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Research Paper

# The Impact of Cultural Intelligence of Financial Managers on Corporates Financial Reporting Quality[1]

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## INTRODUCTION and THEORETICAL FOUNDATIONS

Cultural intelligence is a crucial tool for effectively navigating tasks within diverse and heterogeneous work environments. This form of intelligence represents a distinct ability and skill that empowers individuals to perform tasks adeptly in multicultural settings. Having cultural intelligence enables managers to interpret emotional behaviors within different cultural contexts and respond appropriately based on specific cultural norms. This capability positions them to stay competitive and excel in comparison to other managers.

In the current globalized business landscape, "cultural intelligence" has emerged as an essential lever for leaders and managers. Organizations and managers who recognize the strategic value of cultural intelligence can leverage cultural differences and diversity to gain a competitive edge and establish superiority in the global market. Cultivating cultural intelligence is not just about understanding diverse cultures but also about utilizing that understanding to drive success in a multicultural and interconnected world.

In today's globalized business environment, characterized by the expansion of capital markets and increased investment, the quality of financial information reported

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by companies has become a crucial concern. The significance of high-quality information lies in its role in facilitating accurate decision-making, ensuring the proper allocation of financial resources, and contributing to overall economic welfare. Against this backdrop, the cultural intelligence of financial managers emerges as a key factor shaping the competitive landscape in the business environment. Companies are continually compelled to monitor the business environment, make timely decisions, and respond swiftly to emerging opportunities and threats.

The ability to collaborate with individuals from diverse cultural backgrounds is contingent upon recognizing and understanding cultural differences, encompassing various ethnic and national groups. Across most countries, achieving a balance between work and personal life is considered a pivotal factor influencing job satisfaction. Neglecting the quality of work life for an organization's employees can significantly diminish the overall effectiveness and efficiency of the organization. In essence, the cultural intelligence of financial managers has become instrumental in navigating the complexities of today's business world, fostering adaptability, and ensuring that companies remain agile in the face of dynamic challenges and opportunities.

The stock exchange serves as an economic market where securities are bought and sold in accordance with established rules and regulations. The decisions made by both potential and existing investors in this market extend beyond quantitative and rational analyses alone. The quality of financial reporting significantly influences their decisions concerning market interactions. Research in the realm of cultural intelligence indicates that financial managers are impacted by cultural intelligence in their analyses, contributing to the optimization of decision-making processes.

Despite cultural intelligence being a focal point for numerous researchers and experts as a means of enhancing decision-making capabilities, there has been a lack of comprehensive efforts to assess cultural intelligence. In other words, the role of cultural intelligence as a novel paradigm in the domain of organization and management, particularly in finance, has not been adequately elucidated. Consequently, the present research aims to investigate the impact of cultural intelligence among financial managers on the quality of financial reporting for companies listed on the Tehran Stock Exchange.

## MATERIALS AND METHODS

The research utilized David Livermore's standard cultural intelligence questionnaire alongside information from the financial statements of companies listed on the Tehran Stock Exchange to assess the quality of financial reporting. Data pertaining to 98 companies admitted to the Tehran Stock Exchange from 1392 to 1396 were collected and processed for analysis. The modified Jones model was employed to gauge the quality of financial reporting in this study.

With a practical orientation, the research aimed to elucidate relationships between variables, offering insights and recommendations. It assumed a correlational descriptive nature. E-views version 8 software facilitated the statistical data analysis and hypothesis testing.

Research findings indicated that cultural intelligence enhances the judgment capabilities of financial managers, contributing to improved performance and favorable outcomes for the organization. Managers exhibiting higher cultural intelligence demonstrated greater adaptability to organizational conditions, resulting in enhanced performance and organizational excellence. The results further suggested that companies surveyed are increasingly incorporating new tools, including cultural intelligence, to aid financial managers in analysis, decision-making, reporting, and inquiry. This integration is aimed at facilitating appropriate and timely decisions, ultimately enhancing the quality of financial reporting.

## RESULTS AND DISCUSSION

The study's findings revealed several key insights. Firstly, the motivational dimension of cultural intelligence highlighted that the interest and career aspirations of financial managers in the surveyed companies positively impacted the quality of financial reporting. Adequate motivation among financial managers, driven by an internal desire to engage and build relationships with cultural organizations, facilitated positive and effective interactions with individuals from diverse cultures. This motivation created an environment conducive to employees performing their work with logical planning, managing productive relationships, and delivering favorable outcomes in the organization. The manager's understanding of cultural similarities and differences played a crucial role in enhancing employee job performance and, consequently, improving the overall quality of financial reporting.

Moreover, the research indicated that financial managers who developed the metacognitive component of cultural intelligence within a market-based organizational culture exhibited better abilities to monitor, experience, analyze, and regulate their behavior in various cultural situations. These managers, equipped with a suitable strategy, were adept at anticipating cross-cultural encounters, scrutinizing assumptions during such encounters, and adjusting mental maps if real experiences diverged from prior expectations. This heightened metacognitive awareness empowered managers to navigate cultural complexities, gaining a competitive edge and influencing the market.

Furthermore, the study underscored the significance of the behavioral dimension of cultural intelligence. The appropriate verbal and non-verbal reactions of financial managers when interacting with individuals from diverse cultures were identified as influential factors on the quality of financial reporting. The behavioral dimension fostered consistency in the verbal and non-verbal behaviors of financial managers, enabling them to adapt seamlessly to different people and cultures in various situations. This adaptability facilitated effective communication and interactions, allowing financial managers to approach their job responsibilities with logical planning and organization, aligned with organizational conditions and positions. Consequently, this adaptive behavior positively impacted the performance of assigned job duties, ultimately contributing to the enhancement of the quality of financial reporting.

## CONCLUSION

The study highlights the existing gap between scientific exploration of cultural intelligence and its practical implementation within organizations. While numerous scientific studies have detailed the concept of cultural intelligence and its advantages, the practical application of cultural intelligence has received limited attention. This research aims to bridge the divide between theoretical knowledge and practical implementation, presenting experimental results that encourage organizations to adopt and apply cultural intelligence.

In a diverse country like Iran, where individuals from various cultures, subcultures, local tribes, and regions converge in organizational settings, cultural intelligence becomes pivotal. It enhances people's adaptability, fosters successful interactions with individuals from different cultural backgrounds, improves teamwork, and contributes to overall effectiveness and performance. The research underscores that elevating the cultural intelligence of financial managers can predict their alignment with the desired organizational culture. This predictive capability aids both managers and job applicants in anticipating the cultural fit before joining an organization. Consequently, it enables managers to make informed decisions, avoiding the recruitment of individuals whose cultures may not align with the organization's cultural values.

Given the absence of prior research on the relationship between cultural intelligence and the quality of financial reporting in Iran, this study pioneers in exploring this connection using Jones' modified model. Future researchers are encouraged to employ various tools and models to measure financial managers' cultural intelligence comprehensively. Comparing and analyzing the outcomes of their studies with the findings of this research can contribute to a deeper understanding of the role of cultural intelligence in financial and accounting variables within the Iranian context. This collaborative effort may facilitate the development of effective strategies for integrating cultural intelligence into financial management practices, ultimately enhancing organizational performance.

**Keywords:** Cultural Intelligence, Financial Leverage, Firm Size, Financial Reporting Quality, Stock Exchange.

**JEL Classification**: G41, C58, L11, L25, E44.