The behavior of assurance professionals
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1. Introduction

The complexity of human behavior challenges our explanatory powers. Yet, in this
day and age we desperately try to understand, manage and control the behavior of our
corporate citizens through rules, codes, systems, and procedures alike. With every
crisis or corporate failure (e.g., Enron, Madoff, etc.) there is a tendency to impose
additional rules and control structures that are supposed to prevent such crises from
happening again. Only recently we seem to realize that such measures are largely
ineffective in assuring expected behaviors, because professionals are not as rational in
their behavior as such rules and structures presume.\(^1\) Akerlof and Shiller (2009: 61) go
even further: they trace the “credit crunch” back to inadmissible behaviors triggered
by “primal” drivers and limitations of individual behavior, unleashed by a lack of
institutional supervision.

This thesis adds to this new insight. This study is an illustration that true
behavior of people cannot simply be controlled by (more) rules and structures.
Instead, the effective application of rules (i.e., people behaving in a manner consistent
with the expected behaviors reflected through those rules) is heavily dependent on
people’s personal and subjective interpretation of such rules. Their interpretation is
driven by many psychological, cultural, contextual, and environmental factors (e.g.,
Parsons and Shils 1951; Ajzen 1991; Elster 2007) – among which are cross-national
cultural differences. I add to this insight by studying the behavior of professionals in a
highly regulated profession that has recently lost its self-regulation as a consequence
of not meeting its stakeholders’ expectations, despite the existence of an extensive and
ever-increasing set of rules and standards: the international assurance profession. I
study their behavior in relation to one of the more influential behavioral drivers:
cross-national cultural differences, the very effect that the assurance profession is
trying to prevent through its globally consistent set of rules and standards (e.g., the
International Standards on Auditing, hereinafter: ISAs).\(^2\) Such cross-national cultural
differences are expected to lead to cross-border differences in the professional
behavior of auditors (e.g., Barret et al. 2005; Leung et al. 2005; Arnold et al. 2009).
This is the more relevant given the role of the assurance profession in the ongoing
globalization and its quest for the highest possible audit quality across the globe.

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\(^1\) See for example the recent statements of the G20, OECD, Larouisière, and the Turner review, which all
point to behavior and culture among the root causes of the credit crunch and financial crisis and call for
periodic behavior and culture assessments (G20 2 April 2009; Larosière 25 February 2009; Turner 2009;
OECD June 2009). The Turner review, for example, illustrates: “Individual behavior is not entirely
rational” (Turner 2009: 41), further pointing to Tversky and Kahnemann’s theory of bounded rationality
(1974).

\(^2\) The mission of the IFAC (the International Federation of Accountants), among others, is “strengthen
the worldwide accountancy profession (…) by establishing and promoting adherence to high quality
professional standards” and “promoting the provision of high-quality services by all members of the
worldwide accountancy profession” (IFAC 2009b: 4-5).
In other words, the focus of this thesis is the influence of cross-national cultural differences in the context of the professional behavior of auditors. The objective of this study is to gain a more profound, in-depth, and empirically grounded analysis and understanding of the globalization and functioning of multinational audits and the effectiveness of international standards and firm-wide systems of control within an international setting. Through that, a second objective of this thesis is to illustrate that the consistent and effective application of rules, standards, and guidelines depends significantly on the personal and subjective interpretations of the professionals applying those standards.

In § 1.1, firstly, I illustrate the significance of studying actual behavior (and that of auditors in particular) and comparing it to the accepted rules and norms, foremost in relation to the general understanding of the behavior of professionals. In § 1.2 I set out why cross-national differences are expected to lead to personal and subjective interpretation of rules and standards and consequently drive differences in professional behavior across borders. The research questions, strategy, and objective of this thesis are detailed in § 1.3.

1.1 Professional behavior: auditors providing a deeper understanding

Financial crises, such as the Enron, Ahold, Madoff, and the current financial crisis, show over and over again that behavior and personal motives, such as greed, pride, ego and a need for status and recognition, are among the root causes of such crises. In line with Akerlof and Shiller mentioned above, the Turner Review (2009: 41) points to individual behavior not being entirely rational as one of the fundamental theoretical causes of the current financial crisis. Obama, in his speech at the first “anniversary” of the collapse of Lehman Brothers, warns that the times of reckless behavior are over. Theorists have already pointed to bounded rationality and personalized interpretations of reality affecting decision-making processes (e.g., Cyert and March 1963; Tversky and Kahneman 1974; Hambrick and Mason 1984). But only recently has the corporate world come to fully realize that most managers are ignorant of the essence of behavior in, for example, the effective operation of management control and risk management systems. “There is a recognition that the quality of corporate

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3 The Turner review, analyzing the origins of the financial crisis, illustrates: “There are insights from behavioral economic, cognitive psychology and neuroscience, which reveal that people often do not make decisions in the rational front of brain way assumed in neoclassical economics, but make decisions which are rooted in the instinctive part of the brain, and which at the collective level are bound to produce herd effects and thus irrational momentum swings” (Turner 2009: 41).

4 In his speech of 14 September 2009, on the first anniversary of the collapse of Lehman Brothers, US president Barack Obama called for the corporate world to start behaving responsibly, now they have proven not to have learnt their lesson yet: “Instead of learning the lessons of Lehman and the crisis from which we’re still recovering, they’re choosing to ignore those lessons. I’m convinced they do so not just at their own peril, but at our nation’s. So I want everybody here to hear my words: We will not go back to the days of reckless behavior and unchecked excess that was at the heart of this crisis, where too many were motivated only by the appetite for quick kills and bloated bonuses. Those on Wall Street cannot resume taking risks without regard for consequences”.

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governance ultimately depends on actual behavior, not [normatively designed] process” (FRC 2009: 3).5

Ignoring the “people side” leads to “paper tigers” of formally implemented control systems. Their implementation has cost millions in investments and they are often a heavy burden on the companies’ growth and innovation power, but in practice remain ineffective because they are not engrained in and supported by the individuals subject to these measures (e.g., Anderson 2009: 29). In their paper “Financial Regulatory Reform: A New Foundation” of 17 June 2009, the Obama Administration, in response, calls for robust supervision and regulation that takes people’s behavior into account as one of their five key objectives. These objectives further include increased accountability and assurance on companies’ behavioral traits, such as “transparency, simplicity, fairness, and access” (USA 17 June 2009: 3, 15). But the Turner Review (2009: 80-81), at the same time, warns “to be realistic about the extent to which policies can ensure sensible risk assessment and behavior (…) which may be driven more by broad behavioral and cultural factors”, which are not easily accounted for in the language of politics and governance.

In other words, behavior is crucial, yet is hard to comprehend and predict. A deeper understanding thereof is needed. The behavior of assurance professionals is interesting in this perspective because they find themselves among the gatekeepers (Coffee Jr. 2006) who were not able to detect (also their own) “bad”, oftentimes greedy behavior of managers. Lessons from fraud-related cases investigated by US’ Securities and Exchange Commission show that the top 3 audit deficiencies are directly related to an auditor’s behavior, such as not exercising due professional care and not applying professional skepticism (Beasley et al. 2001). The profession recently lost its self-regulation, which to a certain extent can be traced back to behavioral and cultural aspects of accounting organizations that foster a culture that values revenue generation over quality service (e.g., Wyatt 2004; Jenkins et al. 2008). Jenkins et al. (2008: 46) conclude by noting that “[t]he recent spate of corporate scandals at companies such as Enron and WorldCom has focused debate on the significant changes in business models and cultures within the profession and in public accounting firms specifically”. Also, after the recent Lehman Brothers’ downfall, auditors had to take some criticism for failing to question and challenge improper behavior: “Investors would like to think that auditors consider not just the letter of the rules but their spirit, too” (Economist 20 March 2010).

Secondly, auditors are among those that were ineffective in addressing the behavioral side in the design and corporate implementations of many legislative

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5 For example, central theme in almost all the responses to the financial crisis of international government authorities and many national regulatory institutions (such as those of the US, the UK, and the Netherlands) is a focus on human behavior in general and the behavioral side of governance, risk, and compliance in particular. These responses include the G20’s “Global Plan for Recovery and Reform” of 2 April 2009, the OECD’s findings on “Corporate Governance and the Financial Crisis” of June 2009, the European Commissions “Larosière” report of 25 February 2009, the Obama Administration’s report “Financial Regulatory Reform: A New Foundation” of 17 June 2009, the UK’s “Turner” report of 18 March 2009 and revised “Combined Code” of July 2009, and the Dutch report on “Naar Herstel van Vertrouwen” [To Recovery of Trust] of the Maas Committee 2009.
responses or measures, including their own professional standards. As Wyatt notes (2004: 52): “We should have learned by now that standards containing arbitrary rules that attempt to circumvent aberrant behavior really act to encourage that very behavior”. Others point out that such standards only worsened the issue. It is understandable, and in line with social sentiments, that the call for considering (drivers of) behavior in “reshaping” the auditing profession, next to or rather than just increasing regulation or bureaucratic procedures, gets louder every day (e.g., Bazerman et al. 2002; Kida 2006; Jamal 2008; Jenkins et al. 2008).

Thirdly, understanding the behavioral aspects of auditors is relevant in relation to the quality of audits of financial statements. The technical audit quality may be at acceptable levels, which claim does not go undisputed (e.g., Humphrey 2008), but may have declined in the 1990s (Francis 2004: 345). Others point to the “other” problem in public accounting that has not (yet) been fixed: deviant workplace behavior (e.g., Jelinek and Jelinek 2008: 223). In his analysis of the audit profession’s role in the current financial crisis, Sikka concludes that “the events raise [age-old] questions about the value of company audits, auditor independence and quality of work, economic incentives for good audits and the knowledge base of auditors” (2009b: 6-7).

Fourth, auditors are among the representatives of knowledge intensive professions, whose performance and effectiveness are largely dependent on their own behavior. When the technical quality or the value of a service or commodity provided is difficult to assess, as is the case in auditing (e.g., Alvesson 2004: 72), the perception or image of who or which firm is offering it becomes vital (e.g., Mozier 1992; DeFond and Francis (2005: 5) state that “academic research suggests that many of the ‘solutions’ embodied in SOX are not only unlikely to solve the profession’s alleged problems; they may well have serious unintended negative consequences”, pointing, among other things, to a number of behavioral aspects being ignored, such as auditors’ cognitive biases and heuristics.

As Wyatt concludes (2004: 51): “[The auditors’] role was to protect investors and creditors from being misled by financial statements that embraced unacceptable accounting and inadequate disclosure [but] no piece of legislation is likely to solve the behavioral changes that have evolved within the auditing firms over the past 30 years”.

Quick et al. (2008) summarize auditing literature on technical audit quality, while referring to DeAngelo’s (1981b: 186) classical definition (“the market-assessed joint probability that a given auditor both discover (a) breach in the client’s accounting system, and (b) report that breach”) as “the ability of the auditor to detect material misstatements in the financial statements (competence) and his/her willingness to issue an appropriate audit report based on the audit findings (independence)”.

Humphrey critiques Francis’ claim by comparing the auditor with a soccer referee (2008: 173): “[A] problem for Francis in trying to argue that audit quality may be at a “socially desirable level” is that auditors seem to get it wrong when it matters most. Cited work (...) reveals that 70 percent of bankrupt companies were preceded by a clean audit report (false negatives), while six out of seven going concern reports issued are for companies that do not go bankrupt. Would a soccer referee, for instance, be able to convince sports commentators that he refereed well the vast majority of the matches over a season, even though on the times that the ball went in the penalty area he happened to give penalties for tackles which (six out of seven times) were not fouls and failed to give penalties (on 70 percent of the occasions) when fouls were really committed in the penalty area?”.

In general, as well as in auditing, three forms of performance or quality are distinguished: technical quality, service of functional quality, and perceived quality (or corporate image) (e.g., Ghebremichael 2006).
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Lowendahl 1997; Greenwood et al. 2005). Illustrative is the significant importance of the brand name to an audit firm.\textsuperscript{11} As service providers, auditors are the “face of their firm”. Very similar to many other professions, it is through their behavior that auditors’ reflect the profession’s and firm’s core values, and that performance can be perceived to be valuable and worthy of a higher fee next year by their clients, their clients’ stakeholders, and the society at large.

By looking at the professional behavior of auditors, this thesis aims to add to the general awareness and understanding of behavioral aspects of professionals’ decision-making. Studying the behavior of auditors is relevant in this respect because understanding of professionals’ behavior provides a “window” to how people behave in the corporate work environment. With today’s management and employees claiming to be “true professionals” (e.g., Economist 6 June 2009; Khurana 2008; Anderson 2009) and companies increasingly becoming “knowledge intensive firms”, “professionals” play an increasingly essential role (e.g., Alvesson 2004; Greenwood et al. 2005). In other words, understanding of the behavioral framework of professionals adds to the effectiveness of corporate managers and “gatekeepers” such as non-executive boards, (internal and external) auditors, and business controllers, in managing and controlling their “most important asset”: the behavior of their people.

1.2 Cross-national cultural differences: driving subjective interpretation and personalized behavior

The significance and impact of globalization can be seen in the global reach of, for example, the credit crunch. As the G20 have stated in their “Global Plan for Recovery and Reform” of 2 April 2009 (second point):

We face the greatest challenge to the world economy in modern times; a crisis which has deepened since we last met, which affects the lives of women, men, and children in every country, and which all countries must join together to resolve. A global crisis requires a global solution.

Hofstede, in his speech during the 2009 opening of the academic year at the University of Groningen, argued that in retrospect we could have expected the current financial crisis just by looking at the national cultural values, specifically those of the US. Another example of how nearby, yet pervasive international and cultural differences can be, is the difference of banks’ solidity between the US and Canada – neighboring countries – which is associated with different risk appetites (Economist 16 May 2009). Regulators call for consistency of standards and rules (e.g., Larosièrè 25 February 2009: 13).

\textsuperscript{11} That large accounting organizations are highly sensitive to image and perceived quality is illustrated by the collapse of Arthur Andersen after the Enron affair in 2002. On the level of the profession, the current level of public (dis)trust illustrates that the image of the profession as a whole is also an important element of perceived audit quality. See § 2.5.6.1.
Cross-national cultural differences lead to misperceptions, miscommunication, misinterpretation, and misevaluation (e.g., Adler 2002: 142), for example in the interpretation and application of rules and standards. House et al. remark (2004: 179): “Practices, policies, and procedures that work quite effectively in one culture may dramatically fail or produce counterproductive behavior in another culture”. The national cultures between the people interpreting and implementing these standards differ – hence, the local implementation will differ. Understanding the global or international dynamics of behavior is of the greatest essence for the effective operation of globally endorsed standards, guidelines and regulations.

International accounting organizations (generally referred to as the Big 4 audit firms)\(^{12}\), as many other (professional service) firms, operate internationally and, alike business in general, are thus significantly affected by these global dynamics and cross-national (cultural) differences. The Big 4 audit firms offer worldwide coverage of assurance services to their clients and apply international auditing standards. They are the biggest audit firms and generally comprise a so-called “global network of affiliated firms” (e.g., Schilder et al. 2002; Hayes et al. 2005; Humphrey et al. 2009). With the ongoing globalization, one of the challenges faced by international accounting organizations is to provide assurance services at the highest possible level of audit quality throughout the world (e.g., Jenkins et al. 2008).\(^{13}\) “The big accounting firms each operate with about seven to eight hundred offices across the world. These firms are concerned to ensure consistency across offices, particularly in relation to (…) audits” (Barret et al. 2005: 3). However, as “global firms” they are confronted with numerous cross-national differences affecting the behavior of their professionals and the audit process designed to attain that level of audit quality. Many professional, organizational or environmental aspects that affect the audit process differ across national borders and, hence, are expected to impact auditors’ professional behavior across national borders.\(^{14}\) For an international accounting organization with a global

\(^{12}\) The Big 4 audit firms operated under the brand names of Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers, each with global revenues of USD 13 to 17 billion and 100,000 to 150,000 employees. “The firms are organized as networks of member bodies, each of which is a separate and independent legal entity under the global firm. Despite this legal structure, they are to an increasing extent acting more and more like one entity – forcing members of the firm to closely follow the policies of the global firm” (Humphrey et al. 2009).

\(^{13}\) As Jim Lee, Global Chief Auditor of PricewaterhouseCoopers, one of the Big 4 international accounting organizations, illustrates (2008: 35): “Investors and other capital market participants want to know that quality of audits is the same everywhere so that they can rely on the information to inform their decisions. (…) A single set of global auditing standards is critical to provide investors and lenders with consistently high quality financial information to make investing and lending decisions across capital markets”. One of the attributes, Lee continues, would be to have understandable and clear auditing standards that support consistent application and performance.

\(^{14}\) For example, several scholars point to environmental, institutional or structural differences, such as differences in the reputation, maturity, and perception of the auditing profession, national audit regulations and standards, accounting practices and systems, litigiousness of the audit environment, education systems and training, political systems, language, economic wealth and the level of capital markets, the level of corruption, and legal and tax systems (e.g., Ferris et al. 1980; Hussein et al. 1986; Gray 1988; Cohen et al. 1992; Doupnik and Salter 1995; Wood 1996; Yamamura et al. 1996; Wingate 1997; Saudagaran and Diga 1999; Nobes and Parker 2000; Kimbro 2002; Schilder et al. 2002; Radebaugh
strategy, the impact of cross-national cultural differences upon actual behavior of its professionals in any specific national context is extremely important (e.g., Adler 2002: 135). Prior research shows that cross-national cultural differences impact the behavior of auditing professionals indirectly and disrupt attempts to provide so-called “seamless services” or at least make it fragile (Cooper et al. 1998; Mennicken 2008). The auditing profession is impacted by cultural differences reflected, for example, in accounting systems (e.g., Gray 1988; Chanchani and MacGregor 1999)\(^{15}\) and accounting practices such as earnings management (e.g., Douplnik 2008; Han et al. 2010), in the standard-setting process (e.g., Bloom and Naciri 1989; MacArthur 1999) and harmonization of standards (e.g., Needles 1989; Beresford 1990; Agacer and Douplnik 1991; Wood 1996; Farrel and Cobbin 2001; Ding et al. 2005; Choi and Meek 2008), in risks of material misstatement in an auditor’s clients’ financial statements (e.g., Chan et al. 2003)\(^{16}\), in audit clients’ organizational design and internal control systems (e.g., Harrison et al. 1994; Chow et al. 1999), in the level of corruption in a country (e.g., Kimbro 2002), or in auditor clients’ intentional tax evasion or non-compliance (e.g., Tsakumis et al. 2007).

1.3 The focus of this study: the impact of culture on behavior

The focus of this study is the direct effect of cross-national cultural differences influencing the auditors’ behavior. For example, Barret et al. show that, despite the International Standards on Auditing of the IFAC:

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et al. 2006; Choi and Wong 2007; Choi and Meek 2008). An illustrative example is the study of Thorne et al. (2003) who find that differences in moral reasoning between auditors from Canada and the United States were explained by the regulatory and litigiousness of the environment.

\(^{15}\) Gray defined the differences in accounting values as follows (Gray 1988: 8):

- “Professionalism versus Statutory Control: A preference for the exercise of individual professional judgment and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control;
- Uniformity versus Flexibility: A preference for the enforcement of uniform accounting practices between companies and for the consistent use of such practices over time as opposed to flexibility in accordance with the perceived circumstances of individual companies;
- Conservatism versus Optimism: A preference for a cautious approach to measurement so as to cope with the uncertainty of future events as opposed to a more optimistic, laissez-faire, risk-taking approach; and
- Secrecy versus Transparency: A preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open, and publicly accountable approach”.

Douplnik and Salter (1995) expanded on Gray’s model by developing an explanatory model for the development of national accounting systems through interrelationships between the external environment, institutional structure (e.g., legal system, educational system, and professional organizations), culture and accounting.

\(^{16}\) Chan et al. (2003) have shown that differences in Hofstede’s national cultural dimensions of Power Distance and Individualism explain differences in the risk of material misstatements in the financial statements of the companies embedded in these cultures (mainly through those companies’ accounting and internal control systems).
auditors exercise considerable discretion in response to local relationships and risks [linking] the local and the global in a dialectical manner [and affecting] the ways in which auditors conceive of themselves as professionals, of who is the client and how they identify with the globality of their own firm (Barret et al. 2005: 1, 4).

They illustrate that auditors are sensitive and proud of some local audit specificities and apply “local appropriation” to many standards and processes within an audit firm; measures that are implemented to mitigate the impact of national culture on professional work behavior. Where one auditor is completely ignorant of any cultural differences which could impact auditing, others see huge cultural challenges standing in the way of a standardized and universal global audit. As these ISA’s have been written from a pre-dominantly Western perspective, and, hence, are culture-bound and often culture-blind, it cannot just be simply assumed that auditors around the world will interpret and apply the standards consistently. In other words, auditors’ professional behavior is driven to a large extent by the auditor’s local environment and culture. This leads to differences in the interpretation and application of auditing and ethical standards.

Prior research does point out that the international auditing standards are culture-bound and culture-blind. For example, Arnold et al. (2009) have illustrated that “even though auditing standards may be the same or harmonized (...) there can be significant differences in the application of these standards across countries by each country’s culture” (2009: 58), e.g., in the application of materiality standards, interpretation of independence, or principles of confidentiality. Others claim that “culture is more likely to be the default” (Leung et al. 2005: 369) when these standards are ambiguous or multi-interpretable. This is moreover relevant as it is the IFAC itself that recently called to embrace issues in spirit rather than in letter (IFAC 29 March 2009), setting the already principles-based standards open for multiple interpretation. As Cohen et al. note in their 1993 landmark paper, referring to IFAC’s quest for consistent worldwide application of the Code of Ethics, “that the firms’ top

17 As one auditor, who was interviewed as part of this study, questions: “What do you mean with cultural differences? We have Sarbanes-Oxley and the ISAs so everybody should know what to do”.
18 As another auditor, who was interviewed as part of this study, states: “I’m very negative on the capabilities of [country X] to adapt to the global standards. The structure of how people operate here creates a generation which embeds behaviors that do not preserve a proper, Western value set of integrity and checks and balances”.
19 The ISA’s are culture-bound because they are deeply rooted in the Western cultural values (as they find their source in the local standards of the dominant, Western member-countries) and culture-blind because they do not take the cultural differences into account in the interpretation and application of the standards. “The development of theories (including auditing theory) and their subsequent transportation to non-Western cultures (...) are based on the assumption that the key concepts underpinning the various theories are value-free and neutral. [For example], the concept of external auditors’ independence is based on the assumption that there are no consistent perceptual differences among people from various cultures relying on the concept. (...) [S]uch assumptions are reflections of ‘culture blindness’” (Patel and Psaros 2000: 319). However, the ISA’s are not alone in this; most of what we know about corporate governance, management, strategy, and business is based on literature of a predominant Western perspective (US mainly) (e.g., Boyacigiller and Adler 1991). The Western values, however, will not per definition and by themselves determine the nature of the world that emerges in the coming decades of globalization (with, for example, the emerging BRIC economies gaining power).
management and the profession’s standard setters are unlikely to be fully sensitive to international and cultural differences [and that] audit firms need more information on the nature and extent of international ethical diversity in order to adequately control for such differences” (Cohen et al. 1993: 3). Hence, for global audit firms, the impact of cross-national cultural differences is not merely “nice to know” but imperative for survival, let alone success.

It is for these reasons that auditing research calls for an international perspective to better understand what it means to be an auditing professional in different countries or institutional sites (e.g., DeFond and Francis 2005: 8; Humphrey 2008: 185). Some significant efforts have been made to study cross-national differences in auditors’ professional behavior (with or without cross-national cultural differences as explanatory variable). Nevertheless, the number of studies on cross-national differences in auditors’ behavior is still relatively limited, especially studies that have included cross-national cultural differences as explanatory variable (e.g., Patel 2004). In addition, a number of critical notes on the robustness of these studies can be placed in general, such as the use of culture as a “catch all” black box, a dominance of the use of Hofstede’s cultural dimensions, or the inclusion of only a limited number of cultures in a study (e.g., Cohen et al. 1996; Harrison and McKinnon 1999; Patel et al. 2002; Patel 2004). Prior research covers cross-national differences in auditors’ professional behavior, but mostly without cross-national cultural differences as explanatory variable. Researchers call for a comprehensive study on cultural influences in auditing and in the specific context of the differences studied.20

1.4 Research questions, strategy, and objectives

In the light of the above arguments, one might expect that cross-national cultural differences belong to the most significant behavioral drivers leading to the differences in the personal and subjective interpretation and application of rules and standards internationally. However, although we already have a relatively robust understanding of the individual components of auditors’ professional behavior (Chapter 2) and cross-national cultural differences in general (e.g., Hofstede 2001; House et al. 2004), much is yet unknown about the interaction between the two within an auditing context: the impact of cross-national cultural differences on auditors’ professional behavior. In other words, the current academic understanding of the impact of cross-national cultural differences on the professional behavior of auditors is far from complete. Therefore, central to this thesis is the following question:

20 As Patel et al. (2002: 4) note, summarizing Harrison and McKinnon (1999): “We acknowledge the progress that the use of this taxonomy [of cultural dimensions] has enabled in cross-cultural accounting research, [w]e also call for future research to go beyond the taxonomy itself and to draw on the broader and richer descriptions of culture available in the historical, sociological and social commentary literatures about the countries under examination. Such an approach also allows identification of which of the dimensions in the taxonomy may be core (more important), and which peripheral (less important) in their impact on perceptions and behavior”. 
Is auditors’ professional behavior affected by cross-national cultural differences, and, if so, how?

Against this background, the following research questions were developed:

- What is professional behavior in general and that of auditors in particular, what drives professional behavior, and how does culture play a role in this context?
- What are cross-national cultural differences and how do these affect behavior in general?
- How do auditors’ professional behaviors differ across national borders?
- How can cross-national differences in auditors’ professional behavior be explained by cross-national cultural differences?

Answering the first two research questions results in an overview of auditors’ professional behavior in Chapter 2 and an overview of the cross-national cultural dimensions’ known theory in Chapter 3.

Given the general lack of understanding of cross-cultural behavior of auditors, a multi-sourced, multi-method21, “two-loop” empirical research strategy is followed to answer the third and fourth research questions, as follows:

- Loop One: In the first empirical “loop”, a grounded theory approach is taken to explore which auditors’ behaviors differ cross-nationally and how these differences are expected to be explained by cross-national (cultural) differences. Based on open-structured interviews with 35 internationally experienced senior auditors, complemented by observational notes taken by the author and literature review of the current academic understanding of cross-national (cultural) differences in auditors’ professional behavior, propositions are formulated as part of a grounded theory on how cross-national cultural differences are expected to impact the professional behavior of auditors internationally. The results are presented in Chapter 4.

- Loop Two: In the second empirical “loop”, the grounded theory propositions of “Loop One” are partly validated through rank order analysis of 5 behavioral factors measured through 1,070 audit engagement questionnaires of 29 countries from an annual process performance improvement project of an international accounting organization. The details and results are presented in Chapter 5.

Based on this research strategy, the central question of this thesis is answered in the concluding chapter of this thesis (Chapter 6). This concluding chapter also includes recommendations and directions for future research.

21 Leung and Van de Vijver advocate that cross-cultural research is “most convincing when supported by diverse evidence based on a sound theoretical basis, multiple sources of data, different research methods, and explicit refutation of alternative interpretations” (Leung and VandeVijver 2008: 145).
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By researching the effect of cross-national cultural differences on the professional behavior of auditors in a direct, empirically grounded fashion, the objective of this thesis is twofold:

- To gain a more profound, in-depth, and empirically grounded analysis and understanding of the globalization and functioning of multinational audits and the effectiveness of international standards and firm-wide systems of control within a cross-cultural setting (and provide recommendations and directions for future research accordingly);

- To illustrate that the consistent and effective application of rules, standards, and guidelines is significantly dependent on the personal and subjective interpretation of the professionals applying such standards.

Gaining direct access to the views of auditors through interviews and observations and to empirical data directly from the audit practice (i.e., the questionnaire results) provides unique and valuable sources for this study. As Jenkins at al. (2008: 49) note: “Relatively little empirical evidence exists about cultures within firms [because there are not so many] researchers who are able to negotiate access to firm personnel” (also see Needles 1989: 1). Being based on grounded theory and a validation in part thereof, this study is the first to explore the cross-national differences impacting the auditing profession in general and auditors’ professional behavior in particular in a comprehensive and empirically grounded and contextualized fashion.