Accounting Horizons
Vol. 7 No. 3
September 1993
pp. 1-13

Culture-Based Ethical Conflicts Confronting Multinational Accounting Firms

Jeffrey R. Cohen, Laurie W. Pant, and David J. Sharp

Jeffrey R. Cohen is Associate Professor at Boston College, Laurie W. Pant is Associate Professor at Suffolk University, and David J. Sharp is Assistant Professor at the University of Western Ontario.

SYNOPSIS: The mergers and the international expansion of the Big Six firms have created a new class of problems for their management. Local partners must not only continue to meet the diverse needs of local clients with improved service levels in response to the higher level of competition; they must now, in common with managers of other multinational businesses, also address the problem of global coordination. This is not just a matter of providing a seamless, high quality international audit service to their global clients. It includes the worldwide management of the standardization of activities such as the audit process, hiring and promotion criteria, and implementation of the firm's code of professional conduct at the local level in a wide diversity of cultures.

This paper uses Hofstede's (1980, 1991) measures of national culture to provide a framework for identifying ethical problems arising from cultural differences in international audit practice. A wealth of anecdotal evidence supports the view that auditors in different countries have different ethical perceptions and standards. For example, McKinnon (1984) describes the conflict experienced by Japanese external auditors who had to pressure clients for access to financial information previously considered private. To help ensure optimal audit quality as well as the highest possible ethical behavior, multinational accounting firms need to manage a diversity of standards and practices.[1] The purpose of this paper is to integrate cross-cultural issues and ethics by using Hofstede's (1980, 1991) widely accepted measures of cultural differences (Harrison 1992; Frucot and Shearon 1991; and Lee and Green 1991) to identify cross-national problems in auditor ethical decision-making. The focus of this paper is to highlight the cultural factors that influence auditors' ethical perspectives regarding questionable client behavior. A systematic knowledge of the differences in professionals' ethical sensitivities and the way ethical choices are made would be invaluable for formulating guidelines for a firm-wide ethical policy. It also could provide international firms with a framework with which to identify potential ethical problem-areas in specific countries.

We first briefly examine the possible influence of international cultural factors on ethical perceptions and then review professional ethics in the international accounting profession. Next we explore the relationship between Hofstede's (1980, 1991) measures of culture, and ethical issues pertinent to auditing. We present examples of culture-based ethical conflicts and consider their implications for effective control of ethical behavior in international auditing firms. The paper concludes with suggestions for enhancing effective control systems in international auditing firms.

[1]For example, Purvis et al. (1991) describe the difficulties encountered by the International Accounting Standards Committee (IASC) project to develop comparability of financial standards across countries.

We gratefully acknowledge the helpful comments of Theresa Hammond, Gil Manzon, anonymous reviewers and several current and former members of multinational accounting firms who asked to remain anonymous. This manuscript was the recipient of the 1992 best international accounting paper award sponsored by the Association of Chartered Accountants in the United States.

CROSS-CULTURAL DIFFERENCES IN ETHICAL PERCEPTIONS

Several researchers have found cross-national differences in ethical reasoning in a business context. Becker and Fritsche (1987) in a mail survey of managers from France, Germany and the United States compared attitudes towards corporate codes of ethical conduct and towards a series of statements concerning the ethics of current business practices. Some of the more interesting inter-country differences were that the French had more faith that a formal code of ethics would ensure ethical behavior than did the American and German samples, and that the German sample was most likely to believe that the spiritual and moral consequences of a decision were not the concern of a business person. Dubinsky et al. (1991) investigated the differences in ethical perceptions among American, Japanese and South Korean industrial sales people. Using a unidimensional ethical perception measure, they found significant differences among the three groups, and suggested that they might be attributable to national differences in work environments, which in turn might reflect cultural differences. For example, the U.S. salespeople in general found the scenarios to contain less ethical conflict than the Japanese or Koreans. The U.S. subjects also felt a greater need for explicit written policies to address ethical dilemmas.

Langlois and Schlegelmilch (1990) compared the content of American and European (French, British, and West German) corporate codes of conduct. Treating "Europe" as a single culture, they found that European companies stress the right of codetermination and a sense of belonging and responsibility (familial-type relationships) while American codes stress fairness and equity. Tsalikis and Nwachukwu (1991) compared Nigerian and American business students' views on bribery and extortion and also found significant cross-national differences. They also investigated within-country differences and found that respondents' perceptions of the immorality of an action was a function of the nationality of the actor relative to the nationality of the respondent. For example, the Nigerian sample viewed as more unethical a bribe given and/or received by a foreigner than one given and/or received by a local national. Thus, a review of the cross-cultural literature suggests that there are international differences in perceptions of what constitutes ethical. We will now turn to how ethics has been addressed in the international accounting domain.

INTERNATIONAL ACCOUNTING ETHICS

The restructuring of the profession has led to increased competitive pressures in both the United States and abroad, promoting responses such as aggressive pricing strategies (e.g., lowballing) and diversification into nontraditional areas such as consulting, which raise the possibility of threatened auditor independence (Warren and Wilkerson 1988; Auditing Practices Board 1992). These changes present multinational firms with new and unfamiliar ethical dilemmas within a variety of local auditing and financial reporting standards.[2] The International Federation of Accountants (IFAC) has recognized the need to confront ethical issues among accountants by adopting a proactive approach to ethics with its promulgation of the "Guideline on Ethics for Professional Accountants" (1990) and the Exposure Draft on "Professional Ethics for Accountants: The Educational Challenge and Practical Application" (1992). The following excerpt from IFAC's proposed guideline on education speaks to the profession's recognition of the centrality of ethics to accounting:

---

[2]It is true that many public accounting firms have been operating internationally for years and have established audit procedures. For example, in conversation with one author, a partner in one Big Six firm stated that firm-wide audit policies were developed by an internal international committee. Some of the initial positions on audit requirements that were derived for their U.S. practice have been relaxed to become more general where those rules are in conflict with or unnecessarily restrictive in comparison to local requirements. The responsibility for implementation and review of these procedures lies with U.S. management — the group perceived to follow the strictest requirements for attestation.

> Professional accountants today have an increasing role in decision making. This applies whether they are working in public practice, in industry or commerce, in the public sector or in education. They operate in a world of change in which corporate collapse, business impropriety, regulatory failure and environmental disaster are prevalent.
>
> In such an environment, accountants need to have a thorough appreciation of the potential implications of professional and management decisions and an awareness of the pressures of observing and upholding ethical standards which may fall on individuals involved in the decision making process. (IFAC 1992, 1-2)

Both the IFAC guidelines on ethics and its exposure draft on education recognize the diversity of worldwide practice and are designed to help auditors play a critical role in reducing fraudulent financial reporting. IFAC's guideline on education recognizes that solutions to the educational challenge will be reached locally, and therefore, differentially implemented. However, the guidelines make no explicit recognition of the worldwide diversity of cultures and ethical views and standards, but begins immediately to discuss the need to bring firms' professionals up to speed regarding ethical issues. We note that the firms' top management and the profession's standard setters are unlikely to be fully sensitive to international and cultural differences. Given the recent rapid internationalization of firms, management of these auditing firms need more information on the nature and extent of international ethical diversity in order to adequately control for such differences. Varying socioeconomic and cultural factors within an international auditing context (Cohen et al. 1992), have made the control of an international auditing firm more complex. Hofstede's measures of national culture provide a useful structure for understanding these complex issues.

HOFSTEDE'S MEASURES OF NATIONAL CULTURE

Hofstede (1980) defined culture as the collective mental programming that distinguishes one group from another. The programming manifests itself in the values and beliefs of a society. Values are the tendency of an individual to prefer certain states of affairs over others. For any number of social behaviors, societies put different weights on different outcomes. Often these factors require a "guns or butter" tradeoff, and elements in the society are strongly anchored to preferences for one outcome over the other. Hofstede argues that the level at which preferences find their equilibrium is culturally determined. In his study of 116,000 IBM employees from over 50 nations conducted over several years, Hofstede identified four work-related values that differed systematically across cultures. He labeled these Uncertainty Avoidance, Individualism-Collectivism, Masculinity-Femininity, and Power Distance. These cultural dimensions have proven useful in cross-cultural studies in accounting (Harrison 1992; Frucot and Shearon 1991; Soeters and Schreuder 1988). Subsequent research reported by Hofstede and Bond (1988) identified a fifth cultural dimension, Short Term/Long Term orientation. We will first explain each of the five dimensions and, in turn, discuss how they affect the effective implementation of an auditing firm's worldwide codes of ethical conduct.

UNCERTAINTY AVOIDANCE

Uncertainty avoidance measures the way cultures face an unknown future with differing anxiety levels, need for security, and dependence upon experts. Hofstede describes an individual's high intolerance of ambiguity by "tendencies toward rigidity and dogmatism, intolerance of different opinions, traditionalism, superstition, racism, and ethnocentrism" (Hofstede 1980, 155). Society's response to ambiguity is exhibited by attempts to reduce the level of the unknown through extending the domains of technology, law, and religion. In work-related situations, the need for predictability, rules, and job stability indicates strong uncertainty avoidance.

Hofstede argues that the response of organizations and individuals is less related to an absolute or objective level of uncertainty in a situation than to perceptions about the level of uncertainty. For organizations, the environment is perceived as the source of uncertainties. A firm's response to these uncertainties is operationalized through technology, rules and rituals. Technology attempts to create known patterns of activities in physical processes. Rules and regulations try to make an individual's behavior predictable and in accordance with a set of values. Rituals (e.g., management development programs or the omnipresent business meetings) support social cohesion, can serve as initiation rites and support the values of the participants. Hofstede includes within the category of rituals such organizational activities as the organization's planning and control systems, variance analysis, memo writing, and the use of respected outside experts.

ETHICAL IMPLICATIONS OF UNCERTAINTY AVOIDANCE

Hofstede's measure of uncertainty avoidance (UA) includes three elements: rule orientation, employment stability, and stress. For the accounting profession, rules are of the upmost importance. Cushing and Loebbecke (1986) found that large accounting firms' audit methodologies differed along a "structured-unstructured" dimension. For example, highly structured firms provide extensive rules and guidelines for materiality judgments (consistent with strong uncertainty avoidance) while unstructured firms provide much fewer guidelines.

Hofstede examined whether members of different cultures believed that company rules should be broken — even when doing so would be in the company's best interests. This captures an individual's willingness to tolerate the ambiguity of outcomes when going beyond the rules, and is related to at least two auditing issues. The first is the form versus content debate over whether an auditing rule should be followed literally, or whether the underlying intent of the rule should be interpreted and implemented when the intent is at odds with the existing operationalization of the rule. In the US auditing environment, this conflict has been raised in regard to the auditor's role in the S&L crisis. A second issue surrounds any apparent conflict of interest situation. Questions about providing or receiving other services beyond the audit (e.g., providing MAS services, accepting home mortgage loans from an S&L audit client) are thought to be at the boundaries of conflict of interest. Disagreement with a rule-orientation approach would indicate a higher tolerance for ambiguity — it is acceptable, even appropriate, to break company rules on occasion if doing so is in the company's and/or society's best interest. Interestingly, in strong uncertainty avoidance cultures Hofstede argues that rules can bestow an aura of "truth" which excludes the possibility of other truths.

In the international auditing environment, the uncertainty avoidance construct has particularly interesting implications for ethical decision making. The profession's focus is on objective reporting of financial results. The rapid innovation of complex business and financial transactions has developed faster than accounting rule-makers have been able to respond to them (e.g., software development, cross-border financing contracts). This lag results in inadequate or nonexistent accounting rules leading to an even greater dependence on auditor judgment. Auditors from cultures with a higher tolerance for ambiguity (including Denmark, Great Britain, the US, and Sweden with weak uncertainty avoidance scores) should be more likely than auditors from cultures having strong UA scores (e.g., Greece, Portugal, Japan) to focus on the content of the issue rather than on the form alone. In contrast, countries with strong uncertainty avoidance have an "[e]motional need for rules, even if these will never work" and have a high "resistance to innovation" (Hofstede 1991, 125). For example, in complicated issues over mergers or joint ventures, auditors from strong UA cultures such as in Latin and South America are more likely to be satisfied by following existing rules. But, more importantly, this use of a "black and white" lens approach that defines what is unacceptable as only that which has been explicitly prohibited is an issue for concern. In these cultures, the absence of existing rules may make complying with a client's aggressive approach to financial reporting more acceptable for auditors.

To illustrate this, consider the case of a US auditor of a US manufacturer whose Italian agent earns a $200,000 commission for making a sale in Italy.[3] Suppose that the principal of the agency is a 100 percent owner and asks that the commission be paid to a personal Swiss bank account. It might be suspected that the purpose of the payment arrangement is to avoid paying Italian income taxes. The owner is probably neither paying the incurred taxes nor properly reporting the marketing firm's financial results, both illegal in Italy. Often the laws of neither the client's nor the auditor's country specifically address how they should react to the conflict. It is highly likely that members of a strong UA culture would interpret the absence of a rule forbidding this transaction as a license to accept it. In general, auditors from strong UA cultures are more likely to equate "legal" with "ethical" responsibilities. In contrast, when specific legal sanctions are missing, those in low UA cultures might apply a broader ethical framework to decisions and refrain from questionable actions even if they were legal.

A similar case can be made for areas of apparent conflict of interest for auditors. When no precise rule regarding a specific behavior exists, the auditor from a strong UA culture may find it easier to accept the client's behavior. Third-world software piracy provides an interesting illustration. Consider a local audit client who pirates a product and then uses it in a production process. An auditor from a strong UA culture will look for rules — in this case, the Berne Convention, an international agreement on copyrights under which copying is illegal. However, in countries that have not signed the Berne Convention, piracy is not necessarily illegal. If the auditor of this firm also audits the software firm whose product was copied, what is the auditor's responsibility? This problem already exists for auditors of some Pacific Rim manufacturers. For example, close imitations ("knockoffs") of toys, clothes, and electronics are not always prohibited by local law. An audit firm could find itself being engaged by two clients, the creator of the product and an Asian imitator. Local auditors in strong UA countries would likely have few qualms about working for and advising both firms. In contrast, auditors from weak UA cultures would probably experience a conflict of interest in maintaining both clients or in remaining with the imitator client.

INDIVIDUALISM

Individualism describes the way an individual relates to and lives within his/her society. A good example illustrating differences in individualism is the nature of the family unit. Individualist societies such as those in the US and Europe live in nuclear families, while collectivist societies in many African or Asian countries live around extended families, clans, or tribal units. This relationship of the individual to the group results in behaviors and values which in turn affect the society's other institutions including education, religion, and politics. The central value is captured by how the individual thinks of him/herself as an individual relative to the group. Hofstede uses the illustration of religious conversion to capture this individualist/collectivist dimension. In western societies, the choice to change religions is totally personal. However, in more collectivist cultures, conversion is a step taken by a family or a tribe. In general, Hofstede found that wealthier countries tend to be individualist while poorer countries tend to be collectivist in orientation.

ETHICAL IMPLICATIONS OF INDIVIDUALISM

Of all five constructs, individualism is the most highly associated with moral values in American society (deTocqueville 1956). Hofstede (1991, 58) notes that in individualist cultures, speaking one's mind is a virtue, and confrontation to achieve a higher truth is a praiseworthy goal. In contrast, in collectivist societies, it is considered rude and unde-

[3]This example and aspects of several others described here were suggested in a conversation with one international audit partner of a Big Six firm.

sirable to confront another individual. Anglo-American countries are especially individualistic (in fact five of the six most individualistic of the over 50 countries in Hofstede's study are the US, Australia, Great Britain, Canada, and New Zealand). The Anglo-American perspective on auditing is a good illustration of individualism. Independence, that is, freedom from the influence of others, is a cornerstone of the Anglo-American audit. For example, maintaining freedom from the potential conflict of interest associated with being paid by the client is among the first topics of every basic Anglo-American auditing course. The implication is that all clients should be treated in the same fashion with no favoritism being shown. In contrast, in a collectivist society, preferential treatment is always extended to the ingroup, thus apparently imperiling the Anglo-American notion of independence.

In an organization, individualism is exhibited in the degree of dependence of members on their organization, and, in turn, the level of the organization's responsibility for its members. For multinational audit firms, this leads to an interesting conflict in collectivist countries. The scores of the US and Canada on the individualist-collectivist dimension are at the individualist end, while Japan lies towards the collectivist end. The "up or out" policy prevalent in most US and Canadian public accounting offices can cause conflicts with the expectations of employment longevity in collectivist societies such as in Japan. In addition, collectivist cultures like Japan place a high value on conformity to group norms. A Japanese individual would be much more likely than an American or Canadian to understate the importance of his or her own efforts in order to promote group harmony. This difference in cultural values has consequences for ethical behavior. 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 or Canadians because of cultural influences. While North Americans may interpret this pressure as coercion, Japanese may participate more willingly in a cover-up for communitarian motives - to protect the reputation of their group. This behavior was evident in recent (1991-1992) financial services scandals that included the largest investment banking firms in Japan.

As noted earlier, the Individualist/Collectivist dimension is particularly important in regard to the notion of independence. In the Anglo-American tradition, auditors are expected to ask tough questions of management and to report to them when the review of the organization indicates control weaknesses. The strong independence-based focus of North American audit tradition is exemplified by auditing's adherence to principles and society's expectation that its interests are protected only when the auditor blows the whistle — at least to management, or to the next auditor when there is a resignation from the audit. However, auditors from collectivist countries may react negatively to being told they have to request a representation letter from management.[4] Implicitly questioning management's integrity by asking the client to assure the auditor that the company's financial records are kept accurately and that an effective internal control is in place may be difficult within the auditor-client relationship in collectivist cultures. Further, 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. In contrast, the Anglo-American auditing tradition would look at an excessively close relationship between the auditor and management as totally contrary to protecting society's interests. This perspective would contradict the collectivist approach which is focused to protect the group from the outsider, even at the expense of the needs of the individual. In fact, Hofstede (1991, 62) argues that not treating an ingroup member better than someone from an outgroup would

[4]This example was suggested by a former manager in a Big Six international accounting firm.

be considered immoral in collectivist societies.[5]

MASCULINITY

The predominant socialization pattern of sex roles for most societies is for men to be more aggressive and for women to be more nurturing. Men, it is argued, translate this distinction into a need for achievement exhibited in winning, advancement, and higher earnings. Managers are expected to be decisive and if conflicts arise, they resolve them by fighting it out. In contrast, women's interests lie in relationships, rendering service, and attention to the environment. Moreover, female managers stress building consensus and resolving conflicts by compromise and negotiation. The ranking of a culture as more or less masculine is a function of the degree to which both sexes tend to prefer the more masculine goals. Out of 50 countries, Hofstede (1991) found Japan to be the most masculine while Sweden was the least masculine (the US was ranked 15th, Canada 24th, Great Britain 9th, Australia 16th).

ETHICAL IMPLICATIONS OF MASCULINITY

Because masculine-style behavior is usually more aggressive, there are important implications of the masculinity dimension for international ethical issues in the auditing profession. Hofstede argues that the mapping of the organization's goals (to get ahead, to make money) over the male manager's goals suggests that poor managers are those that are caring or non-aggressive. This translates into an implicit bias in performance evaluation against female managers. This bias is exacerbated internationally by an even greater emphasis on gender differentiated jobs. Hofstede's findings indicate that in more masculine countries, the values held by men and women in the same occupation tended to be different from the corresponding groups in the less masculine countries. Both the public accounting firm and the male auditors' goals and behavior are likely to be more aggressive, while the female auditors are likely to have goals and behaviors based on different values that emphasize more cooperative non-confrontational behavior.

Gilligan (1982) posits that gender differences may affect ethical perceptions. Rosner (1990) discusses how women professionals differ from their male counterparts because they encourage participation, sharing power and information, and enhancing other people's self-worth. Betz et al. (1989) argue that gender socialization implies that women stress doing tasks well, promote harmonious relationships, and put less emphasis on competition among their colleagues. In a study of graduate business students, Betz et al. found that men were more likely than women to be interested in money, power, and rank in an organization, and that this gender socialization resulted in different evaluations of unethical behavior. Similar results were found by Whipple and Swords (1992) in a comparison of US and UK management students. Harris (1990) in a study of professionals in one service organization also found that women are significantly less tolerant of unethical behavior that promotes their self-interest than men are. Cohn (1991) noted that problems confronting upwardly mobile women accountants in Australia include a lack of access to networking, the notion that grey-haired women accountants will not be respected, and that men and women view success differently. This literature suggests that women will be less likely than men to be assertive and to "toot their own horn." As a result of the differences in gender socialization, local public accounting firm partners might be reluctant to hire, evaluate positively, and promote women in their offices. These gender differences have ethical implications for the accounting firm's control sys-

[5]However, for collectivist societies, the very familial nature of the group has its own correcting mechanisms. The family serves not only to protect individuals, but also to discipline them. Aberrant behavior is modified by pressure from the other group members through the notion of "shame" which invokes the ingroup's sense of honor. Perhaps a future study could examine the relative effectiveness of an audit conducted in a collectivist culture in which independence is apparently compromised from an Anglo-American perspective.

tem. Should the firm impose gender equality in local offices of high masculinity countries? Further, do high masculinity country gender biases create barriers against women looking for international assignments to strengthen their promotion potential?

POWER DISTANCE

Power distance describes the extent to which a society deals with human inequality in physical and mental characteristics, fame, wealth, power, and laws. Hofstede argues that people exhibit a pattern of dominance in the social order across cultures. However, the responses of cultures range from fairly formal systems of dominance in high power-distance cultures to elaborate attempts to de-emphasize dominance.

Within organizations, differences or inequality of ability and of power are accepted as functional. Hierarchies are the vehicle for assigning responsibilities and evaluation of the performance of those responsibilities. Hofstede argues that the boss-subordinate relationship is a function of objective realities (each party's expertise, the history of the relationship, and the nature and importance of the task at hand) and the culture's equilibrium between the subordinate's effort to reduce the inequality, and the boss' efforts to maintain or enlarge it. Hofstede defines power distance as "a measure of the interpersonal power of influence between B (boss) and S (subordinate) as perceived by the less powerful of the two" (1980, 98). For example, one of the questions included in this scale was "How frequently, in your experience, does the following problem occur: employees being afraid to express disagreement with their managers?" (1991, 25). The implication for such accepted tenets of US organizational control as participatory budgeting is quite evident. An attempt by a multinational public accounting firm to impose participatory budgeting in a high power distance country is likely to fail.

ETHICAL IMPLICATIONS OF POWER DISTANCE

One ethical aspect of this cultural dimension relates to the acceptability of a subordinate's obedience to a superior when told to perform unethical procedures. The US scores fairly low on Power Distance, and most western European countries (with the exception of France, Portugal and Spain) are also in the bottom half of Hofstede's Power Distance ranking. This unwillingness to accept large inequality of power is consistent with the need for auditors to exhibit high ethical standards even in the face of pressure from a superior. The attest function is predicated on the notion that auditors are not intimidated by large, wealthy clients, and can be independent from the client who pays them. The auditor must be able to insist when necessary on specific accounting treatments. In contrast, in high power distance countries (e.g., many Asian and African countries), a local auditor may have more difficulty resisting pressures from powerful and wealthy clients. As Hofstede wrote of High Power Distance countries, "Scandals involving persons in power are expected, and so is the fact that they will be covered up. If something goes wrong, the blame goes to people lower down the hierarchy" (1991, 38).

Hofstede found a strong correlation between high power distance and collectivism especially in Latin and Asian countries. (Hofstede argues that the dimensions are distinct when economic development is controlled for. Richer countries may exhibit strong individualism but moderate to weak power distance.) When higher power distance and collectivist characteristics describe the culture, subordinates will be likely to bend to the demands of their superiors .

The organizational structure of most accounting firms is pyramid-shaped, a power distance-enhancing format. Auditors are subject to pressure from their superiors. One common pressure is the need to complete an audit within budget and perhaps underreport the actual hours for an audit (Ponemon 1992). To the extent that this also creates incentives to curtail some audit procedures when judgment is necessary, a clear ethical problem exists. In countries where power distance is high, the subordinate is even more likely to feel compelled to acquiesce to a superior's request to either underreport or underperform the extent of audit work.

SHORT-TERM/LONG-TERM ORIENTATION (CONFUCIAN DYNAMISM)

A fifth cultural dimension emerged from a replication of Hofstede's (1980) study conducted with the view to eliminate its Western bias. Michael Bond, a colleague of Hofstede's, used Chinese social scientists from Hong Kong and Taiwan to develop a Chinese value survey (Hofstede and Bond 1988). Using 100 students (50 male and 50 female) in each of 22 countries, three of the dimensions described earlier also emerged from this survey. Uncertainty avoidance did not. Hofstede equates uncertainty avoidance with a search for truth and conjectures that for some societies, this search is not relevant. In its place, Bond's study revealed another dimension, a long-term versus a short-term orientation to life. The long-term perspective was reflected by a willingness to subordinate oneself for a group, ordering and observing relationships by status, thrift, perseverance towards slow results, and having a sense of shame. The short-term orientation exhibits social pressure to "keep up with the Joneses," protecting one's "face," respect for social and status obligations, reciprocation of greetings, favors, and gifts, and an expectation for quick results. Bond describes this dimension as Confucian because most of the values on both ends of the scale reflect the teachings of Confucius.

Organizationally, this dimension provides insight into the current concern over problems of US competitiveness related to a short-term focus of management and financial markets. Hofstede and Bond even suggest that it is no coincidence that the "Five Dragons" (Hong Kong, Taiwan, Japan, South Korea, and Singapore) score in the top nine countries having a long-term orientation (with Thailand — the country that has led the world in GNP growth during 1988 to 1990 — as another). They argue that the confluence of this long-term orientation with the correct economic and political conditions makes the economic miracle in these countries very understandable.

ETHICAL IMPLICATIONS OF LONG-TERM/SHORT-TERM ORIENTATION

From an ethical perspective, this dimension could manifest itself in the need to reach short-term earnings. For example, if a multinational accounting firm rewards billable hours in short-term orientated cultures, auditors might have to cut corners to achieve this figure (Marxen 1990; Alderman and Deitrick 1982). This short-run orientation could lead the local office of the firm to cut back on employee training and development, all of which will be detrimental in the long run. This is an ethical concern as well as a behavioral issue because the notion of competence is embedded in all codes of professional conduct. Moreover, the notion of "keeping up with the Joneses" which is evident in short-term cultures could lead auditors to be overly aggressive in soliciting clients in order to support a socially desirable lifestyle. In fact, some accounting firms have become particularly sensitive to protecting the firm from eager auditors' signing on risky clients and require a stringent review process that includes signoffs at increasingly higher authority levels as new accounts are deemed more marginal.

IMPLICATIONS FOR CONTROL SYSTEMS OF MULTINATIONAL PUBLIC ACCOUNTING FIRMS

This paper argues that there is a need to consider cross-cultural issues explicitly when evaluating ethics in a multinational public accounting firm. We contend that an understanding of differences in cultural values can help explain why responses to ethical dilemmas vary between countries. Cultural differences add complexity to organizational control in multinational accounting firms. Firms attempt to standardize auditing practices and client relations around the world by rotating employees to overseas offices, by training programs, and by frequent visits of corporate management to local offices to promote and intensify the tone of consistency and to review the actual status of this effort. Additional efforts to catalogue and respond to cultural differences through both training sessions and the design of control systems are necessary to enhance the effectiveness of organizational control.

This paper provides insight into the reasons why particular actions, seen as unethical from a Judaeo-Christian perspective, might be seen as ethical from say a Confucian culture, and vice versa. We have argued that the first step in building an effective system of multinational organizational control is an understanding of the existence and nature of cultural diversity within the organization across national boundaries. The second step for the audit firm is to develop a control system that reflects this diversity. Hofstede argues that "accounting and management control systems are manifestations of culture and reflect basic cultural assumptions" (1991, 155). Managers of accounting firms could use knowledge of cultural differences to predict where specific parts of a firm-wide code of conduct would conflict with cultural norms in a given country. Table 1 lists the different cultural values and related potential ethical behaviors that would be at variance with the norms within a multinational auditing firm. Note that for three of the cultural values, we are unable to identify unethical behavior for one end of the continuum. Perhaps the characteristics demonstrated at these ends of the three dimensions can even be helpful in designing effective control systems for multinational accounting firms. For example, Hofstede discusses the link between the long-term perspective and an entrepreneurial risk-taking perspective needed in the current competitive global economy. One implication of this for auditing firms is the need to empower workers to take responsibility for quality (including an ethical service, the cornerstone of the audit). Recent interest (e.g., Johnson 1992) in collaborative problem solving as one means of effective organizational control may include characteristics from these ends of the cultural dimensions.

Another control system issue pertains to those countries at the extremes of the cultural value continuums. For example, Hofstede argues that firms from countries where power distance is smaller can manage efficiently in countries where power distance is larger by ensuring that the local manager adopts a more authoritarian style. He notes that firms from large power distance countries have not produced multinational organizations which have had to operate in low power distance countries. Therefore, we have limited data on the implications for North American firms with operations in those northern European countries which demonstrate even less power distance. What issues does this difference raise for organizational control and especially ethical questions? Differences in uncertainty avoidance also create problems for the management of international audits. These problems revolve around the meaning of rules. Individuals from weak uncertainty avoidance countries like Sweden feel uncomfortable with rules, whereas those from Latin American countries basically require a system of specified regulations. In general, local offices in strong uncertainty avoidance countries should institute control systems that are much more detailed and rule-specific than offices located in weak uncertainty avoidance countries. This has implications for the specificity of codes of ethics. Should an accounting firm develop a general code that calls for conduct according to a standard without detailed specifications, or should the firm develop an extensive set of prescriptions in dealing with various constituencies in a multitude of situations to anticipate as many potential ethical conflicts as possible?

Hofstede provides some additional suggestions for implementing an effective international control system. He suggests that two roles are crucial. The *country unit manager* should be a local citizen who is adept at functioning in at least two cultures: the corporate culture as well as that of the business unit. Second, the *corporate diplomat* will be "Home country or other nationals impregnated with the corporate culture, multilingual, from various occupational backgrounds, and experienced in living and functioning in various foreign cultures" (Hofstede 1991, 230). These individuals will act as liaisons, strengthening the corporate-local office linkages in the auditing firm.

TABLE 1
Cultural Values and Potential Negative Ethical Conflicts

Cultural Value	Possible Negative Ethical Behavior
Uncertainty Avoidance	
—Weak	—Failure to accept consistent procedures
—Strong	—Focus on rules to the exclusion of asking whether the procedure leads to an ethical outcome
Individualist/Collectivist	
—Individualist	—Failure to appreciate the existence and the efficacy of the self-correcting mechanism of family face
—Collectivist	—Failure to "blow the whistle" on a member of the group to force a correction of the problem in a timely manner
Masculinity/Femininity	
—Masculinity	—Focus on aggressive client generation and retention that may compromise the firm
—Femininity	—NA
Power Distance	
—Large	—Failure to follow the spirit of the law
—Small	—NA (Note this is somewhat less applicable in accounting firms using a pyramid style of organization which reflects a high power distance decision style.)
Short-/Long-Term Perspective	
—Short	—Short-cuts to achieve performance goals
—Long	—NA

The impact of varying cultures also reinforces the need for extensive use of expatriate manager training by accounting firms. If we expect local economic interests and viewpoints to be subsumed under global corporate objectives, then the organization must build a basis for understanding through interaction and communication. The idea of exchanging managers across country borders is hardly a new one for accounting firms. However, firms need to resolve the negative consequences of international assignments, at least for US professionals. Some accounting firms, no less than other US organizations, have traditionally had difficulty in managing the careers of those returning managers who have taken themselves out of the local US office's career path to work abroad.[6] Often, when these individuals return to the US they experience difficulty in rejoining their local office. Naturally, this can be expected to dampen the willingness of promising individuals to pursue such a career-threatening course of action. The reluctance of some host offices to heavily recruit women accounting managers also needs to be addressed.

CONCLUSION

This paper suggests a need for multinational public accounting firms to specifically consider the impact of international cultural diversity on employee ethical sensitivity and decision-making. Future research should

[6]Based on conversations with a former Big Six partner.

gather empirical data to test specific hypotheses relating to the impact of these cultural factors on auditor ethics. For example, consider a scenario in which a major client of a competitor appears to be unhappy with its auditors. A partner determines that the client's management puts a heavy emphasis on having an upward trend in reported earnings, takes an aggressive approach to recognizing earnings, and top executive compensation is based in large part on the earnings figure. Would audit partners from different cultures differ in their willingness to bid actively for the client? Information like this would allow firms to evaluate (1) whether there is a need to adapt or develop company codes of ethics and/or the ethical dimensions of their audit manuals and training programs, and (2) if change is needed, in what ways. Awareness of cultural differences will help firms to refine their reward/motivation systems to better ensure individual ethical behavior that is in accordance with firm-wide ethical policy. Only by integrating and incorporating cultural issues within the control system will multinational public accounting firms achieve the worldwide ethical standards necessary to ensure the firm's and the profession's credibility.

REFERENCES

Alderman, C. W., and J. W. Deitrick. 1982. Auditors' Perception of Time Budget Pressures and Premature Signoff: A Replication and Extension. *Auditing: A Journal of Practice & Theory* (Winter): 54-68.

Auditing Practices Board. 1992. *The Future Development of Auditing: A Paper to Promote Public Debate.* Consultative Committee of Accountancy Bodies. London, U.K.

Becker, H., and D. Fritsche. 1987. Business Ethics: A Cross-Cultural Comparison of Managers' Attitudes. *Journal of Business Ethics* 6: 289-295.

Betz, M., L. O'Connell, and J. M. Shepard. 1989. Gender Difference in Proclivity for Unethical Behavior. *Journal of Business Ethics* 8: 321-324.

Cohen, J. R., L. W. Pant, and D. J. Sharp. 1992. Cultural and Socioeconomic Constraints on International Codes of Ethics: Lessons From Accounting. *Journal of Business Ethics* 11: 687-700.

Cohn, C. 1991. Chiefs or Indians—Women in Accountancy. *Australian Accountant* (December): 20-30.

Cushing, B. E., and K. J. Loebbecke. 1986. Comparison of Audit Methodologies of Large Accounting Firms. *Studies in Accounting Research #26.* Sarasota, Fl: American Accounting Association.

deTocqueville, A. 1956. *Democracy in America.* New York: Mentor Books.

Dubinsky, A., M. Jolson, M. Kotabe, and C. Lim. 1991. A Cross-National Investigation of Industrial Salespeople's Ethical Perceptions. *Journal of International Business Studies* 22 (4): 651-670.

Frucot, V., and W. T. Shearon. 1991. Budgetary Participation, Locus of Control, and Mexican Managerial Performance and Job Satisfaction. *The Accounting Review* (January): 80-99.

Gilligan, C. 1982. *In a Different Voice.* Cambridge, MA: Harvard University Press.

Harris, J. R. 1990. Ethical Values of Individuals at Different Levels in the Organizational Hierarchy of a Single Firm. *Journal of Business Ethics* 9: 741-750.

Harrison, G. L. 1992. The Cross-Cultural Generalizability of the Relation Between Participation, Budget Emphasis and Job Related Attitudes. *Accounting, Organizations and Society* 17: 1-15.

Hofstede, G. 1980. *Culture's Consequences.* Beverly Hills, CA: Sage Publications.

———. 1991. *Cultures and Organizations: Software of the Mind.* New York: McGraw Hill.

———, and M. Bond. 1988. The Confucian Connection: From Cultural Roots to Economic Growth. *Organizational Dynamics* 4: 5-21.

International Federation of Accountants. 1990. *Guideline on Ethics for Professional Accountants.* New York.

———. 1992. *Professional Ethics for Accountants: The Educational Challenge and Practical Application Exposure Draft.* New York.

Johnson, T. J. 1992. *Relevance Regained.* New York: The Free Press.

Langlois, C., and B. Schlegelmilch. 1990. Do Corporate Codes of Ethics Reflect National Character? Evidence from Europe and the United States. *Journal of International Business Studies* 21 (4): 519-539.

Lee, C., and R. T. Green. 1991. Cross Cultural Examination of the Fishbein Behavioral Intentions Model. *Journal of International Business Studies* (Second Quarter): 289-305.

Marxen, D. E. 1990. A Behavioral Investigation of Time Budget Preparation in a Competitive Audit Environment. *Accounting Horizons* 4 (June): 47-57.

McKinnon, J. 1984. Cultural Constraints on Audit Independence in Japan. *The International Journal of Accounting* (Fall): 17-43.

Ponemon, L. A. 1992. Auditor Underreporting of Time and Moral Reasoning: An Experimental Lab Study. *Contemporary Accounting Research*: 171-189.

Purvis, S. E. C., H. Gernon, and M. A. Diamond. 1991. The IASC and Its Comparability Project: Prerequisites For Success. *Accounting Horizons* 5: 25-44.

Rosner, J. 1990. Ways Women Lead. *Harvard Business Review* (November-December): 119-125.

Soeters, J., and V. Schreuder. 1988. The Interaction Between National and Organizational Cultures in Accounting Firms. *Accounting Organizations and Society* 13: 75-86.

Tsalikis, J., and O. Nwachukwu. 1991. A Comparison of Nigerian to American Views of Bribery and Extortion in International Commerce. *Journal of Business Ethics* 10: 85-98.

Warren, C. S., and J. E. Wilkerson. 1988. Lowballing—An Independence Issue. *The CPA Journal* (January): 13-15.

Whipple, T. W., and D. F. Swords. 1992. Business Ethics Judgments: A Cross-Cultural Comparison. *Journal of Business Ethics* 11: 671-678.