenges in unequivocally identifying the cultural context of companies. Future studies could explore the impact of additional national-level factors (e.g., Worldwide Governance Indicators) and how national culture interacts with company characteristics (financial and governance) to influence IR quality.

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