4. Loop One: Cross-National Cultural Difference in Auditors’ Professional Behavior – A Grounded Theory

4.1 Introduction

We already have a relatively robust understanding of the individual components of auditors’ professional behavior (Chapter 2) and cross-national cultural differences (Chapter 3) as such. But much is still unknown about the association between the two: the impact of cross-national cultural differences on auditors’ professional behavior. Although a number of prior studies cover cross-national differences in auditors’ professional behavior, only a few have taken cross-national cultural differences into account as explanatory variables (e.g., Roxas and Stoneback 1997; Arnold et al. 1999, 2001; Patel et al. 2002; Smith and Hume 2005; Arnold et al. 2007). In other words, the current academic understanding of the impact of cross-national cultural differences on the professional behavior of auditors is far from being complete, structured, and comprehensive (as also illustrated in Chapter 1 of this thesis). Currently, it merely provides a first glance. Therefore, central to this chapter is the following question:

- Is auditors’ professional behavior expected to be affected by cross-national cultural differences, and, if so, how?

To answer this question, a grounded theory approach is adopted as follows:

- Based on grounded theory methodology, I explore which auditor behaviors differ cross-nationally and how these differences could be explained through different national (cultural) determinants. Open structured interviews are conducted with 35 internationally experienced senior auditors and recognized audit practice leaders. These interviews are complemented by observational notes taken by the author over the two years spent in conducting this study. Analysis of the cross-cultural data yields empirically grounded indications of how audit practitioners perceive auditor behavior to differ cross-nationally. This analysis is structured in line with the nine constructs of auditors’ behavior as included in the conceptual framework of Chapter 2 (§ 2.5).

- These empirical findings are complemented by a review of the current academic understanding of cross-national differences in auditors’ professional behavior, both with and without cross-national cultural differences as explanatory variables. This also includes an analysis of how these behaviors are theorized to relate to the cross-cultural dimensions of power distance, uncertainty avoidance, assertiveness, and (institutional and in-group) collectivism as per House et al. (2004).
Each section results in a proposition. These propositions together lead to a grounded theory on how these cross-national cultural dimensions are expected to impact the behavioral trait covered in that section.

The focus of this chapter, therefore, is to develop grounded theory-based propositions on the association of cross-national differences in the professional behavior of auditors and cross-national cultural differences. This can be illustrated as follows:

This chapter is structured as follows. After an introduction in § 4.1, in § 4.2, I set out the research strategy chosen for this phase (grounded theory) and the methods applied for data collection and analysis. The data yielded from interviews, observations, and review of existing theory is analyzed in § 4.3, which in § 4.4 results in a grounded theory on the impact of cross-national cultural differences on auditors’ professional behavior as the conclusion of this chapter.
Chapter 4 – Loop One: Cross-National Cultural Differences in Auditors’ Professional Behavior – A Grounded Theory

4.2 Research strategy and methodology

4.2.1 Grounded theory

The current academic understanding of the impact of cross-national cultural differences on the professional behavior of auditors is far from complete. Currently, it merely provides a first glance on some cross-cultural issues related to the behavior of auditors, rather than a comprehensive and structured overview thereof. As Glaser (1992) puts it while referring to a field of behavioral research of which little is known: “Qualitative methods can be used to uncover the nature of people’s actions and experiences and perspectives which are as yet little known in the world of research products”. For cross-cultural research as such, the recognized method is first to try to understand the area and population being studied before delving into the actual research. In a methodological note on content validity, Hofstede (1996) emphasizes the importance of undertaking cross-national research with “an open-ended inventory of issues that were on the minds of future respondents around the world”.

Grounded theory offers a sound and structured way of analyzing what is happening in the world of international auditing and the issues it faces in terms of cross-national cultural differences in auditors’ behavior. Grounded theory is (Glaser 1992):

- a basic research approach in a new area, to do the qualitative research and analysis first in order to formulate the quantitative research so it will not force the data under study and will yield the empirical facts that test, verify and extend the qualitative hypotheses.

Grounded theory is most appropriate “where researchers have an interesting phenomenon without explanation and from which they seek to discover theory from data [i.e.,] how individuals interpret reality” (Suddaby 2006: 636). In other words, grounded theory is an analytical research approach in which meanings are inferred from the data collected, rather than imposed from one single other source, such as theory. However, this does not mean that existing theory should be ignored – neither during the fieldwork nor during analysis (Suddaby 2006). Rather, a grounded theory approach draws from existing substantive research. Hence, prior literature is included as an integral part of the data collection and analysis process – data and theory are constantly compared and contrasted.

217 Based on the literature review of cross-national differences in auditors’ professional behaviour (with or without cross-national cultural differences as explanatory variable) as included in the introduction of this thesis and integrated in the analysis of data in § 4.3, it is concluded that much is yet to be (further) researched within an auditing context.

218 The theoretical analysis of this Chapter is done through literature review and citation analysis similar to that discussed in § 2.3.1. Starting with international research in the field of auditing and the behavioral study of accountants, this cross-cultural analysis is complemented by cross-cultural studies from the field
The core of grounded theory comprises two interrelated actions: (a) asking effective questions aimed at advancing understanding; and (b) making constant (theoretical) comparisons (Strauss and Corbin 1998). Grounded theory offers sound guidance on how to ask questions, but its strength and added value for this study are found in making (theoretical) comparisons, adding to the understanding of the universe of international auditing in such a way that it is valid. Theoretical comparisons are tools for looking at an object somewhat objectively, rather than naming or classifying it without a thorough examination of the object at the property and dimensional level. “The object is to become sensitive to the number and types of properties that might pertain to phenomena that otherwise might not be noticed or noticed only much later” (Strauss and Corbin 1998).

This ”becoming sensitive” is referred to as emergence of concepts, which are being gradually designed and developed as a researcher goes along collecting and interpreting empirical data. Emergence of concepts and theory during the research process is what grounded theory is all about. Consistent with grounded theory and given the exploratory nature of this study, no a priori hypotheses are presented; rather, propositions and directions for future research are formulated in conclusion as a (grounded) theory. Ultimately a grounded theory approach is designed to develop new integrated insights into the behavior under investigation, closely connected to existing theory and literature; in this case, a grounded theory on the impact of cross-national cultural differences on the professional behavior of auditors.

Grounded theory and related approaches, such as ethnography, are widely applied in accounting and auditing research (e.g., Gibbins et al. 1990; Power 1991; Davie 2005; Holland 2005; Ahrens and Mollona 2007; Bisbe 2007; Efferin and Hopper 2007). The American Accounting Association’s monograph on empirical research in accounting (Abdel-Khalik and Ajinkya 1979) suggests using grounded theory to generate hypotheses and discover significant variables and relations among them within the complexity and richness of the naturalistic, practice settings. “Since field studies are conducted in a more realistic environment, external validity and the practical significance of the results of such studies are high” (Abdel-Khalik and Ajinkya 1979: 45). McKinnon (1988) called for the use of qualitative field studies in accounting within its organizational and social context, and illustrated strategies and tactics based on grounded theory. The use of grounded theory was further encouraged by Parker and Roffey (1997) who illustrated the potential contribution of grounded theory to (interpretive) accounting.
4.2.2 Sample, data collection, and analysis

Open structured interviews are conducted with 35 internationally experienced auditors and recognized audit practice leaders of one of the biggest networks of affiliated international accounting organizations in the world (hereinafter, the international accounting organization). The value and relevance of auditors’ own observations and perception can be recognized in the fact that these auditors play a central role in the international auditing practice as such. These interviews are complemented by observational notes taken over the two years spent in conducting this phase of the study (mid-2005 to mid-2007). I obtained access to the interviewees having received permission from the international accounting organization after several meetings and presentations with a number of key players in the organization. Confidentiality and anonymity are assured to all participants and to the international accounting organization as a whole.220

The main questions asked are included in an interview instrument which comprises semi-structured, predefined questions aimed to yield the data needed for answering the question at hand:

What do auditors observe to be the main differences in professional behaviors between auditors from different countries?

The questions are accompanied by an interview guide to gain structure. It should be noted that the questions are designed in such a way that they encourage the interviewees to respond openly, and not to force them towards any predefined behavior found in literature (only when the interviewee needed some stimulation, a number of random examples were provided). In other words, the interviewees were not a priori provided with an overview of behaviors or expected relations between behaviors and cultural differences. Given the open structure of the interviews in relation to the topic, most of the interviewees inherently touched upon their perception of the impact of national cultures on the behavioral differences they observed. The interview questions and guide are reviewed and piloted before the start of the interviews. A summary of the interview questions is included in Appendix 1. The full interview instrument is available from the author upon request.

The auditors (interviewees) were selected as part of a predefined target audience. Three selection criteria are applied: interviewees should (a) have extensive international experience in the financial auditing practice, (b) be sufficiently reflective and communicative (i.e., they should be able to give a substantive view on some of the behavioral factors that are related to their field of work), and (c) be an audit partner or

220 The following confidentiality terms have been agreed upon to gain access to the international accounting organization and applied in this study: anonymity of the international accounting organization (including any references to its organization or examples referred to during the interviews), anonymity of the auditors participating in the interviews, and anonymity of the countries included in the study or referred to by the interviewees. The resulting anonymity in the analysis of the yielded data does not hamper the validity or relevance of the research and findings in relation to the research question at hand.
manager in the accounting organizations (to safeguard an appropriate level of audit practice experience). The target audience was furthermore designed to represent at least the major countries in international accounting (e.g., the United States, the United Kingdom, Germany, the Netherlands and France) and, in addition, the most distinctive countries in terms of their cultural background (as measured by House et al., 2004, such as Japan, Brazil, Spain, and South Africa). Through the interviewees, 29 countries (among which those mentioned above) mirroring these target criteria are represented in the interview population. Details on the level of international experience represented by the interview population, as well as other demographics and characteristics, are included in the descriptive statistics of Appendix 2.

The size of the interview population was not set in advance but aimed at theoretical saturation, i.e., the point at which no new properties, dimensions or relationships emerge during the analysis (Glaser 1992). Eventually, a total of 35 auditors were interviewed, three of whom were selected to replace three prospective interviewees who did not accept the invitation. These three are replaced by interviewees with comparable profiles to fit the predefined target audience. This results in an interview population of 35 internationally experienced senior auditors, ensuring both functional representation (i.e., a broad representation of internationally experienced auditors and international management positions) and a geographical cut (i.e., representing 29 countries).

The interviews are conducted one on one (either face to face or over the telephone) by the author himself, opening up the opportunity to extend and deepen the data collection. The interviews are conducted in English, which is not the native language of 22 interviewees. Interviews that are recorded (83%) are fully transcribed and summarized. Interviews that are not recorded because the interviewees refused to be recorded (17%) are transcribed immediately after the interview. The transcripts are analyzed in a chronological order throughout the two-year interview phase to appreciate the evolving lines of questioning and the incremental process of moving from one case to the other in analyzing and comparing them. Observational notes are taken over the two years spent by the author in conducting this study, based on observations of the author himself and informal interviews (“chats on the side”). These observations and interactions provide invaluable additional and detailed insights into the operation of international auditing and complement the information collected in the interviews. An example of observational notes is included in Appendix 3 for illustrative purposes.

In line with the grounded theory methodology, the analysis is conducted in the iterative process of open, axial and selective coding for common themes that emerged from paragraphs and observational notes. Open coding resulted in the identification of an initial set of 157 open codes with 342 coding notes connected to original quotations, finding grounding in the original interviews. Through axial and selecting coding, these initial codes are further grouped depending on their commonality of properties or according to identified dimensions (e.g., all open codes related to the

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221 Selection of interviewees within a grounded theory setting is a process of iterative analysis and comparison to achieve theoretical saturation. It therefore does not fit to speak of a response rate, but if one would like, this thus resulted in a response rate of 92%.
way auditors working in teams were grouped) and given further meaning and context by labeling the different subcategories or extremes within a given dimension (e.g., teamwork was further refined into communication within the team, involvement of the audit partner in the team, trust within the team, and working in international teams).

To preserve reliability and content validity, and to mitigate the effect of personal bias, this study includes various safeguards. First of all, the data is collected and analyzed by the researcher as diligently and as carefully as possible, trying to prevent subjective personal interference where possible. Secondly, “red flags” were placed in those areas where the researcher suspected coloring, bias or political correctness by the interviewees. Furthermore, most of the transcripts are submitted to the interviewees for confirmation. As a confirmatory reliability check, a second independent researcher re-performed 25% of the open coding process which confirms the validity of that part of the coding process. The resulting constructs are further conceptually specified (Bisbe 2007) and thickened (Geertz 1973) by elaborating on how people within the practice (i.e., the interviewed auditors) understand and interpret their surroundings and behaviors, and give meaning to them through in-depth re-review of the interview transcripts. This step of defining the theoretical properties of the construct that has been inferred from the practice is also suggested in the grounded theory methodology (Strauss and Corbin 1998). Hence, the final measure adopted in this study was to actually tell the story to respondents and ask them to comment on how well and complete it seems to fit their situation or their view of international auditing.

4.2.3 Five cross-national cultural dimensions (House et al. 2004)

The empirical findings from the interviews are complemented by a review of the current academic understanding of cross-national cultural differences and its impact on behavior in general. I have taken into account how House et al. (2004) theorized these behaviors to relate to five of their nine cross-cultural dimensions, namely Power Distance, Uncertainty Avoidance, Assertiveness, and (Institutional and In-Group) Collectivism. These five dimensions are determined based on review of the current academic literature on cross-national differences in auditors’ professional behavior, both with and without cross-national cultural differences as explanatory variables. This research, as included in the following sections of this chapter, shows that hierarchy

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222 The interplay between the data (i.e. the interviewees or the audit environment in this study) and the researcher in both gathering and analyzing data, “by its very nature, is not entirely objective as some researchers might wish us to believe. Interplay, by its very nature, means that a researcher is actively reacting to and working with data” (Strauss and Corbin 1998). One of the major objectives of grounded theory is to help the user recognize bias by self-consciously bringing disciplinary and research experience into the analysis.

223 One technique known, and applied in this study, is “waving the red flag”. One waves the red flag to recognize when either our own of the respondents’ biases, assumptions, or beliefs are interfering with the analysis.
(Power Distance), Uncertainty Avoidance, Assertiveness, and Individualism-Collectivism are the predominant cultural constructs studied in relation to auditors’ behavior. Hence, cultural practices analyzed in this study are (from House et al. 2004):

- Power Distance
- Uncertainty Avoidance
- Assertiveness
- Institutional Collectivism
- In-Group Collectivism.

4.3 Analysis of data yielded from interviews, observations, and theory

The overview and analyses of the impact of cross-national cultural differences on the professional behavior of auditors as included in this section is the outcome of the grounded theory exploration of interviews with 35 auditors complemented by personal observations and a review of existing cross-cultural research. For reasons of clarity and structure (and consistent with, e.g., Suddaby 2006), the resulting findings and categories are subsequently mapped to, and presented sequentially within, the theoretical structure of the conceptual framework of Chapter 2. The eight behaviors of that framework are:

- Judgment and decision-making (which includes ethical judgments and decision-making, identifying, assessing and responding to audit risks, and judgments related to probability phrases)
- Skeptical judgments and decisions
- Knowledge sharing and consultation behavior
- Working in fluid audit teams (including engagement partner involvement)
- Communication and negotiation behavior on observations and findings
- Documentation and justification
- Dysfunctional behaviors
- Audit pricing and practice development.

It should be noted, however, that the concepts presented in this grounded theory actually emerged from the iterative process of constant comparisons of the interview data, observations, and review of the existing literature as set out in the previous section.

Each subsection offers a proposition on the expected association between the behavior of that subsection and cross-national cultural differences, which jointly lead to the grounded theory as included in § 4.4. Consistent with the confidentiality and anonymity assured to the participants and the international accounting organization, no references are made to the participating auditors or the countries they referred to. Quotes from the interviews are included in “italic” text, while quotes from prior research are in plain text.
4.3.1 Judgment and decision-making

Only little research is conducted on the direct effect of culture on auditors’ judgment and decision-making process (Chanchani and MacGregor 1999: 26). Nevertheless, “[c]ulture has been argued to influence individual and collective values in different countries, and, through those values, to influence both professional judgment generally and audit judgment specifically” (Patel et al. 2002: 3). Auditors observe cross-national differences in the extent to which they are comfortable with, and are able to apply, the professional judgment and decision-making process central to the audit. The interviewed auditors primarily observe differences in:

- Decision-making performance in relation to the audit approach
- Ethical judgments and decision-making
- Identifying and assessing the relevant risks during the audit and deciding on the adequate response to that assessment
- Judgments related to probability phrases.

4.3.1.1 Decision-making performance

Auditors point to a number of countries where reaching an actual decision is harder compared to other countries. These countries are generally higher on Power Distance and Institutional Collectivism and lower on Assertiveness. As one auditor illustrates: “They gather information but are not making decisions. They feel uncomfortable making decisions and who has to make the decisions”. Oftentimes, it is only the most senior partner who can make the decision, as one auditor illustrates as follows:

*Where it concerns decision-making, [country X] is very hierarchical. You must go through five or six different layers to get a decision (...) and it is actually only the most senior partner that is allowed to take the final decision. [Country Y] is probably the opposite where it is the audit team that says to the partner what the audit approach is. Basically they make the decision.*

Auditors further observe that their colleagues in these countries prefer to defer responsibility and accountability to others: “They are just not willing to take responsibility in taking a decision”. Another auditor recognizes, following Hughes et al. (2009), that people in a collectivist culture are less likely to form or express judgments individually, independent from the in-group formation of that judgment: “they always come up with group decisions”. An auditor working in one of such countries illustrates:

*A lot of discussion takes place between the two or three partners on the engagement. It takes a lot of time to reach agreement. (...) Under [a collectivist] culture the engagement partner still looks at the senior partner to take a decision. But the senior partner is of the opinion that the engagement partner should make the final decision. So, part of [this collectivist] culture is that oftentimes they look at each other, meaning that no partner takes responsibility.*
Poor decision-making performance can impact auditing in terms of effectiveness and efficiency of the audit process. This is seen in an example an auditor gave in relation to a country that is high on Institutional Collectivism and Power Distance:

“They are similar in their risk awareness, but when they identify a risk they have difficulty identifying how significant one risk is compared to another risk. So, everything becomes a huge issue. (...) They will have a lot of work done on those risks, even though I would classify the one risk as a significant risk and the other risk is just a normal audit risk.”

Another auditor illustrates how indecisiveness leads to not making the appropriate choices in the design of an audit and take position. He notes, while referring to the auditing culture of a country high on Institutional Collectivism, Uncertainty Avoidance, and Power Distance (and low on Assertiveness): “[In this country] there is no linkage between controls and substantive test - they do very much substantive testing but do not have the overview”.

Decision-making performance has not been studied in the auditing context. Cross-national cultural differences have been theorized to influence decision-making performance through the following cultural dimensions (based on House et al. 2004):

- **Power Distance (negatively):** In high Power Distance cultures, subordinates depend on authority and tend to let the boss decide, without actively discussing their own point of view. This would lead to low levels of ownership, proactive individual decision-making, and deference of accountability to authority.
- **Assertiveness (positively):** Assertiveness is associated with the internal locus of control and decision-making skills in terms of the ability to rationally discriminate situational cues and decisively express those decisions in acceptable social behavior.\(^{224}\)
- **Institutional Collectivism:** Deeply rooted in the collectivistic, Confucian values, is an emphasis on conformity with one’s environment and the importance of obligations individuals have within their families and immediate surroundings, leading to an inclination to maintain harmony by subjugation and respecting authority. Furthermore, accountability and/or responsibility in collectivistic cultures are oftentimes easily deferred to others within the group, leading to single individuals not considering themselves to be accountable (or having to take individual responsibility)\(^{225}\).

\(^{224}\) Non-assertiveness is associated with more passive behaviour of people who allow themselves to be dominated by others, who are subservient and tolerant, and who comply with requests or demands of others even if they themselves do not want to (based on House et al. 2004: 397-398). “In internal cultures ‘playing hardball’ is legitimate to test the resilience of an opponent and, in contrast, softness, persistence, politeness, and patience are needed to succeed in external cultures” (House et al. 2004: 402).

\(^{225}\) In individualistic cultures, accountability is likely to rest with specific individuals, for both organizational successes and failures. Accountability in collectivist cultures would be more likely to rest with groups. In individualistic cultures, there tend to be clear rules and understanding of who is responsible for which specific task. Within organizations, this is reflected in the paper trail of documentation and signatures. Clarity of lines of communication and accountability is reduced; however, in collectivist cultures. In collectivist cultures, responsibility tends to rest with groups rather than with
In summary, cross-national cultural differences are expected to relate to auditors’ decision-making performance as follows:

<table>
<thead>
<tr>
<th>Auditors’ behavior</th>
<th>Power Distance</th>
<th>Uncertainty Avoidance</th>
<th>Assertiveness</th>
<th>Institutional Collectivism</th>
<th>In-Group Collectivism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decision-making performance</td>
<td>–</td>
<td>.</td>
<td>+</td>
<td>–</td>
<td>.</td>
</tr>
</tbody>
</table>

‘+’ indicates an expected positive relationship between the variables; ‘–’ indicates an expected inverse relationship; ‘?’ indicates the direction of the expected relationship is indeterminate; and ‘.’ indicates that no relationship is expected.

4.3.1.2 Ethical judgments and decision-making

It is not so much that auditors see that the levels of the individual’s moral development would differ internationally. Rather, they point to the environmental factors that influence an auditor’s ethical decision-making, such as the oversight and enforcement process, litigiousness of the environment, and the level of corruption in a country. The differences in ethical behavior would arise, when there are a number of auditors, from differences in “the money worth taking versus the risk of getting caught” and in the attitude towards rules. As one auditor expresses it eloquently:

I haven’t seen cultural differences [in moral development]. It is more that all over the world there are people that are dishonest. The world’s population breaks into three groups. The top 10% who would never do anything wrong ever, and will always try to do the right thing, and will be very shocked by any suggestion otherwise; the bottom 10% are criminals and are always looking for an angle, and any possible loop hole they would exploit to steal something; and the middle 80% of the people will look at pressures of making themselves rich, but what keeps them honest is the risk of getting caught. The problem then is that in large parts of the world the risk of getting caught is too low. (…) Another thing is that in developing countries the incentive to commit fraud can be much bigger as a smaller amount can already be quite big to the individual.

This reasoning is consistent with that of Kimbro, who notes: “Individuals will consciously or unconsciously consider the moral cost of becoming involved in corrupt activity. (…) The private morality aspect is related to the value system of the society” (Kimbro 2002: 332-333). Indeed, some auditors associate ethical behavior or compliance, above all, with the risk of being found out, i.e., the strength of internal and external supervision, and as a consequence thereof, litigation risk. As one auditor states:

individuals. Written documents and signatures would rarely be used (based on House et al. 2004: 457-458).
In some countries where litigations against auditors are more real, auditors worry in their daily practice about whether they are taking risks that would involve potential legal liability. (...) It affects the judgments that you make and how much risk you are willing to take. If affects how diligent you are, because it is like anything else, fear is a great motivator. If you do not think you are ever going to be found out, you may do something less.

In other countries, auditors are more intrinsically inclined to comply, i.e., people’s rule preference and rule-observant behavior. This seems to be culturally driven. For example, cultures intolerant of uncertainty (e.g., Germanic and Scandinavian countries, and also China and Singapore) use law, among other things, to cope with the inherent uncertainties in life (e.g., Hofstede 2001: 146; House et al. 2004: 609); “Uncertainty avoidance is not the same as risk avoidance (...) More than an escape from risk, uncertainty avoidance leads to an escape from ambiguity” (Hofstede 2001: 148). Deviating from the rules by non-compliance leads to increased ambiguity. Hence, Cohen et al. (1993: 4) note that "the willingness to tolerate the ambiguity of outcomes when going beyond the rules" (Cohen et al. 1993: 4) is related to a country’s level of uncertainty avoidance.

This introduced another significant international difference in auditing, although not necessarily culturally driven. Auditors observe a difference between countries that prefer to base their judgments and decisions on rules rather than on principles, and countries that rather have principles than rules to base their professional judgment on. This orientation basically divides the world of auditing into two parts, as an auditor illustrates:

The rules-based world operates with principles, but is uncomfortable applying those principles, and thus there is a rule that tells them how to do it. The principles-based world would rather have fewer rules and would like his standards to consist of broad but clear principles, and see the part that appears to be rules as guidance on how to apply those principles in particular circumstances.

A principles-based approach would not work in countries with a litigious environment or a cultural preference for rules and guidance. But auditors observe that this rules-based approach can result in compliance-driven auditors that focus on the form of complying with the rule, rather than on the intention and substance behind the rules. “The pressure can become so severe that auditors fear the risk of not meeting the auditing standards more than they fear the risk of getting the accounts wrong”, as a case example from practice showed:

Furthermore, many countries (mostly the non-established countries) go through a development process in which they need to mature from an audit based on local standards to the oftentimes more rigorous international auditing standards, which would most of the time lead to a rules-based focus. This change would also lead to new local supervisory authorities staffed with local people who also are not yet experienced with the international standards. As one auditor explains: “Therefore they all are looking for boxes they can tick rather than judgments that they can check. (...) We end up with a box-ticking auditing profession checked by a box ticking inspection body”.

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In one example, we found that the need to serve the regulator is interfering with the need to get the accounts right. There was a team that found a mistake in the accounts, quite a complicated mistake when you looked at it in more detail but bluntly obvious in overview. We found that the team has spent all its time on working on the documentation standards, so they didn’t have time to look at this properly. The team was really proud of their documentation, but it was only a few months later that they found the mistake in their work. In conclusion the teams have to spend too much time on meeting the documentation rules. This is frightening!

Furthermore, a rules-based approach is seen by some auditors as providing a false sense of ethical behavior:

The nearest I got to dishonesty amazingly came from [a rules-based environment], because they have a sort of feeling that as long as you comply with the rules, that is all you have to do. (…) In [this country] the procedure is a proxy for judgment, but almost the procedure is the proxy for straight dealing as well! (…) They never sit back and ask themselves questions like if the accounts are transparent, are we misleading people; there is nothing in the rule book that would force them to answer those questions.

This is in line with Cohen et al. (1993) hypothesis. They expect auditors from high Uncertainty Avoidance countries to follow the form rather than the substance of a rule, and that they would “interpret the absence of a rule forbidding the transaction as a license to accept it. In general, auditors from strong uncertainty avoiding cultures are more likely to equate “legal” with “ethical responsibilities” (Cohen et al. 1993: 5).

Most of the cross-national research on ethical judgments and decision-making of auditors is conducted based on Hofstede’s cultural taxonomy. Earlier studies (Cohen et al. 1995; Tsui 1996; Tsui and Windsor 2001) inferred that Power Distance and Collectivism would explain higher or lower ethical development of auditors (but their inferences were contradictory on the direction thereof and have not been tested). Studies that tested for Hofstede’s cultural dimensions as explanatory variables (Roxas and Stoneback 1997; Smith and Hume 2005; Arnold et al. 2007; Ge and Thomas 2008) in general found that Power Distance and Collectivism negatively impacted auditors’ ethical judgments (i.e., recognition) and decision-making. Mixed results were found on the impact of masculinity on ethical decision-making.

An interesting study, although not within an auditing context, is that of Parboteeah et al. (2005) because of their use of the GLOBE cultural dimensions of House et al. (2004) as explanatory variable. They found that ethical decision-making, among others, is impacted negatively by Assertiveness and positively by Institutional Collectivism.

Cross-national cultural differences have been theorized to influence auditors’ ethical judgments and decision-making through the following cultural dimensions (based on House et al. 2004):

- Power Distance (negatively): House et al. (2004) found that higher Power Distance in societies explains higher levels of corruption. Under such conditions,
unethical behavior would be “legitimated as a privilege of position” (House et al. 2004: 558).

- Uncertainty Avoidance (positively): People from Uncertainty Avoidance cultures would have a greater preference for rules to reduce ambiguity and strong values against breaking rules. They value conformity with the rules, guidelines and procedures, and discourage deviation from the rules.227

- Assertiveness (negatively): People in non-assertive countries emphasize integrity, loyalty, and cooperative spirit. People in Assertive cultures are found to behave more opportunistically and to be more willing to accept (a calculated) risk (House et al. 2004: 404). Consequently, it affects people’s inclination to observe or bend the rules.

- Institutional Collectivism (positively): Individuals higher on Institutional Collectivism are more likely to act out of corporate citizenship and to conform and cooperate with the organizational structures, measures, and codes of conduct (rule observance).

In summary, cross-national cultural differences are expected to relate to auditors’ ethical decision-making as follows:

<table>
<thead>
<tr>
<th>Cultural practices (House et al. 2004)</th>
</tr>
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<tbody>
<tr>
<td>Auditors’ behavior</td>
</tr>
<tr>
<td>Ethical decision-making</td>
</tr>
</tbody>
</table>

‘+’ indicates an expected positive relationship between the variables; ‘-’ indicates an expected inverse relationship; ‘?’ indicates the direction of the expected relationship is indeterminate; and ‘.’ indicates that no relationship is expected.

### 4.3.1.3 Identifying and assessing the relevant risks during the audit and deciding on the adequate response to that assessment

Auditors observe international differences in auditors’ awareness of and tolerance of risks in the normal course of the audit (i.e., audit risks, significant or not). In some countries, auditors would generally focus only on the bigger risks, while in other countries, they see a risk in almost every assertion. An illustrative example relating to auditors from a country that is explicitly higher on Uncertainty Avoidance and lower on In-Group and Institutional Collectivism is presented as follows:

227 “Uncertainty avoidance is closely related to the concepts of tight and loose cultures, including such things as rules and norms that exist in and are enforced by a society. Tight cultures are characterized by many rules supervising actions, and individuals are expected to conform to standard practices. Deviation from rules is discouraged” (House et al. 2004: 608). This can also be recognized in Hofstede’s alternative definition of Uncertainty Avoidance as “rule orientation”.

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Auditors from this country (country X) don’t like to make mistakes – [they] would go for security rather than for risk. This is unlike [auditors from country Y, lower on uncertainty avoidance] who will go for the challenge. The impact is that [auditors from country X] do a very thorough and detailed risk analysis and that they rather put reliance on ‘tests of details’ than on ‘controls work’. The focus is on perfectionism rather than on efficiency and profitability. [They] will ‘kill’ something to death before realizing it doesn’t really make a difference because of the risks associated.

As another auditor notes about auditors from this country: “They are indeed very structured. They are talking about detailed steps that they feel that still need to be done, although others would say that it is not necessary anymore”.

Another auditor, referring to a country that on the contrary is quite low on Uncertainty Avoidance but high on Assertiveness, Institutional Collectivism and Power Distance, notes that the risk awareness is lower: “Risk in the [this] environment was perceived to be one of the most important things. (…) The practice here is less risk prone, or risk averse. Here, people do not think about risk when they are conducting an audit.”

Where the audit is generally considered to be risk-based and top-down, differences are seen in the extent to which countries actually consider the audit risks as their starting point. An example taken from the interviews and related to a country that is higher on Power Distance and (Institutional) Collectivism and lower on Uncertainty Avoidance and Assertiveness (i.e., low decision power):

Auditors in [this country] approach an audit bottom-up as opposed to top-down, with a tendency to migrate to substantive audit work immediately. They have a lack of willingness sometimes to indulge in a proper controls and risk based audit.

No research has been conducted on cross-national (cultural) differences in auditors’ risk identification, assessment, and response. Cross-national cultural differences have been theorized to influence auditors’ risk identification, assessment, and response through the following cultural dimensions (based on House et al. 2004):

- Uncertainty Avoidance (positively): People from Uncertainty Avoidance cultures would be less risk taking and less tolerant towards ambiguity, i.e., having a lower risk appetite. However, avoiding uncertainty is not the same as avoiding risks; rather, it is related to minimizing the (perceived) ambiguity related to taking such risks (e.g., House et al. 2004: 148)²²⁸, for example, by carefully designing the appropriate response to identified risks.

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²²⁸ Research shows that Chinese respondents engage in more risky choices than American or other Western respondents. Risk-choice behaviour is influenced by a positive attitude toward risk or a lower perception of risks. This perception is differently impacted by the probability of the risk (which is the dominant factor in Western countries) and the magnitude of the outcome of the risk (which is the dominant factor in Hong Kong and Taiwan) (based on House et al. 2004: 616).
- Assertiveness (negatively): People in assertive cultures would be more willing to accept (a calculated) risk (House et al. 2004: 404), i.e., would be less inclined to carefully consider and address potential risks.
- Institutional Collectivism (negatively): Accountability and/or responsibility in collectivist cultures are oftentimes easily deferred to others within the group, leading to single individuals not considering themselves to be accountable or having individual responsibility, also not for identifying and addressing potential risks in the audit.

In summary, cross-national cultural differences are expected to relate to auditors’ risk awareness and response as follows:

<table>
<thead>
<tr>
<th>Auditors’ behavior</th>
<th>Power Distance</th>
<th>Uncertainty Avoidance</th>
<th>Assertiveness</th>
<th>Institutional Collectivism</th>
<th>In-Group Collectivism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk awareness and response</td>
<td>.</td>
<td>+</td>
<td>–</td>
<td>–</td>
<td>.</td>
</tr>
</tbody>
</table>

‘+’ indicates an expected positive relationship between the variables; ‘–’ indicates an expected inverse relationship; ‘?’ indicates the direction of the expected relationship is indeterminate; and ‘.’ indicates that no relationship is expected.

4.3.1.4 Judgments related to probability phrases
Auditing and accounting standards comprise words, phrases, and concepts open to multiple interpretations (“probability phrases”). This means that auditors have to use their own personal judgment in interpreting and applying these standards. This leads to interpretation differences already between auditors within the same country in probability phrases, such as “remote”, “low”, “more likely than not”, or “probable” (see Chapter 2). It is important to note that Amer et al. (1994) found that auditors were not aware of such interpretation differences, leading to a risk that auditors do not seek to clarify potential miscommunications. Nevertheless, the auditors interviewed in this study generally recognize that their judgments in relation to probability phrases differ in the interpretation and meaning they attach to them. Language differences are observed to be specifically an issue in relation to the many probability phrases in the auditing standards sensitive to translation. As one audit partner elaborates:
The big impediment to implementation [of our audit methodology] is language. It is a real big obstacle for us, because of the need to translate our methodology in to multiple languages. And even what I call the same language, has different dialects, such as Spanish. That is the thing that I think amazed me the most as I took on a global role in the firm. (…) They all have their own dialects and the translation can change the intent of our audit methodology, which is so dependent on very specific concepts and words that describe those concepts. (…) Like [significant risk]. How that translates into different languages could give the tone of what a [significant risk] is, you know something else, maybe not so critical.

Others provide examples of the use of “slang” that leads to issues: “In the materiality guidance we just issued, we published ‘rules of thumb’. (…) People had no idea what that meant in other territories when they tried to translate it. Here is an example that somebody might misinterpret a ‘rule of thumb’ to be ‘absolute guidance’”. As another auditor experienced: “There was actually one standard where there was a difference and that was the materiality standard. (…) We did not apply the concept the same way as they did in [another country]. I think there are differences and inconsistencies still there with the application”.

Besides language, another explanation would be that some countries are more conservative and risk-averse in their interpretation of probability phrases. As an internationally experienced auditor notes: “An aspect of the culture [of such a country] is that they are very risk averse. For example, with materiality, there is a tendency to take the strictest interpretation possible. It’s by nature that they are quite conservative”. Another auditor points to cultural differences in auditors’ comfort of dealing with the ambiguity and judgments related to principles-based regulation, which by definition leaves more room for interpretation: “In [country X] too, a lot is rules-based, but in a slightly different way. They like precision and a great clarity in everything that is going on and a good understanding of the auditing standards. They have a sort of natural discomfort with things that are not clear”.

Cultural Uncertainty Avoidance may indeed explain some of the differences. For example, Doupnik and Richter (2003), while comparing US CPAs and German-speaking ‘Wirtschaftsprüfer’, found interpretation differences in uncertainty or probability expressions, such as “expected”, “probable”, “assurance”, and “seriously in question”, but were not able to relate this directly to actual cultural differences. Differences are further observed in auditors’ strict interpretation of the independence regulation. For example, Agacer and Doupnik (1991) note: “in general, the German auditors were most likely and the Philippine auditors were least likely to perceive independence as being impaired” due to independence threats. They have, however, not associated these differences with cultural differences between these countries.

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229 Doupnik and Riccio (2006) tried to do this indirectly through Gray’s (1988) accounting culture dimensions of Conservatism and Secrecy on differences in judgments on probability expressions of auditors from Brazil (higher Conservatism and higher Secrecy) and the United States (lower on both) and found partial support for an effect on these dimensions on auditors’ numerical probability judgments.

230 Agacer and Doupnik (1991) compared auditors’ own perception of the effect of independence threats (e.g., relative size of audit fees, provision of management advisory services, and family being employed by the audited client) between auditors from the United States, West Germany and the Philippines.
Especially in a technical and standard-driven occupation as auditing, the use of many different nuances of verbs already poses huge challenges for consistent interpretation and application of the standards. As one auditor notes:

*Just take a random exposure draft in the clarity project of the ISAs. They use differentiating words like shall, should, must and could. And I just think about how many different versions of verbs there are out there in many different languages. What does that mean? I think the cultural language differences are probably a huge barrier for us as a very technical business.*

Especially with the more conservative interpretations, there are “cultural problems of taking the rules too seriously and with too much attention for detail”. Some auditors try to bridge this interpretation gap through very detailed international audit instructions:

*You need very detailed audit instructions to prevent interpretation differences and safeguard due care. You can’t just leave it to the judgment of all the international teams.*

Several scholars have studied “the structure of meaning” (Bagranoff et al. 1994: 35) in auditing and accounting in a cross-cultural setting. Research has shown cross-cultural interpretation differences even between countries that are generally considered in practice to be culturally alike (for example, Riahi-Belkaoui and Picur (1991) have shown that differences exist between Canadian, American, and UK auditors in their perceptions of concepts related to materiality, going concern, objectivity, conservatism, and consistency). Bagranoff et al. (1994) found significant differences between auditors in North America and Australia with respect to their interpretation of “extraordinary items”, an important accounting concept. They conclude “that cross-cultural differences are likely to influence the meaning of accounting concepts” (Bagranoff et al. 1994: 35). However, the above countries are relatively culturally alike; hence, culture may not be the most plausible explanatory variable for these interpretation differences.

The only study that has related judgment differences in probability phrases with actual cross-national cultural differences is that of Arnold et al. (2001). In a European setting, they found that auditors’ materiality estimates increased with the level of Hofstede’s cultural uncertainty avoidance dimension. This would mean that auditors from countries where people are generally less tolerant of uncertainty (e.g., Germany, Denmark, and Sweden) tend to conclude on lower materiality levels and, hence, more audit work.

Auditors interviewed in this study as well as prior research clearly indicate that cross-national differences exist in auditors’ judgments in relation to probability phrases. But except for a possible effect of Uncertainty Avoidance on auditors taking a more conservative or strict interpretation of probability phrases, no additional expectations could reasonably be formulated at this stage (which may mean that differences in judgments in probability phrases may not be driven by cross-national differences).

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231 Refer to footnote [38]. With “materiality” the profession refers to the inherent limitation to audit in the smallest detail, which also would not be cost-benefit efficient. Therefore, an auditor applies a “bottom” amount in performing an audit, meaning that misstatements below that bottom amount may well not be identified and corrected (i.e., the financial statements could still comprise errors, but not higher than the “materiality”).

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cultural differences). In summary, cross-national cultural differences are expected to relate to auditors’ conservatism in probability phrases as follows:

<table>
<thead>
<tr>
<th>Auditors’ behavior</th>
<th>Power Distance</th>
<th>Uncertainty Avoidance</th>
<th>Assertiveness</th>
<th>Institutional Collectivism</th>
<th>In-Group Collectivism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conservatism in probability phrases</td>
<td>.</td>
<td>+</td>
<td>.</td>
<td>.</td>
<td>.</td>
</tr>
</tbody>
</table>

‘+’ indicates an expected positive relationship between the variables; ‘-‘ indicates an expected inverse relationship; ‘?’ indicates the direction of the expected relationship is indeterminate; and ‘.’ indicates that no relationship is expected.

### 4.3.2 Skeptical judgments and decisions

Under the Anglo-American individualism and equality premise of the auditing standards and the strong independence-based focus of the Western audit practice, auditors are expected to pose tough questions to management. “Within the audit context, this attribute suggests a strong connection between individualism and independence that results in a greater propensity to ask tough questions and rely on personal judgments” (Hughes et al. 2009: 32). In addition, an auditor points to the implementation of Sarbanes-Oxley which is “a challenging approach which requires a rigorous challenging of the client to get a penetrating insight on the way the company runs itself”. However, “implicitly questioning management’s integrity (…) may be difficult in collectivistic cultures” (Cohen et al. 1993: 6). An auditor notes:

> I think in [a collectivistic culture] and I suppose to a degree in other [countries in this collectivistic region], it is culturally difficult to challenge people. It is not polite to ask people at a certain level anything from questions to the support of proof.

Another auditor explains:

> Because in [this] culture they pay respect to the senior people and the senior people don’t like the junior people to ask challenging questions. Especially when [the client] is an old style manager we can’t challenge him a lot and we have to use our own style to ask the same questions in a soft manner. (…) When [the client] is quite older than our partner, they are reluctant to answer some questions.

Yamamura et al. (1996) indeed showed that there are differences between auditors in countries low on Power Distance and low on Collectivism (in their study, USA) and auditors in countries high on Power Distance and high on Collectivism (in their study, Japan) in applying professional skepticism (i.e., posing probing questions to
management and performing additional audit work to corroborate management’s representations). Their reasoning is as follows:

The Japanese are highly rank conscious with rank determined by group affiliations [i.e., power distance]. Superiors are respected and obeyed solely because of their rank. In the U.S. rank or status is largely based on achievement. (...) For the Japanese, the center of emphasis is the group [i.e., collectivism]. The maintenance of group harmony and the avoidance of open confrontation and conflict are considered most important. In the U.S. the focus of attention is the individual. (...) In the U.S., relevant information is usually obtained by questioning client staff and requesting more documentation. When problems arise, U.S. auditors typically approach employees directly to obtain needed information. Within the Japanese culture, a direct approach by an auditor, although polite and courteous, could be viewed as confrontational. It would appear as questioning the judgment or actions of the employee. Thus, the Japanese behavioral norms suggest that auditors would avoid direct questioning and other behaviors involving a direct approach. Indirect means of resolution, such as the examination of documents and the performance of analytical procedures, would be the preferred alternatives (Yamamura et al. 1996: 349-50).

Although their results did not support the expectation that Power Distance and Individualism are the explanatory variables, they did find differences between auditors in their expression of professional skepticism. Cohen et al. (1993) reason that auditors in the less hierarchical countries (i.e., most of the “Western” countries) are better able to maintain high ethical standards even under pressure from a superior, given their more individualistic paradigm. “In contrast, in high power distance countries [e.g., many of the Asian and Latin countries, but also Germany and France] a local auditor may have more difficulty resisting pressures from a powerful and wealthy client” (Cohen et al. 1993: 8). This is why quite a number of auditors are especially cynical about the lack of professional skepticism in some countries of the world:

*In the whole region [X] the ability to challenge the client and professional skepticism is a huge question mark. (...) We have questions whether you can ever do a truly effective audit in this region, because of the lack of skepticism and the ‘bowing’ towards seniority and authority. (...) So, if you are a junior auditor and you are talking to the general manager of your client, and the general manager says something, you will always agree because he’s more senior person. He just won’t be counted wrong. This is probably more evident in [country X] than anywhere else. (...) People tend to bow for pressure of their clients. I think it is deeply rooted in the culture of the region. (...) [Country X] is maybe the most closed society, with different social rules for auditors: you just don’t question the client.*

Another auditor associates this lack of asking challenging questions with the trust that people culturally have in each other:
Chapter 4 – Loop One: Cross-National Cultural Differences in Auditors’ Professional Behavior – A Grounded Theory

I think our people were asking the easy questions. They were getting the answer back, and they were not actually pushing to ask: show me, proof it to me, I don’t believe you. They do not challenge the person that just answered the question. Challenging shows that you do not trust them and shows that you wanted to push them to answer to questions that they do not feel comfortable with. That is a real challenge for us, because somehow we have to maintain this idea of skepticism. But at the same time we have a whole part of the world, where people don’t like to say they don’t trust other people.

This paradigm of interpersonal trust is consistent with the reasoning of McKinnon (1984: 25) who points to a belief in original virtue (“the good in people”) rather than in original sin. This would lead to a lack of apprehensiveness, where auditors do not try to really get to the bottom of an issue or rather take an answer for what it is. One auditor simply states: “They over-trust a man, and it’s not in their DNA to question”. Another auditor has a deeper view on the significance of interpersonal trust:

Traditionally [an auditor from such a country] does not doubt the client’s intentions. Basically [he/she] thinks the client is ‘a good guy’ and from that point of view [he/she] starts the audit. This culture is somewhat based on the Buddhist religion. Nowadays we have to change this assumption because we too have had some business scandals and financial frauds.

In addition, McKinnon (1984), points to an auditor’s ability to have an independent mindset (a premise of professional skepticism) and links it to Individualism versus Collectivism. She found that the US concept of audit independence did not fit well with the interdependent nature of social and business relations in Japan where social relationships are based on interdependence and group orientation (McKinnon 1984: 23):

In contrast with Western societies, Japanese social relationships are based on group consciousness (dantai ishiki) rather than individual orientation, on interdependence rather than independence, and on the maintenance of harmony in interpersonal and intergroup relationships rather than on confrontation and recourse to public manifestation and third-party settlement and disruption.

It is in such cultural settings that auditor independence has a different meaning than intended by the (Western-oriented) international standard setters. For example, where under the individualistic, Anglo-American independence assumptions “clients should be treated in the same fashion with no favoritism being shown (…) in a collectivistic society, preferential treatment is always extended to the in-group” (Cohen et al. 1993: 6). However, auditors observe such “close relationships” to be part of the problem, for example:
Because the partner and the CFO are very, very good friends, it can be difficult for the partner to say ‘no’ (…) [This] environment is derived from friendship, loyalty, close relationships that you develop. If you have that kind of relationship, how can you maintain auditor independence?

Combined with a strong sense of hierarchy, loyalty (in-group collectivism), and service orientation, this results in, as one auditor notes, “a structure of ‘power kingdoms’, self-supporting groups of individuals controlling a client and people portfolio in which staff members don’t challenge the partner\(^{232}\) and don’t challenge their clients”. To preserve that power, the partner cannot lose clients or people, “so you need every behavior – good and bad – to keep the client happy and preserve harmony”. Or as another auditor notes: “This has also to do with the character of the client-auditor relationship which is based on trust and loyalty. This means: loyalty both ways. The client doesn’t leave the auditor and the auditor doesn’t doubt the client’s representations”.

Patel and Psaros (2000), indeed, found differences in terms of independence versus interdependence between auditors from the UK, Australia, India, and Malaysia (the latter two both higher on In-Group than the UK and Australia). Although they have not directly related these differences to differences in national cultures, they reason that “the interdependent construal of self in India and Malaysia for attending to others, fitting in, and maintaining harmonious interdependence with clients, is an important cognitive self-system which is likely to influence how individuals perceive notions of independence” (Patel and Psaros 2000: 319). Arnold et al. (1999), however, were able to show that Hofstede’s Individualism-Collectivism dimension explains variations in European auditors’ independent states of mind in their client relationships (and, related to that, an auditor’s decision whether to perform additional audit tasks under independence constraints – a premise of professional skepticism).

Closely related to hierarchy, loyalty, interdependence, and trusted relationships, auditors point to the phenomenon of “saving face” (generally associated with the Asian region). “Saving face” is associated with people having a deep fear of losing honor and respect, which would result in people not being assertive in taking a stance and preventing other people from “losing face” (i.e., avoid confrontations and other people having to say “no”). Auditors experience that “yes” in those cases has two meanings (“yes” and “yes”, but actually “no”), and that people give answers to questions that they expect the other would want to hear (i.e., divertive answering to avoid confrontation). For example, as one auditor notes:

\(^{232}\) A lack of professional scepticism is also seen in internal settings. For example, a senior-manager with a background from such a country, who returned to the country points to the issue of age also in internal setting: “Also age and seniority is an important thing [here]. If you are older than me I need to show respect, and then you will show respect back. That would not include me asking you probing questions”. Sometimes his assistants were older than he was himself, which posed initial issues in relation to coaching; “It impacts significantly in the beginning, because a senior could have done something wrong and I try to coach the senior individual, but this kind of coaching is not accepted well. Further the reaction that I get is; who are you to tell me what to do!”. He tried to overcome this issue by not telling people his real age.
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With [clients from such a country] there can be another intention behind the word ‘yes’. In [this country] ‘yes’ has two meanings: sometimes it means ‘yes’ and sometimes it means ‘no’. For example, when an auditor asks for documentation about the appropriateness of an account balance the clients says yes, but actually means that they can not ask for that documentation.

Consequently, auditors see that the Western auditing principle of asking probing questions would not work in such regions as “in those regions it is difficult to ask questions to which the client has to answer ‘no’”. Or as another auditor states: “They are not open in their communication; they tell you one thing, but will do the other”.

Others associate the issue of “saving face” not with bad intentions, but foremost with the assertiveness of communication styles. It would be more about the expression than about actual differences in the skeptical attitude:

The big difference is that [people from a less assertive culture] are less confrontational, not less aggressive. This means that they can be as aggressive in terms of the goals and objectives they want to reach and of standpoints they want to get across, but that the way they do it is less confrontational compared to [people from a more assertive culture]. I.e. the go in it less direct, more from person to person.

An audit area where auditors’ skeptical judgments and decisions stand out is in the one of the fraud discussions with clients. Discussing fraud risks and controls with clients is being required by the international auditing standards for a number of years now; the difficulty auditors have with actually applying the fraud standard differs cross-nationally.

Cross-national cultural differences have been theorized to influence knowledge sharing through the following cultural dimensions (based on House et al. 2004):

- **Power Distance (negatively):** Subordinates in higher Power Distance countries would have less room for independent thought and action, and have learned that it can be dangerous to question authority and express disagreement. In lower Power Distance cultures, “subordinates approached and critiqued their bosses [i.e., authority] quite freely” (House et al. 2004: 529).

- **Assertiveness (positively):** Assertiveness is associated with preferences for strong expression, articulation, and communication of one’s thoughts, feelings, beliefs, and rights (House et al. 2004: 164). Communication in high-assertive countries tends to be more direct and unambiguous, leading to people being more

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233 House et al. (2004: 527-529) refer to other scholars exploring differences in preferences for power among different cultures, who included items in their questionnaires concerning “the opportunity for independent thought and action” and “employees being afraid to express disagreement with their managers”, and who analyzed that “in a highly stratified society where all powers are concentrated in the hands of the superior, subordinates learn that it can be dangerous to question a decision of the superior”.

234 It should be noted, however, that as assertiveness is about the accepted ways of expressing one’s opinion, which is reflected in the other actor as well (e.g., one’s client), it is a sensitive aspect of effective questioning of other’s positions.
comfortable with voicing one’s opinion and challenge others’. On the other hand, people in low-assertiveness countries would be more concerned with “saving face” and harmony through the use of indirect, non-confrontational language and expression.

- **Institutional Collectivism (negatively):** Deeply rooted in the collectivistic, Confucian values, is an emphasis on conformity to one’s environment and the importance of obligations that individuals have within their families and direct surroundings, leading to an inclination of maintaining harmony by subjugation and respecting authority. Further, people from collectivistic countries apply an avoiding, obliging, compromising, and accommodating conflict resolution tactic. “This results from the desire in collectivists cultures to “save face” and the need to attend to contextual factors” (House et al. 2004: 452).

In conclusion, cross-national (cultural) differences in auditors’ skeptical judgments and decisions are mainly related to the auditor’s general ability and competence to stand up overtly, have an independent opinion, ask tough and probing questions, apply professional skepticism and challenge the client’s representations. Although auditors acknowledge that many other factors influence auditors’ skeptical attitude (e.g., influence of the authority and enforcement power of the supervisory body, the interaction with the client, or the business environment and corporate governance structure), they generally see it “as a cultural thing”. In summary, cross-national cultural differences are expected to relate to auditors’ skeptical judgments and decisions as follows:

<table>
<thead>
<tr>
<th>Auditors’ behavior</th>
<th>Power Distance</th>
<th>Uncertainty Avoidance</th>
<th>Assertiveness</th>
<th>Institutional Collectivism</th>
<th>In-Group Collectivism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skeptical judgments &amp; decisions</td>
<td>–</td>
<td>.</td>
<td>+</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

”+“ indicates an expected positive relationship between the variables; ”–“ indicates an expected inverse relationship; ”?“ indicates the direction of the expected relationship is indeterminate; and ”.” indicates that no relationship is expected.

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235 In assertive societies people will tend to use “low context” language, being communication styles that are direct, clear, and explicit, and likely to be more emotionally expressive. In contrast, less assertive cultures tend to use ‘high context” language, which is less direct, more ambiguous, and more subtle; “in such cultures, directions and messages are implied rather than explicitly expressed” (House et al. 2004: 403).

236 House et al. note that this philosophy, although 4,000 years old, is still prevalent in much of Eastern Asia today: “[I]ndividuals were required to respect their fathers and elder brothers to maintain family harmony. This prepared the individual to respect the structures of the states, which were needed to maintain national harmony. National harmony would, in turn, create a world in harmony and peace. Throughout his writing, Confucius criticized people’s need to be individuals and emphasized the importance of subjugating personal wants and desires for the greater good of the group” (House et al. 2004: 439).
4.3.3 Knowledge sharing and consultation behavior

This topic is split into (a) knowledge sharing (in terms of interaction with other auditors in order to gain and share knowledge) and (b) consultation behavior (through which knowledge is shared, and also which functions as a quality control mechanism).

4.3.3.1 Knowledge sharing

Audit firms depend heavily on their ability to build and share knowledge. The effectiveness thereof is higher when this is done cross-border. This leads to the need to acknowledge cultural differences and raises the question whether people culturally look differently toward (the social interaction related to) the production, winning, and sharing of knowledge not only within the country, but also with other people around the world (e.g., Holden 2002; King 2008; Noorderhaven and Harzing 2009).

Auditors recognize the importance of knowledge and experience to auditors’ ability and competence, and the centrality of knowledge sharing for developing auditing staff and engagement effectiveness. They mainly observe cross-national differences to the extent to which auditors are generally willing to share knowledge within their audit teams or with other auditors. They note that power differences and hierarchy have a negative impact on knowledge sharing, meaning that knowledge is kept at the partner level and is not being shared with the rest of the team. An auditor based in a country high on Power Distance and Institutional Collectivism notes: “In [this country] we understand that to properly address risks we need to understand the client and its industry. Until now, that knowledge oftentimes was only in the engagement partner’s mind. (...) Not a lot of knowledge about the client is normally being shared with the team”. Or as another auditor puts it in plain English while analyzing why others reasons like that: “I have information, therefore I've got power. Why on earth would I share that with anybody else when that does not help my status”. In other words, auditors feel that hierarchy has a negative impact on knowledge sharing, where knowledge is associated with, or seen as, preserving power or status.

An auditor with extensive international experience makes a distinction in line with Vera-Munoz et al. (2006) and observes international differences in knowledge sharing through information technology versus interactions among auditors:

\[
\text{I think to the extent that knowledge sharing is systematic, certain cultures have an amazing capacity and wish to learn. For example, an auditor from [country X] or [country Y] would leverage knowledge databases much more extensively than an auditor from [country Z] might. But then connectivity of people would be less. The reason why people like me have learned so much is because we worked with people who knew a lot. We learned from their experience which they shared. We work with people who know a lot and we learn from each other, but that doesn’t happen to the same degree in other territories.}
\]

Countries A and B are both countries higher on Power Distance and in-group collectivism compared to country C, which is significantly higher on assertiveness compares with countries A and B. This would mean that auditors from countries
higher on Power Distance and In-group Collectivism and lower on assertiveness would be less inclined to interact with other auditors for purposes of knowledge sharing. This would also comprise the extent to which auditors are inclined to demand that their colleagues share their knowledge with them, e.g., junior auditors proactively acquiring knowledge from their superiors.

Cross-national (cultural) differences in knowledge sharing have not been studied within the context of financial auditing. Cross-national cultural differences have been theorized to influence knowledge sharing through the following cultural dimensions (based on House et al. 2004):

- **Power Distance (negatively):** People in higher Power Distance cultures would be inclined to protect their power and create barriers for others to develop new skills for higher positions (House et al. 2004: 527). Information is shared in lower Power Distance societies and information is localized in high Power Distance societies.
- **Uncertainty Avoidance (positively):** People from uncertainty avoiding cultures would be more concerned with a need for effective communication and coordination, including a willingness to invest in the availability, seeking and sharing of information and knowledge.
- **Institutional Collectivism (negatively):** Accountability and/or responsibility in collectivistic cultures is oftentimes easily deferred to others within the group, leading to single individuals not considering themselves having to take responsibility and initiative or to be accountable for the distribution of knowledge.
- **In-Group Collectivism (indeterminate):** Priority and trust is given to the in-group (as opposed to the out-group) for which personal sacrifices are made to fulfill their group obligations. This may lead to an inclination to tightly control information and power within the in-group i.e., less knowledge sharing with other auditors (i.e., the larger out-group) when more emphasis is on the smaller in-group (House et al. 2004: 182, 186, 458).

In summary, cross-national cultural differences are expected to relate to auditors’ knowledge sharing as follows:

<table>
<thead>
<tr>
<th>Cultural practices (House et al. 2004)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Auditors’ behavior</strong></td>
</tr>
<tr>
<td>Knowledge sharing</td>
</tr>
</tbody>
</table>

“+” indicates an expected positive relationship between the variables; “−” indicates an expected inverse relationship; “?” indicates the direction of the expected relationship is indeterminate; and “.” indicates that no relationship is expected.
4.3.3.2 Consultation behaviour

Where consultation within the auditing context “has been virtually ignored by the academic literature” (Trotman 2005: 82), in practice, auditors experience cross-national differences in the extent to which auditors are intrinsically inclined to consult with colleagues or subject matter experts when in doubt or in defect.

Auditors associate a culture of hierarchy, loyalty, and respect for authority with a lack of consultation behavior. As one auditor comments when referring to a region that is higher on power distance and collectivism:

*It counts for the whole region. Consulting culture is not very strong. (...) The engagement partner doesn’t want anyone else to question him and the person in the question position, for example the quality review partner, will feel uncomfortable about questioning. As a result it doesn’t happen.*

Auditors think that this lack of consultation would also be motivated by the extent to which discussing an issue with a colleague or consultation with, for instance, the accounting organization’s central technical office, would be perceived to be a weakness or be seen as a sign of strength. Where one auditor with extensive experience in a country lower on collectivism and higher on Assertiveness and Performance Orientation clearly observed during a secondment in a country higher on Power Distance and Institutional Collectivism notes: “it might be even considered a sign of weakness or incapability for you to ask me whether you were thinking the right way. You might not do that because you would think that it is a sign of weakness”. On the other hand, another auditor, while referring to auditors in a country high on Institutional Collectivism, notes that an inclination to defer responsibility and accountability to authority leads to a strong consultation culture: “[Auditors in such a country] are very conservative in their approach. There is a good culture of consulting, nobody makes decisions on their own”. In such cultures auditors appreciate the adagio: “the biggest mistake you can make, is the mistake you make on your own”.

Cross-national differences in auditors’ consultation behavior have not been studied within the auditing context. Such differences have been theorized to influence consultation behavior through the following cultural dimensions (based on House et al. 2004):

- **Power Distance (negative)**: House et al. (2004) found that “managers in collectivist, high Power Distance countries (...) showed an aversion to using subordinates as a source of guidance” (House et al. 2004: 203).
- **Uncertainty Avoidance (positive)**: People from Uncertainty Avoidance cultures reduce risk for the individual decision-maker associated with “a stronger preference for group decisions and consultative management” (House et al. 2004:

237 Furthermore, Triandis posits (1994: 43): “In collectivist cultures, consultation is used very widely, decisions are often taken by consensus, and responsibility for these decisions is shared”.

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612) They will be more likely to seek feedbacks, second opinions, and consultations from a variety of sources (among which are experts who are beyond uncertainty), especially when that is instrumental for achieving one’s goals.

In summary, cross-national cultural differences are expected to relate to auditors’ consultation behavior as follows:

<table>
<thead>
<tr>
<th>Auditors’ behavior</th>
<th>Power Distance</th>
<th>Uncertainty Avoidance</th>
<th>Assertiveness</th>
<th>Institutional Collectivism</th>
<th>In-Group Collectivism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultation</td>
<td>–</td>
<td>+</td>
<td>–</td>
<td>?</td>
<td>–</td>
</tr>
</tbody>
</table>

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4.3.4 Working in fluid teams (engagement partner involvement)

A distinguishing feature of audit teams is that they are fluid, meaning that the composition of teams differs per audit engagement. If not specifically addressed by the audit engagement partner and manager, this fluid character can hamper team effectiveness (see § 2.9.5). This is exacerbated in multi-national audit teams. Members of culturally diverse teams entail many differences among its members (e.g., language, cultures, interpersonal styles, etc.). Its members initially express higher levels of mistrust, resulting from cross-cultural misinterpretation rather than actual dislike. With audit teams being fluid, this initial phase is especially relevant. Furthermore, research indicates that culture impacts the ability of people to adapt in fluid teams (Harrison et al. 2000). Mistrust stands in the way of developing sufficient trust in team members to delegate or share responsibilities (Adler 2002: 142). To date,
unfortunately, the impact of cross-national cultural differences has not been studied within the auditing context.

While the fluid character of audit team does not seem to pose many problems in most countries, a number of countries stand out from the interviews, which are specifically higher on Power Distance and Institutional Collectivism and lower on Assertiveness. The most notable cross-national difference auditors observe in teamwork is engagement partner involvement on the audit teams. Auditors observe clear differences between countries in the extent to which the engagement partner and manager are involved (e.g., the audit partner directing the audit in relative detail and proactively sharing his or her knowledge of the client with the audit team, versus a partner in an ivory tower with formal, high-level or limited involvement only). As an auditor notes, who was sent for a secondment to a country high on Power Distance and Performance Orientation and low on Uncertainty Avoidance: “[a]nother point of the business environment here in [such a country] is that partner involvement is quite low. I do not know what it is, but for some reasons partners seem to be less involved”. Another auditor from a country almost on the opposite ends on these three cultural scales actually takes pride in his partnership for its openness: “We have a much more open climate [here]. (…) Of course, also [here] there are strong hierarchical structures, but I think we are closer and more open to staff than those three countries”.

Auditors associate the level of partner involvement to cultural traits of hierarchy (Power Distance). A senior audit manager who was born in a typically high Power Distance country but educated in a country significantly lower on Power Distance, who recently returned to the country where he was born, points to the poor learning and coaching environment due to this hierarchy:

*Now that I am working in [this country again], it is a very different environment. [This] environment is derived from an age perspective, a seniority perspective and hierarchy in an organization. Which I find to be good at times, but not so good at the majority of times. For example, coaching is not a part of an audit engagement. For a younger guy it is very difficult to ask a question to a manager or a partner — that is not promoted in this culture and it is rarely done. I find that to be a little awkward and difficult because while working in a team communicating with the manager and partner and with everybody on the team is very important. You shouldn't have to shy away from asking questions, as in the audit environment you just need to be able to ask a lot of questions.*

Another auditor has similar experiences, where he notes: “[People from such a hierarchical culture] feel not confident when they think different as the teacher or the boss. (…) When the engagement partner asks a question to the senior or junior staff, generally they don’t respond back to the engagement partner, they just listen what the engagement partner orders them to do”. This results in differences in coaching and in having a robust dialogue, i.e., the extent to which audit partners or senior team members in general are willing to share down to business; their more relationship-oriented colleagues feel rushed and distrustful of their more hurried team members.
knowledge, are open to questions, provide feedback, and invest time in helping juniors to deepen their knowledge of a certain topic or object of audit. A partner in a global management role confirms through his experience that in countries with generally more hierarchy, coaching does not work automatically, where people say that partners are not going to coach intermediate staff. He notes:

In [a hierarchical culture] I see a reticence of senior people to provide coaching and transparency in thinking and planning to lower level staff. This is also seen in other [countries in the region] – there is a real challenge in getting senior people to take real responsibility for on the job development and adopt a culture that believes real legacy isn’t what you know alone, but how effective you are at passing your knowledge on to others.

Auditors furthermore indicate that this hierarchy and lack of engagement partner involvement leads to education and development problems of new managers. As an audit senior manager notes:

I can tell you that the country that I went to go as manager, in my role I had to have discussions directly with the partner. But I could see that the managers from that office who were with me discussing the issue were not comfortable to have the discussion with the partner. I could see a big gap – a big space between the managers and the partner. It may well be that this was due to hierarchical differences in that country. (...) But I can not believe that with this space, much discussion about work would take place. No knowledge sharing, coaching and discussion in two way process.

Cross-national cultural differences have been theorized to influence engagement partner involvement through the following cultural dimensions (based on House et al. 2004):

- Power Distance (negatively): Leaders from higher Power Distance cultures are shown to participate less in team work (House et al. 2004: 61).
- Institutional Collectivism (positively): Collectivism is positively related to team cooperation and an emphasis on cooperative team processes, which is, in turn, related to team performance (House et al. 2004: 457).

In summary, cross-national cultural differences are expected to relate to audit engagement partner involvement (as the relevant specification of working in fluid audit team) as follows:
### Cultural practices (House et al. 2004)

<table>
<thead>
<tr>
<th>Auditors’ behavior</th>
<th>Power Distance</th>
<th>Uncertainty Avoidance</th>
<th>Assertiveness</th>
<th>Institutional Collectivism</th>
<th>In-Group Collectivism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engagement partner involvement</td>
<td>–</td>
<td>+</td>
<td>.</td>
<td>+</td>
<td>.</td>
</tr>
</tbody>
</table>

“+” indicates an expected positive relationship between the variables; “–” indicates an expected inverse relationship; “?” indicates the direction of the expected relationship is indeterminate; and “.” indicates that no relationship is expected.

### 4.3.5 Communication and negotiation behavior

The significance of communication and interaction between the auditor and his/her client mainly surfaces in the process of discussion of audit observations and findings and the negotiation process of audit adjustments. Underlying that process is the trusted auditor-client relationship as the basis of openness and transparency of the client towards the auditor (audit information) on the one hand, and the loyalty and attachment in relation to the business relationship on the other.

Many of the international differences that auditors observe in practice circle around this “trust and attachment dilemma” and power asymmetry (leading to limited access to the client and higher inclinations to acceding to the client’s preferred position). Auditors observe distinct differences between countries where a trust-based relationship is more important than in other countries. On the one hand, such trust-based relationships would be needed to gain full access and openness of the client towards the auditor. For example, an auditor from a country that is high on Power Distance and (In-Group) Collectivism notes:

*In [such countries] interaction with other people is oftentimes not that direct, but first focused on relational aspects and building trust in relationships. (…) In an audit environment this would mean that relationships with clients in [this region] are closer and more interpersonal. To be able to do an efficient and effective audit in [this region] you first need to have a trusted relationship with your client and other people at the client. Without this close relationship clients would be less open, and it would not be as easy to get the information that you would need.*

Another auditor from a country low on Assertiveness and higher on Power Distance and (Institutional) Collectivism notes:

*The relationship of an auditor with a [client from such a country] is a very close relationship, a kind of friendship. (…) In real life in we may have closer relationships with clients than in other countries. In [this country] such a close relationship is necessary to deal with the client. (…) To build a strong and trusted relationship with your client, it would take you at least three years. So, in the first years, an auditor has to do a lot of extra work to overcome this gap.*
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How this impacts the communication and negotiation process of auditing illustrates the following example. Although this auditor was himself from the country, he experienced that strong and longstanding relationships are needed for full access to clients in his country:

I was a new engagement partner on a [...] client and experienced trouble communicating with this client. It was not that I was not allowed to communicate with the client, but it was more because the senior partner on the engagement had a very long and good relationship with that client.

Thus, auditors observe that such cultural traits as Power Distance and collectivism impede having genuine access to the appropriate levels at the client. As a globally operating auditor notes:

In most Western countries you would be playing at the CEO, CFO and board level. (...) [Country X] is probably the furthest behind, because they have a culture of not dealing at the highest level of a company, but are very beholden to lower management, and do not tend to stand up overtly to their clients. (...) You have to try to find a way to make nice.

Or as another auditor experienced when working in a high collectivistic and high Power Distance country:

The auditor doesn’t have access to the supervisory board, not even at the biggest clients. And that is a real problem, because the supervisory board actually is in charge and makes the decision - it’s not management that is in charge. (...) I.e., you just can not have the discussion with the real decision makers, so you can not ask the challenging questions.

Furthermore, these cultural traits lead to avoidance of confrontation and the use of indirect communication styles, as already seen with auditors’ professional skepticism. One auditor notes:

In [such a culture] everything is indirect. So saying ‘no’ is quite difficult. In [this culture] it is always ‘yes’, but it may well be that they just could not say ‘no’, although it is not going to work anyways. (...) The relationship is very important [here]. There is a strong level of loyalty.

Compared with countries lower on Power Distance and collectivism, this leads to differences in the way auditors interact with their clients’ boards. In more “Western” countries, people rather “tend to want to get everything out on the table, talk about it and resolve it. In other countries they tend to resolve differences otherwise, either in private or resolve it behind the scenes”.

Patel et al. (2002), who explained differences in auditor-client conflict resolution (or negotiation), found that Australian auditors (lower on Power Distance and Institutional Collectivism) are less likely to resolve audit conflicts by acceding (i.e., giving in) to clients than are Indian or Chinese and Malaysian auditors (higher on both cultural dimensions). Patel et al. explain this through:
the greater concern of people in Indian and Chinese Malaysian cultures with the maintenance of harmonious interpersonal relationships and the avoidance of conflict, the greater importance of hierarchical and status relationships in influencing interpersonal interactions and behavior, [and] judgments of ethical and unethical behavior [being] contextual rather than universal\textsuperscript{242} (Patel et al. 2002: 11-12).

Lin and Fraser (2008), in studying cultural differences in auditors’ negotiation process, confirmed these findings. They inferred that “auditors in low power distance and high individualism cultures [in their study, the UK] to be more resistant to client pressure than their peers in cultures characterized by high power distance and low individualism [in their study, China]” (Lin and Fraser 2008: 162).\textsuperscript{243} McKinnon (1984) concurs by reasoning that auditors in high Power Distance cultures may be less likely to question senior client personnel, more willing to acquiesce to the pressures of a powerful client and less willing to question the financial results developed by clients.

How such trusted auditor-client relationships in some cultures can turn to become an audit risk can be seen though the following “local deal” example based on an auditor’s experience:

\begin{quote}
In [country X] I sense that there is a little bit of a ‘local deal’ going on. The management and the local auditor are quite close together. They are quite remote from what is happening in the centre [group headquarters]. So, there is a little bit of mutual protection going on: I don’t get you into trouble, if you don’t bring me into any trouble. That is what I mean by weak auditing in [country X] for example. (...) So, our firm in [country X] now is in the dog house because they were just a little bit too friendly about the issues and they did not push hard enough.
\end{quote}

Another auditor recognizes this. “The other thing in [country X] is that people are not clear with the position of the head office. If the subsidiary has a problem they (…) try to deal with the issue from a local perspective and not from a group perspective”. A manager from the [country X’s] region explains it to be a real trust dilemma: “It’s really a friendly relationship, and open relationship. They tell you everything when they trust you”.

These observations are consistent with prior research. Individualism has been related to communication and reporting of audit findings. Under the individualistic, Anglo-American premise of the auditing standards, auditors are expected to report to

\begin{itemize}
\item Meaning that “people in these societies are more concerned with acting appropriately in the context, where the context includes considerations such as the relativities of the people involved, including hierarchical and power relativities, and relativities of family, friendship, and caste relativities” as opposed to “the emphasis on the individual and his/her independence [meaning that] judgments of ethical and unethical behavior (…) are likely to be based on the individual’s own perceptions of what is right or wrong, and, hence, less likely to be affected by what others may think or consider acceptable or unacceptable behavior” (Patel et al. 2002: 11-12).
\item “Auditors in collectivist societies may view the direct denial of client management demands as confrontational and the maintenance of close relationships with clients as particularly important” (Lin and Fraser 2008: 168).
\end{itemize}
management and the audit committee, for example, internal control weaknesses. However,

the international auditor from a collectivist culture may find it both insulting and
presumptuous to report to the audit committee on weaknesses in the client’s
internal control system. This is very private for the firm and not the responsibility
of an outsider to embarrass management with such information (Cohen et al. 1993:
6).

The (In-Group) collectivistic cultures centre around a principle of trust restricted to
insiders (McKinnon 1984: 24; House et al. 2004: 458). Where protection of the
interests of “society at large” is central to the individualistic auditing standards, the
collectivist perspective is focused on protecting the in-group, even at the expense of
the needs of the individual.

Cross-national cultural differences have been theorized to influence auditors’
communication and negotiation behavior through the following cultural dimensions
(based on House et al. 2004):

- **Power Distance (negatively):** People in higher Power Distance countries would
  have learned that it can be dangerous to question authority and express
disagreement. In lower Power Distance cultures, “subordinates approached and
critiqued their bosses [i.e., authority] quite freely” (House et al. 2004: 529).
- **Assertiveness (positively):** Assertiveness is associated with internal locus of
  control (“playing hardball”), to stand up overtly against a client and disagree, and
the ability to decisively express opposing opinions and decisions in acceptable
social behavior.
- **Institutional Collectivism (negatively):** People from collectivistic countries apply
  an avoidant, obliging, compromising, and accommodating conflict resolution
tactic. In contrast, people in individualistic countries tend to prefer direct and
solution-oriented resolution tactics.
- **In-group Collectivism (indeterminate):** Priority and trust is given to the in-group
  (as opposed to the out-group) for which personal sacrifices are made to fulfill
their group obligations, leading to openness and transparency in trusted
relationships. On the other hand, there is a fairly low level of trust among those
who are not part of their in-group (i.e., family or close friends), which lead to an
inclination to tightly control information, secrets, and power within the in-group

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244 Non-assertiveness is associated with more passive behaviour of people who allow themselves to be
dominated by others, who are subservient and tolerant, and who comply with request or demands of
others even if they themselves do not want to (based on House et al. 2004: 397-398). “In internal cultures
‘playing hardball’ is legitimate to test the resilience of an opponent and, in contrast, softness, persistence,
politeness, and patience are needed to succeed in external cultures” (House et al. 2004: 402).
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(House et al. 2004: 182, 186, 458). Problems and issues are rather solved within the in-group.

In summary, cross-national cultural differences are expected to relate to auditors’ communication and negotiation behavior as follows:

<table>
<thead>
<tr>
<th>Auditors’ behavior</th>
<th>Power Distance</th>
<th>Uncertainty Avoidance</th>
<th>Assertiveness</th>
<th>Institutional Collectivism</th>
<th>In-Group Collectivism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication and negotiation</td>
<td>–</td>
<td>.</td>
<td>+</td>
<td>–</td>
<td>?</td>
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</table>

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4.3.6 Documentation and justification

Auditors document and justify their judgments and decisions as part of their accountability to others. For a large part, auditors observe that documentation differences arise from differences in the litigiousness of the environment or the maturity and strength of the supervisory body. One auditor notes how pressure from the supervisor can lead to a focus on documentation, similar to pressure on compliance and rule observance: “They all are looking for boxes they can tick rather than judgments that they can check”.

But auditors also experience cross-national differences in auditors’ general skills and discipline in documenting their audit procedures, irrespective of the accounting organization’s or local documentation requirements. Differences observed relate, for example, to differences among auditors feeling generally comfortable or not with recording work performed and evidence obtained in writing: “Actually documenting is a different thing. It goes back to the same issues of hierarchy, loyalty, respect for authority. The staff will only communicate something in writing when they are absolutely forced to. They just don’t like it”. An auditor in a country that is high on (institutional) Collectivism and Power Distance and lower on Assertiveness and Uncertainty Avoidance relates this reluctance of documentation to the culture of his country:

Documentation used to be a problem in [such a country], both with staff and with partners. For example, when reviewing the staff’s work, they can answer all questions, but it is not in the file. [Here] people are not so used to record things in writing. (…) [This country’s] way of doing business is based on trust and close relationships. Many times a business starts without a contract.

245 People from countries that value In-group Collectivism and Uncertainty Avoidance as well, such as China, are expected to give even higher levels of importance to interpersonal trust, which results in a lack of trust outside the family or in-group (based on House et al. 2004: 613).
They base their business on the trusted relationship with their client—they trust each other. If you come into trouble, you just renegotiate with your client. Working on a contract is still very difficult. That is also why the documentation of evidence is difficult.

Interestingly, another auditor, reflecting on his experience in a country also high on Power Distance and lower on Uncertainty Avoidance and Assertiveness, notes the contradictory documentation and justification behavior with his audit staff:

There is a temptation to over-engineer, which goes back to their attitude towards rules and orders: I can’t be criticized if I just type and type and type, and when someone asks the question “have you done this?”, I can answer with “yes”, although I can’t see the wood from the trees. It looks impressive but I’m still not sure what has been done as I have to read through 16 pages of what you could have done in one. That’s an aspect of the culture over here.

So far, however, no research has been done on cross-national (cultural) differences in documentation and justification behavior of auditors. Cross-national cultural differences have been theorized to influence auditors’ documentation and justification behavior through the following cultural dimensions (based on House et al. 2004):

- Uncertainty Avoidance (positively): People in Uncertainty Avoidance countries would keep meticulous records, the writing and filing of memos and reports, as an uncertainty-avoiding ritual.
- Institutional Collectivism (negatively): Accountability and-/or responsibility in collectivistic cultures is oftentimes easily deferred to others within the group, leading to single individuals not considering themselves to be accountable or having to justify through documentation.

In summary, cross-national cultural differences are expected to relate to auditors’ documentation and justification behavior as follows:

<table>
<thead>
<tr>
<th>Auditors’ Behavior</th>
<th>Power Distance</th>
<th>Uncertainty Avoidance</th>
<th>Assertiveness</th>
<th>Institutional Collectivism</th>
<th>In-Group Collectivism</th>
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</thead>
</table>

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246 This trust-based way of working also impacts auditing procedures as such, as this auditor illustrates: “For example, one client had an issue on sales recognition. The auditor has to check on certain criteria to recognize the sale. Our audit approach requires evidence that we have seen the contract between the client and their customer. But the client does not have a sales contract.”
4.3.7 Dysfunctional behaviors

Auditors that I have spoken with in the early stages of the interview phase did not mention the issue of dysfunctional behavior at all. Also, while proactively asking about dysfunctional behaviors towards the end of some of the later interviews, the concept of dysfunctional behaviors was still not recognized (“It is so against every professional standard that exists!”) or was not perceived to differ internationally (“I have no indications to expect that dysfunctional behaviors, where there would be dysfunctional behaviors, occur more in one country than in the other”). Rather, interviewees believed dysfunctional behaviors to occur globally and not to be culture-driven or to differ cross-culturally. As one auditor notes: “I expect it to be pretty much the same everywhere. I have not seen much difference around the world. It happens in [country X], and I’m sure it happens in [country Y] too. It is more the practice of an individual trying to get the audit done”.

Prior research shows that cultural differences would exist in dysfunctional behaviors such as under-reporting of billable time or underperformance on the audit (e.g., performing less audit procedures that professionally required). Cohen et al. (1993, 1995) theorized the association of Hofstede’s cultural dimension of Individualism-Collectivism and Power Distance to dysfunctional behavior:

When higher power distance and collectivist characteristics describe the culture, subordinates will be likely to bend to the demands of their superiors (Cohen et al. 1993: 8). (...) For example, pressure on a subordinate to cover up a supervisor’s illegal action (such as accepting bribes) might be evaluated differently by Japanese than Americans because of cultural influences. While the American [low on Hofstede’s collectivism dimension] may interpret this pressure as coercion, a Japanese [high on Hofstede’s collectivism dimension] may participate more willingly in a cover-up to protect the reputation of the group, and such a cover-up might not be perceived as unethical (Cohen et al. 1995: 44).

This may lead to audit staff cutting corners or under-reporting time to complete the audit within budget. Cohen et al. (1993: 9) furthermore hypothesized that future orientation impacts dysfunctional behavior (auditors cutting corners) due to a short-term focus on billable hours and budgets.

Arnold et al. (2002) have successfully associated Hofstede’s Individualism construct with European auditors’ propensity to prematurely sign off audit steps (higher propensity with higher Individualism). That is to say, higher Individualism would lead to more dysfunctional behavior in terms of underperforming audit tasks.

Cross-national cultural differences have been theorized to influence auditors’ dysfunctional behaviors through the following cultural dimensions (based on House et al. 2004):

- Uncertainty Avoidance (negatively): People from Uncertainty Avoidance cultures would have strong values against breaking rules. They value conformity to the rules, guidelines and procedures, and discourage deviation from the rules.
Assertiveness (positively): People in non-assertive countries emphasize integrity, loyalty, and cooperative spirit. People in assertive cultures are found to behave more opportunistically, which also affects people’s inclination to bend the rules.

Institutional Collectivism (negatively): Individuals higher on Institutional Collectivism are more likely to conform and cooperate with the organizational structures, measures, and codes of conduct.

In-Group Collectivism (indeterminate): higher Individualism has been associated with social loafing and shirking (i.e., behavior that diverges from the interests of the team as a whole). However, research also shows that people in collectivistic societies make distinctions between the in-group and the out-group, where individuals apply less social loafing if they are working with in-group members as compared to working with out-group members (based on House et al. 2004: 456). In in-group collectivistic countries “the rules are subject to constant reinterpretation depending on the particular facts” (House et al. 2004: 186).

In summary, cross-national cultural differences are expected to relate to auditors’ dysfunctional behavior as follows:

<table>
<thead>
<tr>
<th>Cultural practices (House et al. 2004)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditors’ behavior</td>
</tr>
<tr>
<td>Dysfunctional behaviors</td>
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</table>

“+” indicates an expected positive relationship between the variables; “−” indicates an expected inverse relationship; “?” indicates the direction of the expected relationship is indeterminate; and “.” indicates that no relationship is expected.

4.3.8 Audit pricing and practice development

Auditors do observe differences between countries in practice development, audit pricing and reputation management, but do not perceive that these differences are directly driven by culture. Rather, auditors point to differences in the local audit and business environment that lead to differences, such as:

- The size and nature of the audit practice and client base. For example, small business environments with a limited number of potential clients, or a practice comprising a large number of smaller clients, and the competitiveness of the market;
- The public regard for the audit profession. This would impact the effectiveness of the audit, as one auditor explains: “They always said in [country X] for example, auditors had a great deal more respect than anywhere in the world. They were considered to be of a higher social status, and hence, might stand up to clients more. (…) In [country Y] they are obviously not very highly regarded, which obviously impacts how effective you can be as auditor”;

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- Enforcement ("It are the regulators that very much determine the structure of the auditing profession") and the litigiousness of the environment. "We have a very litigious society in [country X]. My personal feeling is that this is way over the top. You have people suing other people because they spill a cup of hot coffee over their lap. That is the famous McDonald’s case over here, of the woman who spills a cup of coffee on her lap, sues and collects money, because the coffee is too hot";

- The business environment, including the capital markets and dominant corporate governance structures, for example: "Large state owned enterprises have a very different view on the world and a different belief on how the auditor should treat them";

- The educational level of audit staff: "The level of education of auditors differs a lot around the world. [Our firm’s] global audit training does narrow this difference to a certain extent, but not enough for a global client’s group auditor to rely on a consistent level of audit execution around the world";

- The state of technological development, in relation to the structure of the audit, for example. "We definitely have territories that are behind in implementing [the standard audit methodology] because they are behind in technology. (...) How can they keep up with the latest changes in the standards? They would probably not be using the latest version of [audit guidance and templates], which have the latest references to the ISAs".

That no cultural differences are perceived in practice development and audit pricing may well be due to money being considered to be of universal value — a human incentive that auditors perceive to apply universally, and that which impacts the behavior of auditors universally too. This is a phenomenon that auditors find to be present everywhere and within each individual. It is perceived as being one of the basics in human nature, a true driver of the bad side in a person when the opportunity and incentives present themselves (e.g., greed). As one auditor cynically said: "Money makes the world go round". Or another: "In our firm economics drive behavior". And auditors note that these pressures are mirrored in auditors’ clients as well.

Although some notable cross-country (structural contingency) comparison research was done with respect to audit pricing (e.g., Choi et al. 2008), to date no scholars have taken a cultural anthropological perspective. The same goes for practice development and management, except for the study of Cohen et al. (1993). They hypothesized (but did not test) that auditors in countries that are culturally short-term focussed more on (short-term) billable hours and financial results. Regarding reputation and status of the audit firm and the profession, some research found cross-country differences in the maturity or recognition of the audit profession (see § 4.1), but no scholars have studied cross-national cultural differences impacting the reputation of auditing.

247 Such as Russia, Morocco, and many of the Latin American and Latin European countries.
248 Cohen et al. (1993) expect that short-term orientation may lead to “the local office of the firm to cut back on employee training and development, all of which will be detrimental in the long term (...) [and] could lead auditors to be overly aggressive in soliciting clients in order to support a socially desirable lifestyle” (Cohen et al. 1993: 9).
Also, cross-cultural research in general has not studied how cross-national cultural differences would influence practice development, audit pricing, and management reputation. Consequently, no propositions are presented in relation to culture and practice development.

<table>
<thead>
<tr>
<th>Auditors’ behavior</th>
<th>Power Distance</th>
<th>Uncertainty Avoidance</th>
<th>Assertiveness</th>
<th>Institutional Collectivism</th>
<th>In-group Collectivism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practice development</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
</tr>
</tbody>
</table>

“+” indicates an expected positive relationship between the variables; “–” indicates an expected inverse relationship; “?” indicates the direction of the expected relationship is indeterminate; and “.” indicates that no relationship is expected.

4.4 Conclusion: a grounded theory on cross-national cultural difference in auditors’ behavior

The question central to this chapter was:

Is auditors’ professional behavior expected to be affected by cross-national cultural differences, and, if yes, how is it expected to be affected?

Based on the analysis of the interviews, observational notes, and review of prior research, the following grounded theory-based propositions on the association between cross-national differences in the professional behavior of auditors and cross-national cultural differences are formulated in the answer to this question:

- Cross-national differences in auditors’ professional behavior are affected by cross-national cultural differences.
- Auditors’ professional behaviors that are most severely affected by cross-national cultural differences are: skeptical judgment and decision-making, risk assessment and response, judgments related to probability phrases, knowledge sharing and consultation, and engagement partner involvement.
- Auditors’ professional behavior is predominantly negatively affected by cross-national cultural dimensions of Power Distance, Institutional Collectivism, and In-group Collectivism. This means, for example, that auditors in high Power Distance cultures are expected to be less likely to share knowledge and consult.
- Auditors’ professional behavior is predominantly positively affected by cross-national cultural dimensions of Uncertainty avoidance and Assertiveness. This means, for example, that auditors in cultures that are characterized by high Uncertainty Avoidance are more likely to share knowledge and consult.
This proposition is detailed as follows:

<table>
<thead>
<tr>
<th>Auditors’ behavior</th>
<th>Power Distance</th>
<th>Uncertainty Avoidance</th>
<th>Assertiveness</th>
<th>Institutional Collectivism</th>
<th>In-Group Collectivism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decision-making performance</td>
<td>–</td>
<td>–</td>
<td>+</td>
<td>–</td>
<td>.</td>
</tr>
<tr>
<td>Ethical decision-making</td>
<td>–</td>
<td>+</td>
<td>–</td>
<td>+</td>
<td>–</td>
</tr>
<tr>
<td>Risk awareness and response</td>
<td>.</td>
<td>+</td>
<td>–</td>
<td>–</td>
<td>.</td>
</tr>
<tr>
<td>Conservatism in probability phrases</td>
<td>.</td>
<td>+</td>
<td>.</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td>Skeptical judgments and decisions</td>
<td>–</td>
<td>.</td>
<td>+</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Knowledge sharing</td>
<td>–</td>
<td>+</td>
<td>+</td>
<td>–</td>
<td>?</td>
</tr>
<tr>
<td>Consultation</td>
<td>–</td>
<td>+</td>
<td>.</td>
<td>?</td>
<td>–</td>
</tr>
<tr>
<td>Engagement partner involvement</td>
<td>–</td>
<td>+</td>
<td>.</td>
<td>+</td>
<td>.</td>
</tr>
<tr>
<td>Communication and negotiation</td>
<td>–</td>
<td>.</td>
<td>+</td>
<td>–</td>
<td>?</td>
</tr>
<tr>
<td>Dysfunctional behaviors</td>
<td>+</td>
<td>–</td>
<td>+</td>
<td>–</td>
<td>?</td>
</tr>
<tr>
<td>Practice development</td>
<td>.</td>
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<td>.</td>
<td>.</td>
<td>.</td>
</tr>
</tbody>
</table>

“+” indicates an expected positive relationship between the variables; “–” indicates an expected inverse relationship; “?” indicates the direction of the expected relationship is indeterminate; and “.” indicates that no relationship is expected.

The cultural practices are related to (see Chapter 3 of this thesis) Power Distance (PD), Uncertainty Avoidance (UA), Assertiveness (ASS), Institutional Collectivism (Inst.C), and In-group Collectivism (Gr.C) (House et al. 2004).

Table 2 – A grounded theory on the impact of cross-national cultural differences on auditors’ professional behavior