

CULTURAL INFLUENCE ON PERCEIVED USEFULNESS OF ISLAMIC CORPORATE REPORTING MODEL

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Abstract

The objective of this study is to examine the cultural influence on the perceived usefulness of Islamic corporate reporting model. This study attempts to understand the antecedents of perceived usefulness of Islamic corporate reporting model. The Hofstede-Gray's framework was utilized to develop research hypothesis that the lower in terms of Conservatism and Secrecy, the more likely to believe that the Islamic corporate reporting are more important than conventional accounting reporting. The hypothesis was also stated that the different background of institutions is expected to have an impact to the respondent's perception on perceived usefulness of Islamic corporate reporting model because the Islamic background institutions have put more efforts than the conventional institutions in promoting Islamic values. The results showed that Power Distance was the best antecedents in explaining Gray's accounting values and Uncertainty Avoidance has the positive significant effect on perceived usefulness of the Islamic corporate reporting model.

Keywords: *conventional accounting, Islamic accounting, Hofstede-Gray framework, Islamic corporate reporting, perceived usefulness*

BACKGROUND

There is debate among academia about whether conventional accounting is the appropriate system to be accepted without question by all other cultures. The underlying philosophical values of secular Western Anglo-American society such as utilitarianism, secularism, and absolute property right are reflected in its accounting practices and principles. It is constructed by a capitalistic social reality with extreme concentration of power, inequalities in income and wealth, social and economic instability, and environmental destruction. These are not the objectives of any civilized society let alone an Islamic one. Changes to

conventional accounting have been suggested from various perspectives: e.g. social and environmental (Gray *et al.*, 1996), feminist (Reiter, 1997), deep green (Cooper, 1992) and Marxist (Cooper & Hopper, 1990 as quoted by Hameed, 2000).

Research so far has indicated that there is a relationship between accounting and culture (Gray, 1988; Perera, 1989; Salter and Niswander, 1995; Douplik and Tsakumis, 2004) and one system cannot be transplanted into another cultural environment without causing dysfunctional effects on the host culture and society. Gray (1988) linking accounting values such as professionalism, uniformity, conservatism, and

secrecy with Hofstede's (1980) cultural constructs such as individualism, power distance, uncertainty avoidance, and masculinity. Assuming that religion is a subset of culture and influences on cultural values, the theoretical approach used in the culture and accounting literature provides a structure within which the relationship between religion and accounting may be examined (Sulaiman and Willett, 2003). Baydoun and Willett (1995) argued that one of possible use of Gray's (1988) theory as applied to developing countries is as a definition of the cultural relevance of accounting practices. The importance of the Hofstede-Gray paradigm in Sulaiman and Willett's study is in relation to assessing the usefulness of Baydoun and Willett's (2000) Islamic corporate reporting model rather than to the determination of the descriptive correctness of such a model. Assuming that Gray correctly identified the linkages between Hofstede's cultural dimensions and his accounting sub cultural values, it is possible to use the Hofstede-Gray framework infer the type of accounting system an ideal Islamic society should deem appropriate by examining its cultural values (Sulaiman and Willett, 2003).

Studies examining the relationship between religions and accounting (Gambling and Karim, 1991; Baydoun and Willett, 1994 and 1995) have suggested that the ethical impact of Islam on accounting has the potential to be significant. Baydoun and Willett (1994 and 2000) developed a theory as to what should, from the point of view of consistency with ethical precepts, constitute the basis of a set of Islamic Corporate Reports. Specifically, their theory suggests that Islamic societies would be better served by an Islamic Corporate Reporting model which includes a current value balance sheet (CVBS) and a value added statement (VAS) rather than of the traditional Western reports of historic cost balance sheet (HCBS) and profit and loss account (PL).

Sulaiman (1997 and 1998) has conducted a survey of the perceptions of Moslem and non-Moslem accounting information users in Malaysia to investigate if such a model aligns with what Moslems appear to desire. Survey respondents comprised of accountants, financial analysts, bank lending officers and zakat officers. The result indicates that that there is no differences exist in the perceived usefulness of accounting information between Moslems and non-Moslems. The result also suggested that Baydoun and Willett's theory that Moslems would perceive the CVBS and the VAS to be significantly more useful than non-Moslems was not supported. The result from Sulaiman's research may be interpreted as challenging the notion, that culture in general, and Islam in particular, may have a significant influence on accounting practice (Gray, 1988; Perera, 1989; Baydoun and Willett, 1994).

Douppnik and Tsakumis (2004) stated that culture is considered to be a powerful environmental factor that affects financial reporting as well as how individuals perceive and accounting information. Therefore, cultural values of individuals may be can affect how they perceive the financial reporting practice. Sudarwan and Fogarty (1996) employed a longitudinal study to examine the relationship between cultural characteristics of Indonesian society and reporting practices. This research will also examine Indonesian cultural influence on perceived usefulness of the Islamic Corporate Reporting model. Different with Sudarwan and Fogarty (1996) who studied in country level and longitudinal in time horizon, this study is conducted in individual level and cross section. This study use Hofstede index scores, meanwhile Sudarwan and Fogarty using cultural values which is proxied by multiple variables, many of which are lacking in intuitive appeal. The objective of this study is to test the cultural

influence on the perceived usefulness of Islamic corporate reporting model suggested by Baydoun and Willet (1994 and 2000). This research can contribute to the accounting literature in three ways:

- a. Although there have been done the research about the relationship of Hofstede's cultural values and Gray's accounting values but few have examined the relationship between Hofstede's Cultural Values and Gray's accounting values at individual level.
- b. This study also contributes in developing and validating the measurement of Gray's accounting values; secrecy and conservatism variables; at individual level using a list of specific rules and practices consistent with conservatism and secrecy.
- c. This study attempts to understand and explain the antecedents of perceived usefulness of Islamic corporate reporting model. This study extends Sulaiman's (1997 and 1998) studies by using Hofstede-Gray's framework to explain the antecedents of perceived usefulness of Islamic corporate reporting model.

LITERATURE REVIEW

Hofstede Cultural Values

Hofstede develops a model of culture as the collective programming of the mind which distinguishes the member's of one human group from another (Hofstede, 1980). Hofstede argues that, much as a computer operating system contains a set of rules that act as a reference point and set of constraints to higher level programs, so culture includes a set of societal values that drive institutional form and practice (Salter and Niswander, 1995). Based on extensive survey and analysis, Hofstede outline four constructs or dimensions of common social preference that can be used to measure the base values of individual societies. Hofstede's cultural dimensions can be de-

scribed below:

Individualism versus collectivism

This dimension addresses the degree of interdependence that a society maintains amongst individuals. Individualism is the preference for a loosely knit social framework where the "I" concept is prominent. On the other hand, collectivism describes a society which prefers a tightly knit social framework where the concept of "we" prevails.

Large versus small power distance

Power Distance measures the way inequalities in status are handled by members of a society. Large Power Distance societies accept the established hierarchical order. In small Power Distance societies people strive for power equalisation and demand justification for power inequalities.

Strong versus weak uncertainty avoidance

Uncertainty Avoidance describes the extent to which the members of a society feel comfortable with uncertainty and ambiguity. Strong Uncertainty Avoidance societies tend to have rigid codes of belief and behaviour and tend to be intolerant towards deviant persons and ideas. In contrast, Weak Uncertainty Avoidance societies maintain a more relaxed atmosphere where pragmatism is more important than theoretical principle, and deviant behaviour is more acceptable.

Masculinity versus femininity

Masculinity addresses the way societies allocate social roles. A society is said to be Masculine if it attributes higher value to the characteristics of achievement, heroism, assertiveness, and material success. On the other hand, a society is said to be Feminine if it prefers 'nurturing' relationships, modesty, caring for the weak and quality of life.

Gray's Accounting Values

Gray's model of culture, societal values, and the accounting subculture began

with Hofstede's proposition that societal values have institutional consequences in the form of legal, political and economic system including the pattern of corporate ownership and capital markets. Gray then extended Hofstede's model by hypothesizing the existence of accounting subsystem which drew its value system from the primary societal value system. He also argues that the value system of attitudes of accountants may be expected to be related to and derived from societal values with special reference to work related values. Accounting values will impact on accounting system. Gray (1988) derives four accounting sub cultural values (professionalism, uniformity, conservatism and secrecy) and he linked these to Hofstede's cultural dimensions. Gray's accounting sub cultural values are as follows:

Professionalism versus Statutory Control

Professionalism is a preference for the exercise of individual professional judgement and the maintenance of professional self-regulation. Statutory control on the other hand, is the preference for compliance with prescriptive legal requirements.

Uniformity versus Flexibility

Uniformity is a preference for the enforcement of uniform accounting practices between companies and for the consistent use of those practices over time. Flexibility allows accounting practices to be in accordance with the perceived circumstances of individual companies, rather than to be set by predetermined, generally applicable rules.

Conservatism versus Optimism

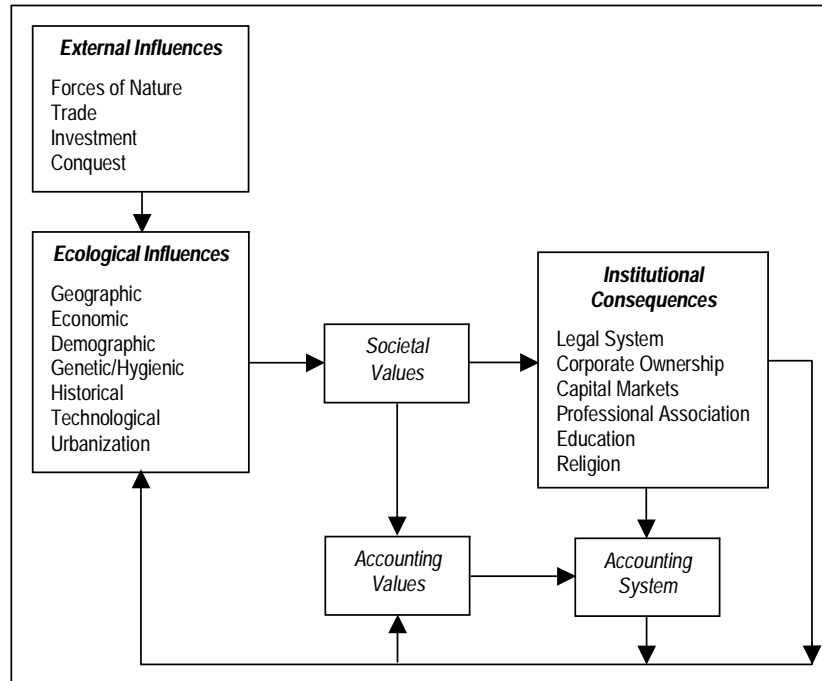
Conservatism refers to the cautious approach to measurement preferring the understatement of profit to its overstatement. Optimism refers to the more optimistic, laissez-faire, risk-taking approach and a willingness to recognise uncertain future profits.

Secrecy versus Transparency

Secrecy refers to the preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more Transparent, open and publicly accountable approach.

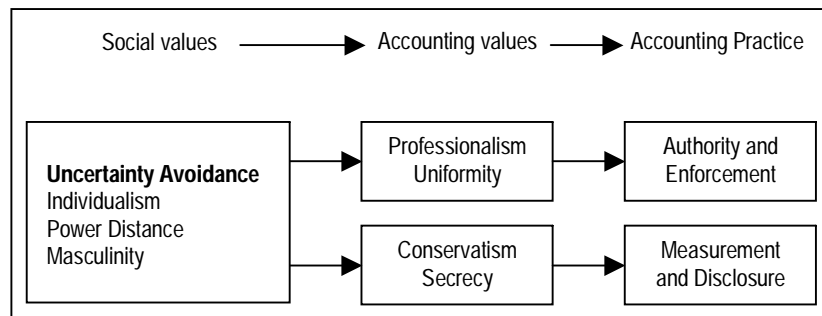
These accounting values are linked to Hofstede's cultural construct by a model which can be seen in Figure 1. Gray (1988) continued by hypothesising the relationships between societal values, accounting values and accounting practice which can be seen in Figure 2.

Gray distinguishes the authority for and enforcement of accounting systems from the measurement and disclosure issues of accounting practice, linking the first two to the accounting sub cultural values of professionalism and uniformity. Hence, by a direct application of Hofstede's theory, cultural values (and thus religion) will affect accounting practices through the way institutions are organized and the processes that they use (Baydoun and Willett, 1995). Measurement of assets and profits, for example, would be influenced by the value of conservatism. The value of secrecy, on the other hand, would influence the nature and extent of disclosure practices.



Source: Gray, 1988

Figure 1: Culture, Societal Values, and the Accounting Subculture



Source: Sulaiman and Willet (2003)

Figure 2: Gray's Hypothesised Relationship Between Societal Values, Accounting Values, And Accounting Practice

As was shown in Figure 2, Gray attempts to link his accounting values to specific attributes of accounting practice in the form of authority, enforcement, measurement, and disclosure. The first two of this group are seen as being distinct from the last

two. They are influenced by the values of Professionalism and Uniformity and also represent characteristics of the social and political framework in which the activity of accounting takes place. Meanwhile, the latter are influenced by Conservatism and Se-

crecy and also represent what and how financial information is reported to users (Baydoun and Willet, 1995). The Islamic Corporate reporting model proposed by Baydoun and Willet (1994 and 2000) is based on premise that Islamic societies will be better served by Current Value Balance Sheet (CVBS) and Value Added Statement (VAS). This model is represented what and how financial information is reported by Islamic organizations to users. Based on data from twenty-nine countries, Salter and Niswander (1995) also find that Gray's (1988) model has statistically significant explanatory power in explaining actual financial reporting practices and is relatively weak in explaining extant professional and regulatory structures from a cultural base. This means that to explain the financial reporting, the best explanatory accounting values are Conservatism and Secrecy. Thus, this research will focus on Conservatism and Secrecy issues.

Accounting values most relevant to the measurement practices used and the extent of information disclosed are the conservatism and secrecy dimensions. Accordingly, Gray (1988) argues that these can be combined and the classification of culture is hypothesized on a judgmental basis as shown in Figure 2. In making judgments in respect of these classification references has also been made to the relevant correlation between value dimensions and the resultant clusters of countries identified from the statistical analysis carried out by Hofstede (1980).

Using Hofstede-Gray Framework to Develop Islamic Corporate Reporting

Sulaiman and Willet (2003) argue that to use the Hofstede-Gray framework to delineate and define what information Islamic reports should contain, it is necessary to determine how Islamic values affect the cultural dimensions of Power Distance, Un-

certainty Avoidance, Individualism, and Masculinity of Islamic societies. Baydoun and Willet (1994) argue that in the Hofstede-Gray framework, Power Distance is expected to be low. Hofstede describes three characteristics of a low Power Distance society: the first related to an interdependence between the less and more powerful members of the group, the second pertained to the existence of hierarchy not as representing unequal power but merely denoting an inequality of roles, and the third to the non-acceptable practice of privileges and status symbols. On the basis of certain verse in the Qur'an on *shura* (consultation) and hadith, it is argued that Hofstede's characterisation of low Power Distance societies aptly describes an important aspect of the ideal Islamic society.

Islam is against speculation but preaches the need to accept uncertainty, Hofstede's Uncertainty Avoidance value should therefore be weak (Baydoun and Willett, 1994). Additionally, the belief in *Qadar* or predestination in Islam is a positive affirmation of God's power, suggesting that Islam actually helps in accepting uncertainties that an individual cannot defend against. Hofstede further contends that there is a greater emphasis on regionalism and internationalism (as opposed to nationalism) in weak Uncertainty Avoidance societies. The farewell message of the Prophet reported above supports the fact that, normatively, Islam does not recognise nationalism (Sulaiman and Willet, 20003). These traits all suggest that Islamic societies should exhibit low Uncertainty Avoidance.

According to Baydoun and Willett (1994), the principle of *shura* gives the individual the right to be heard and the power to require information concerning the effect of the firm on the *ummah*. Kahf's (1991) as quoted by Sulaiman and Willet (2003) viewpoint that Islam takes a middle path between Individualism and Collectivism

reconciles these aspects of Islam, arguing that Islam strikes a balance between human drives and desires on the one hand and social needs and responsibilities on the other and calls for a balanced mix of pragmatism and dogmatism. Baydoun and Willett (1994) reason that a regard to the rights of the individual on the part of the user, and a belief in the obligations to the collectivity on the part of the preparer, will both encourage full disclosure of information. Taken together these viewpoints do not conflict but suggest that Islamic values encourage a collectivist ethic but not in the extreme so that Islamic societies rank on the low side of Individualism. Regarding Masculinity, Baydoun and Willett (1994) argue that the effect of Islamic belief on Masculinity is uncertain. According to Hofstede's definition, however, a Feminine society is (amongst other things) a society that does not show off, puts relations with people before money, and helps others, particularly the weak. Since this accord with most Moslems' perception of desirable Islamic values, it implies that Islamic societies should rank low on Masculinity.

Based upon the preceding analysis, Islamic societies ought to rank Low on the four of Hofstede's dimensions. Assuming that Gray (1988) correctly identified the linkages between Hofstede's cultural dimensions and his accounting sub cultural values, it is possible to use the Hofstede-Gray framework infer the type of accounting system an ideal Islamic society should deem appropriate by examining its cultural values. Following the linkages suggested by the framework, Low Uncertainty Avoidance and low Power Distance are consistent with Islamic societies advocating an accounting system that is low on secrecy and conservatism. Salter and Niswander's (1995) conclude that Uncertainty Avoidance has a more significant relationship to Gray's accounting subcultural values than the other

Hofstede dimensions of culture supports the concept of a dominant cultural value, in this context. Islam's emphasis on the need to accept uncertainty and its emphasis on equality would rank Power Distance and Uncertainty Avoidance as the two prominent cultural values. Accordingly, an Islamic society would favour a more transparent disclosure policy and less conservative measurement practice. Baydoun and Willett's (1995) extended Hofstede-Gray framework introduced the attributes of accountability and decision usefulness into the analysis of the cultural relevance of accounting, suggesting that a society exhibiting low Masculinity, (such as an Islamic society) would emphasise accountability, while highly Masculine societies would prefer information that is geared towards investment decision making (decision usefulness). Consequently, the emphasis on accountability would render Islamic corporate reporting to have a wider focus.

Baydoun and Willett (2000) proposed that low conservatism implied an Islamic society's preference for current values while low secrecy pointed to the need for full disclosure in Islamic financial reports and that the current value balance sheet be included as part of the reporting requirements of firms operating in an Islamic economic. It was also argued in the same, suggested reporting framework that the profit and loss statement should be relegated to the Notes to the financial statements because of its corruptive influence and be replaced by a value added statement.

Baydoun and Willett's suggestions, as they acknowledge, may be regarded as providing a bare minimum towards satisfying Islam's social accountability obligations. With Islam's emphasis on safeguarding the welfare of the community, a more complete Islamic Corporate Reporting model is required to include information on corporate social responsibility and the environment.

The argument is that a need for greater awareness of the social impact of firms' activities in Islamic societies necessitates the detailed description of externalities and trading practices harmful to the community.

Research Hypotheses

Hendriksen and Van Breda (1991) argue that uncertainty is the basis for traditional accounting concept of conservatism. Gray (1988) argues that conservatism can be linked most closely with the uncertainty avoidance dimensions. A preference for more conservative measures of profits is consistent with strong uncertainty avoidance following from concern with security and a perceived need to adopt a cautious approach to cope with the uncertainty of future events. Gray (1988) hypothesizes that lower Uncertainty Avoidance societies would favor a less conservative measurement practice. Salter and Niswander (1995) argue that Uncertainty Avoidance has more significant relationship to Gray's accounting values than the other Hofstede' dimensions. Their research concluded that of conservatism measures, a significant relationship was found with uncertainty avoidance. In terms of Indonesia, Sudarwan and Fogarty (1996) have examined the relationship among the cultural characteristic of Indonesian society and reporting practices. They found that there was positive significantly relationship between uncertainty avoidance and conservatism which support Gray's hypothesis. They also found an interesting phenomenon that there was positive relationship between power distance and conservatism although Gray did not hypothesize this relationship.

The studies conducted by Salter and Niswander (1995) and Sudarwan and Fogarty (1996) were empirical test of the Hofstede-Gray framework at the country level. However, Douppnik and Tsakumis (2004) have reviewed some studies at individual level. They argued that Gray's hy-

pothesis can be restated at individual such as accountants from countries that rank higher (lower) in terms of uncertainty avoidance and lower (higher) in terms of individualism and masculinity will be more (less) conservative in their application of financial reporting rules. Based on Hendriksen and Van Breda's theory (1991), Gray's hypotheses and framework (1988), Sudarwan and Fogarty's finding (1996), and Douppnik and Tsakumis (2004) then the relationship between uncertainty avoidance, power distance, and conservatism can be stated as follow:

H1 : The higher in terms of uncertainty avoidance and power distance, the more likely to rank highly in terms of conservatism

Gray (1988) argued that secrecy can be linked most closely with uncertainty avoidance and power distance. A preference for secrecy is consistent with strong uncertainty avoidance following from a need to restrict information disclosure so as to avoid conflict and competition and to preserve security. Salter and Niswander (1995) suggest that the measure of secrecy have a significant positive relationship with uncertainty avoidance. A close relationship with power distance also seem in that in power distance societies are likely to be characterized by the restriction of information to preserve power inequalities. However, Salter and Niswander (1995) find that the hypothesized relationship between secrecy and power distance fails to materialize. Sudarwan and Fogarty (1996) who employed a longitudinal approach focusing on Indonesian society found that there was negative relationship between uncertainty avoidance and secrecy which use disclosure as proxy for secrecy. They also found that Gray's expectation with regard to power distance was not supported by empirical study in Indonesia. Following from this analysis it

may be hypothesized that:

H2 : The higher in terms of uncertainty avoidance and power distance, the more likely to rank highly in terms of secrecy.

Baydoun and Willet (1994 and 2000) develop Islamic Corporate Reporting model which has transparency in disclosure of information and less conservative measurement. Baydoun and Willet (2000) proposed that low conservatism implied a preference for current values while low secrecy pointed to the need for full disclosure in Islamic

Corporate Reporting. Baydoun and Willet (2000) also suggest that the inclusion for Current Value Balance Sheet and the Value Added Statement in Islamic Corporate Reporting can be considered as satisfying the concepts of full disclosure and less conservative.

H3 : The lower in terms of conservatism and secrecy, the more likely to believe that the Islamic corporate reporting are more important than conventional accounting reporting.

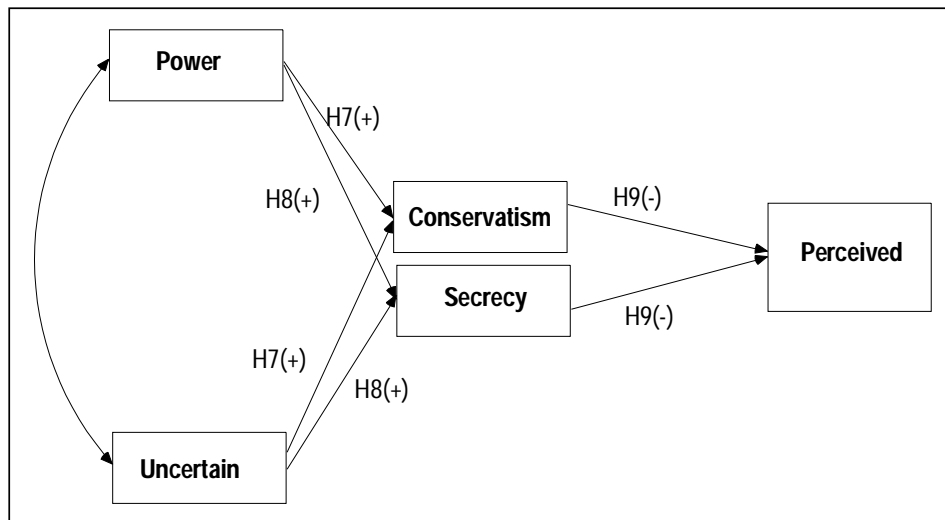


Figure 3: Hypothesized Relationship Among Cultural Values, Accounting Value, and the Perceived Usefulness of the Islamic Corporate Reporting

Note: Power: Power Distance

Uncertain: Uncertainty Avoidance

Consv: Conservatism

Secrecy : Secrecy

Perceived: Perceived Usefulness of Islamic Corporate Reporting

The theoretical model in Figure 3 shows the hypothesized relationship among cultural values, accounting values, and the perceived usefulness of the Islamic Corporate Reporting model. The theoretical model also shows the possibility of accounting values; conservatism and secrecy, as mediating variable on relationship between cultural values and perceived usefulness of Islamic Corporate reporting because there is mechanism; cultural values will influence on accounting values and then accounting values influence on perceived usefulness. Douplik and Tsakumis (2004) stated that Baron and Kenny (1986) present a potential method for testing this relationship. Baron and Kenny (1986) argue that mediator-oriented research is more interested in the mechanism than in the exogenous variable itself.

However, in testing the function of Conservatism and Secrecy as mediating variable, we must scrutinize that they meet the following conditions (Baron and Kenny, 1986): (a) variations in level of Power Distance and Uncertainty Avoidance significantly account for variations in the presumed mediator; Conservatism and Secrecy (b) variations in the mediator, Conservatism and Secrecy, significantly account for variations in the Perceived Usefulness of Islamic Corporate Reporting, and (c) when conditions a and b are controlled, a previously significant between the independent and dependent variables is no longer significant. Sulaiman's studies (1997 and 1998) conclude that there is no differences exist in the perceived usefulness of Islamic Corporate Reporting between Moslems and non-Moslems. These mean that the antecedents of different perceived usefulness Islamic Corporate Reporting are not only different religion; Moslem or non Moslem. The theoretical model proposed by this study may be can extend Sulaiman's studies (1997 and 1998) showing that the antecedents of perceived usefulness of Islamic Corporate Re-

porting may be the differences of cultural and accounting values.

RESEARCH METHOD

Population and Sample

This research takes Moslem accounting academicians in Java as the target research population. The Moslem of accounting academician was defined as Moslem faculty members and lectures of the Accounting Department or Economic School of the universities which recognized as actively internalizing Islamic values especially Islamic economics or Islamic accounting in their curriculum. The main reason of choosing this target population is because they are expected to be familiar with the issues of Islamic accounting. The other reason is because teacher, including Moslem accounting academicians, as a group, they play an explicit role in value socialization, they are presumably key carriers of culture, and they probably reflect the mid-range of prevailing value priorities in most societies (Schwartz, 1999).

Research Variables

To test the hypothesis about the relationship between cultural values and accounting values, this research will use the cultural measures as independent variable with the five-item, 7-point scale of Dorfman and Howell as quoted by Mas'ud (2004). Conservatism and secrecy of accounting values as dependent variables will be measured by instrument adopted from Salter and Niswander (1995). To test the hypothesis about the cultural influence on the perceived usefulness of Islamic Corporate Reporting, this research will use the instrument developed by Sulaiman (1997) to measure the dependent variable. Conservatism and secrecy of accounting values as independent variables will be measured again by instrument adopted from Salter and Niswander (1995).

Hypotheses Testing

In testing the hypotheses of relationship between Hofstede's cultural values, Gray's accounting values, and perceived usefulness of Islamic Corporate Reporting, this research use multiple regression analysis. The research problems of this study are appropriate for multiple regression analysis since it provides a means of objectively assessing the degree and character relationship between dependent and independent variables by forming the variate of independent variables (Hair, Jr, et al 1998). The interpretation of the variate may rely on the relationship found using the value of significant regression coefficient.

Following Salter and Niswander (1995), the relationship between dependent and independent variables is tested using Ordinary Least Squares (OLS) multiple regression analysis. The hypotheses testing related to cultural influence is conducted in the following stage. In the initial stage, each of the dependent variables is individually regressed against Power Distance and Uncertainty Avoidance of Hofstede's construct to test the seventh and eighth hypotheses. In the next stage, the perceived usefulness of the Islamic Corporate Reporting as dependent variable is regressed against Conservatism and Secrecy of Gray's accounting values. If the result indicates that Conservatism and Power Distance have a significant positive relationship with Uncertainty Avoidance, then it support hypothesis 1. The result of regression analysis will indicated that hypothesis 2 is supported, if Uncertainty Avoidance and Power Distance are signifi-

cantly positively related to Secrecy. The last hypotheses will supported if Conservatism and Secrecy have a significant negative relationship with perceived usefulness of the Islamic Corporate Reporting model.

RESULTS AND DISCUSSIONS

After evaluating the results of the pilot study and made revisions, the final draft of the questionnaire was distributed to the respondents. The questionnaires were distributed by postal and self-administered to some universities which recognized as actively internalizing Islamic values especially Islamic economics or Islamic accounting in their curriculum.

This study identified 365 Moslem accounting academicians from twenty universities and distributed 218 questionnaires. The reason why only took 218, instead of 365 is the expectation for high response rate, therefore prefer use personally delivering the questionnaires to the head of department or lecturers concerned rather than posting them. Therefore the number questionnaires delivered are lower than the number of population in order to reduce the uncertainty of questionnaires returned. The questionnaires returned was 115 and 103 of this was usable. Therefore the response rate was 51,11 % and the usable rate was 46%. The relatively high response rate was encouraging and is felt to be due to personally delivering the questionnaires to the head of department or lecturers concerned rather than posting them.

Profile of the Respondents

Table 1: Profile of the Respondents

	Frequency	Percent
Gender:		
<input type="checkbox"/> Male	69	67
<input type="checkbox"/> Female	33	32
Education level:		
<input type="checkbox"/> Undergraduate (S1)	37	35,9
<input type="checkbox"/> Master (S2)	55	53,4
<input type="checkbox"/> Doctor (S3)	11	10,7
Islamic organizations affiliation:		
<input type="checkbox"/> Nahdatul Ulama	12	11,7
<input type="checkbox"/> Muhammadiyah	27	26,2
<input type="checkbox"/> None	41	62,1
Profession:		
<input type="checkbox"/> Only lectures	85	82,5
<input type="checkbox"/> Lectures and also CPA firm's employee	18	17,5
Tenure:		
<input type="checkbox"/> Less than 5 years	23	25,8
<input type="checkbox"/> 5-10 years	30	33,7
<input type="checkbox"/> 11-15 years	17	19,1
<input type="checkbox"/> 16-20 years	12	13,5
<input type="checkbox"/> More than 20 years	7	7,8

Source: Primary Data processed, 2005

Table 1 shows profile of the respondents based on their gender, education level, Islamic organizations affiliation, profession, and tenure. In terms of Islamic organizations affiliation, Table 1 shows an interesting phenomenon, that most of the respondents did not have an affiliation (62,1%). Meanwhile, the respondents who have affiliation are commonly from Islamic background institutions such as University of Muhammadiyah, University of Islam Indonesia, and University of Wahid Hasyim. Most of the Moslem accounting academicians work only as lectures (82,5%) and the other also an employee of CPA firms. The Moslem accounting academicians who worked for 5 until 10 years were almost one-third of total respondents that is 33,7%.

Validity and Reliability

This study used both of correlation bivariate and factor analysis to test the valid-

ity of instruments. The results showed that correlation between each indicator on the total scores of the construct was significant. Therefore, this result showed that all of the indicators were valid. The reliability of the items in the questionnaire was tested using SPSS Cronbach Alpha model method. If this alpha measure results in is 0.6 or above as a rule of thumb (Nunnally, 1960, as quoted by Ghozali, 2005) then the items are said to be reliable. From table 2 it can be seen that most of the items of variable from the Islamic Accounting Questionnaire were reliable. This is evidenced by the Cronbach's Alpha figure of around 0.6 for all items.

This study also develops and validates new measurement for accounting values variables, conservatism and secrecy, which are hypothesized to be the determinants of perceived usefulness of Islamic Corporate Reporting. Douppnik and Tsakumis (2004) stated that a common limita-

tion in all the studies of culture and financial reporting is the difficulty in developing adequate measure of the accounting values. They suggested that the first step in measuring accounting value is the establishment of an operational definition. From the operational definition, a list of specific rules and practices consistent with conservatism and secrecy can be identified. This study has followed their suggestion in measuring conservatism and secrecy of accounting values.

Factor analysis is also utilized to ensure the validity of the instrument for measurement conservatism and secrecy construct. With factor analysis, the researcher can first identify the separate dimensions of the structure and then determine the extent to which each variable is explained by each dimension (Hair, Jr, et al, 1998). Table 2 shows the result of factor analysis for conservatism and secrecy construct. Output SPSS showed that Kaiser-Meyer-Olkin Measures of Sampling Adequacy (KMO MSA) value was 0,759. The value of Bartlett test with Chi-squares was 256,952 and significant at 0,000. Therefore, factor analysis can be continued (Ghozali, 2005). SPSS also classified seven indicators into two factors based on eigenvalue > 1. Rotated Component Matrix showed that the first until the fourth indicators of conservatism were clustered on the first factor. Meanwhile, the first until the third indicators of secrecy were clustered on the second factor. Therefore, both of conservatism and secrecy construct have unidimensionality. In other word, all of the indicators of conservatism and secrecy were valid.

Table 2: Factor Analysis for Conservatism and Secrecy Constructs
KMO and Barlett's Test

Kaiser-Meyer-Ikin Measure of Sampling Adequacy		.759
Bartlett's Test of Sphericity	Approx. Chi Square	256.952
	Df	21
	Sig.	.000

Rotated Component Matrix^a

	Component	
	1	2
CONVS1	.893	.155
CONVS2	.894	-.028
CONVS3	.727	.283
CONVS4	.575	.321
SECR1	.207	.744
SECR2	.096	.856
SECR3	.164	.816

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization

a. Rotation converged in 3 iteration

Non-response Bias Test

Non-response bias test was conducted by comparing early respondents with late respondents, as proxy for the sample who did not participate, in terms of their answer to the questionnaire. The researcher assumed that the late respondents were respondents who response after the dateline given (one month after the researcher sent the questionnaire). There were 24 late respondents and 79 early respondents. Non-response bias was conducted by compare the late and early respondents answer. T-test is employed to compare the independent sample. The result shows that there is no differences significance response between early and late respondents.

Relationship between Hofstede’s Cultural Values and Gray’s Accounting Values

Following Douplik and Tsakumis (2004), this study examined the relationship between Hofstede’s Cultural Values and Gray’s accounting values at individual level. The research hypotheses related with Hofstede-Gray’s framework was tested following Salter and Niswander (1995). Conservatism and Secrecy as dependent variables was individually regressed against Power Distance and Uncertainty Avoidance of Hofstede’s construct to test the seventh and eighth hypotheses. Multiple regression analysis was employed to test the hypotheses.

The result of hypotheses 1 testing is shown in Table 3. Gray (1988) hypothesized

that there was positive relationship between conservatism and uncertainty avoidance. However, the result of this study showed that this relationship was not statistically significant. This result is different with Sudarwan and Fogarty (1996) who find that there was positive significance relationship between uncertainty avoidance and conservatism. However, this study is consistent with Sudarwan and Fogarty (1996) who find that the higher in terms of power distance then the more likely to rank highly in terms of conservatism although Gray did not hypothesize a relationship between these variables. This is evidenced by coefficient parameter for power distance on conservatism which has positive sign (0,217) and significant at 0,010.

Table 3: Results of Hypothesis Testing of Power Distance and Uncertainty Avoidance Influence on Conservatism
Conservatism= f (Power Distance; Uncertainty Avoidance)

Variables	Coefficients	t-value	p-value
Constant	11,702	2,958	0,004
Power Distance	0,217	2,622	0,010
Uncertainty Avoidance	0,023	0,207	0,836
R Square	0,069		
F-value	3,578		
Sig. F	0,032		
N	103		

Source: Primary data, processed by SPSS 11,5

Table 4: Results of Hypothesis Testing of Power Distance and Uncertainty Avoidance Influence on Secrecy
Secrecy= f (Power Distance; Uncertainty Avoidance)

Variables	Coefficients	t-value	p-value
Constant	2,223	0,747	0,457
Power Distance	0,294	4,783	0,000
Uncertainty Avoidance	0,161	1,891	0,062
R Square	0,195		
F-value	11,635		
Sig. F	0,000		
N	103		

Source: Primary data, processed by SPSS 11,5

Table 4 showed that the relationship between uncertainty avoidance and secrecy was not statistically significant. This result is different with Gray's hypothesis and Sudarwan and Fogarty's (1996) finding. Sudarwan and Fogarty (1996) who conducted longitudinal study in Indonesia found support of positive relationship between uncertainty avoidance and secrecy. Gray (1988) also hypothesized that there was positive relationship between power distance and secrecy. As shown in Table 4 the coefficient of parameter power distance was 0,294 which significant at 0,000. Thus, Gray's hypothesis of this relationship was supported by this study. The result which indicates positive relationship between power distance and secrecy is also consistent with Sudarwan and Fogarty (1996).

Relationship between Conservatism, Secrecy, and Perceived usefulness of the Islamic Corporate Reporting Model

Sulaiman's studies (1997 and 1998) conclude that there is no differences exist in the perceived usefulness of Islamic Corporate Reporting between Moslems and non-Moslems. These mean that the antecedents of different perceived usefulness of Islamic

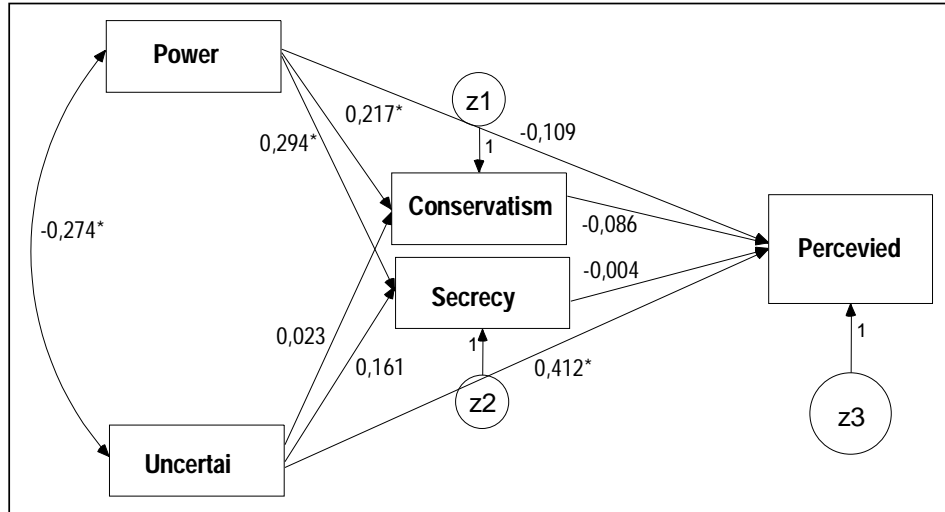
Corporate Reporting are not different religion; Moslem or non Moslem. This study extends Sulaiman's study by proposed the theoretical model using Hofstede-Gray framework. The proposed model showing that the antecedents of perceived usefulness of Islamic Corporate Reporting may be the differences of cultural and accounting values. The hypothesis 3 was stated that the lower in terms of conservatism and secrecy then the more likely to believe that the Islamic corporate reporting are more important than conventional accounting reporting. The result of OLS regression of this hypothesis is shown in Table 5.

The result of this study was similar with Sulaiman's (1997 and 1998) studies, fail to conclude the antecedents of perceived usefulness of Islamic Corporate reporting. As shown in Table 1, the model is not statistically significant and the coefficient determination was very low. Although this study utilized the Hofstede-Gray's framework which commonly used to explain the choice of financial reporting but this study did not find that the accounting values influence the perceived usefulness of the Islamic corporate reporting.

Table 5: Results of Hypothesis Testing of Accounting Values Influence on the Perceived Usefulness of the Islamic Corporate Reporting
Perceived Usefulness= f (Conservatism; Secrecy)

Variables	Coefficients	t-value	p-value
Constant	29,976	17,430	0,000
Conservatism	-0,004	-0,033	0,974
Secrecy	-0,086	-0,914	0,363
R Square	0,011		
F-value	0,521		
Sig. F	0,596		
N	103		

Source: Primary data, processed by SPSS 11,5



Note: * = significant at 0,05 level

Source: Primary Data processed by SPSS 11,5

Figure 4: Results Of Overall Analysis

The overall results also showed that variations in level of uncertainty avoidance were not significantly account for variations in the presumed mediator; conservatism and secrecy and also variations in the mediator, conservatism and secrecy, were not significantly account for variations in the Perceived Usefulness of Islamic Corporate Reporting (Figure 4). Therefore, according to Baron and Kenny (1986), conservatism and secrecy did not meet the conditions as mediator variables.

Discussions

The results of this study showed that in case of Indonesia, Power Distance has the best antecedents in explaining Gray’s accounting values. This result are different with Salter and Niswander (1995) who argue that Uncertainty Avoidance has more significant relationship to Gray’s accounting values than the other Hofstede’ dimensions. However, this result is consistent with Sudarwan and Fogarty (1996) who hypothesize

that, if culture and accounting are related, then changes in cultural dimensions should be related to changes in accounting values over time. They found that in case of Indonesian society, there was a positive significance relationship between power distance and conservatism although Gray did not hypothesize this relationship. Hofstede (1991) showed that Indonesia was the country which has large power distance. Indonesia have high rank on Power Distance Index (PDI) which show that Indonesia has large extent to which the less powerful members of organizations within a country expect and accept that power is distributed unequally. Therefore, it was reasonable that this construct has significant relationship to Gray’s accounting values than the other Hofstede’ dimensions. In terms of uncertainty avoidance, Hofstede (1997) showed that Indonesia was a country with weak uncertainty avoidance. Although, Hendriksen and Van Breda (1991) argue that uncertainty is the basis for traditional accounting concept of

conservatism and Salter and Niswander (1995) also argue that Uncertainty Avoidance has more significant relationship to Gray's accounting values than the other Hofstede' dimensions but this study showed that in case of Indonesia, this dimension was not related with accounting values. This is may be because Indonesia society has weak uncertainty avoidance, therefore accounting concepts are not established based on uncertainty avoidance. The result also supports Gray's theory (1988) that secrecy can be linked most closely with power distance. A close relationship with power distance also seem in that in power distance societies are likely to be characterized by the restriction of information to preserve power inequalities.

The other explanation for the significant relationship between power distance and accounting values comes from Schwartz's (1999) culture dimensions. One of his dimensions is conservatism which emphasize on maintenance of the propriety and status quo. For this purpose, the appropriate accounting techniques are conservatism; which refers to the cautious approach to measurement preferring the understatement of profit to its overstatement, and secrecy; which refers to the preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing. Schwartz (1999) argue that hierarchy and conservatism values relate positively because a view of the social actor (individual or group) as embedded in a collectivity of interdependent, mutually obligated others underlies. In the other hand, egalitarianism and autonomy values related positively because a view of the social actor as an autonomous entities underlies them both. It must remember that hierarchy relying on power difference, therefore it is reasonable that accounting values; secrecy and conservatism are appropriate to

maintain the propriety and status quo as emphasized by power distance value.

The Hofstede-Gray framework also utilized to examine the antecedents of different perceived usefulness of Islamic Corporate reporting. Sulaiman (1997 and 1998) has documented that the antecedents of this difference was not religion (Moslem or non Moslem). Based on analysis at individual level, the result showed that the Hofstede-Gray framework can not explain the perceived usefulness of Islamic corporate reporting. Conservatism and Secrecy values did not negative significance relationship with perceived usefulness of Islamic Corporate reporting. The model, although has developed Sulaiman's studies which only used category variables (Moslem and Non Moslem), appears still parsimony to explain why respondents perceived that Islamic Corporate reporting was useful. Douplnik and Tsakumis (2004) argue that content analysis and opinion surveys like this study, has been used to examine the relation between culture and accounting values. However, they argue that experimental approach appears to be the one methodology best suited to examine Gray's framework using individuals as the unit of analysis. Although, the researcher hopes that the Moslem accounting academicians are familiar with Islamic Corporate reporting, but it appears that the questionnaire is still not enough to give description about the usefulness of the elements of the Islamic corporate reporting. Thus, future agenda is needed to extend this issue by using experimental approach.

CONCLUSIONS

The result of this study showed that the relationship between conservatism and uncertainty avoidance was not statistically significant. However, this study found that the higher in terms of power distance then the more likely to rank highly in terms of conservatism although Gray did not hy-

pothesize a relationship between these variables. This study also found that the relationship between uncertainty avoidance and secrecy was not statistically significant. The result indicated positive relationship between power distance and secrecy. The result of this study failed to conclude the antecedents of perceived usefulness of Islamic Corporate reporting. Although this study has utilized the Hofstede-Gray's framework which commonly used to explain the choice of financial reporting but this study did not find that the accounting values influence the Islamic financial reporting.

The limitations of this study were the measurement of cultural and accounting values. Douppnik and Tsakumis (2004) argued that one of the greatest difficulties in measuring accounting values utilizing an opinion survey like this study is the development of a valid survey instrument. Thus, future research can extended this study by using better measurement of accounting values. Future research can also utilize experiment to test the Hofstede-Gray framework. Douppnik and Tsakumis (2004) stated that experiment appears to be the one methodology best suited to examine Hofstede-Gray framework using individuals as the unit of analysis. Using experimental approach to answer the questions related with cultural influence on accountant's application of financial reporting could present more long term relevance from a research perspective. Future research also can use Hofstede (1994) Value Survey Module (VSM) as part of the experimental instrument to ensure that accountants selected for the study differ on cultural values.

This study also had limitation on the measurement of Hofstede's (1980) cultural values because Hofstede's cultural dimensions were only one way to describe national culture. His framework has been used extensively in empirical research, partly because his cultural dimensions indices easily can be

used as independent variables in statistical analyses. However, Hofstede's work was not without its critics (Baskerville, 2003). Future research can investigate the possibility of using Schwartz's (1997) framework in lieu of Hofstede's to explain influence of culture on financial reporting. This alternative set of quantitatively measured cultural dimensions gives accounting researchers an opportunity to empirically explore the links between accounting and different perhaps more refined dimensions that characterize national culture. Schwartz's score have the advantage of being based on more recent and arguably more generalizable samples.

This study has extended Sulaiman's (1997&1998) studies by using Hofstede-Gray framework to explain how the Moslem accounting academicians perceive the usefulness of Islamic Corporate Reporting. However, the parsimony model could not explain the perceived usefulness. Therefore, future research can develop the model which is used by this study. The future model can regard the other Hofstede's cultural values such as individualism and masculinity or Schwartz's (1994) dimensions such as hierarchy, autonomy, conservatism, mastery, and harmony.

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