

# **CULTURE MATTERS**

## **How Our Culture Affects the Way We Audit**

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## Summary

If the influence of national cultures on the implementation of global standards is not taken into account, the result will be inconsistent implementation at best and outright failure at worst. This is evidenced by a review of the literature in the fields of medicine, peacekeeping, aviation and environmental protection. The experiences in those professions offer insight into possible difficulties with the implementation, beginning in 2010, of international audit and assurance standards by members of the International Federation of Accountants. Some countries may have difficulty with implementation because of the differences between their cultural assumptions and those embodied in the standards to be adopted. It is too soon to know if and where that will happen, especially since the data on first experiences will not begin to be available until 2013. However, cultural-comparison data can be used to foresee which countries may have difficulty with implementation. But if unintended consequences do become evident, it will be important not to assume that the standards and the standard-setting process are defective; it is more likely that practitioners will need help in interpreting the ISAs in light of their local culture. A useful first step would be for standard-setting bodies to identify explicitly the cultural assumptions inherent in the standards they produce. The standard setters can then give that information to those responsible for standards implementation at the practitioner level to help promote consistent application of the standards globally.

## Contents

Abbreviations	4
<b>The Effect of Culture on Auditors</b>	5
A tale of two auditors	5
Purpose of the discussion paper	5
Definitions of culture	5
Professional standards and culture	8
Culture and auditing	8
<b>Culture and the Audit Process</b>	9
How auditors from different cultures deal with inequality	9
How auditors from different cultures deal with uncertainty	10
How auditors from different cultures deal with groups and groups with individual auditors	13
Cultural attributes inherent in global audit standards	16
Physiological resistance to cultural change	16
Assessing the IAASB's cultural fingerprint	17
<b>A Model of Cultural Interaction</b>	20
Parallels with the aviation industry	21
Assimilation	21
Cosmetic compliance	22
Integration	22
Marginalization	23
<b>Barriers to Implementation of a Global Vision of Auditing</b>	23
<b>Towards Achieving Global Consistency of Auditing at a Local Level</b>	24
<b>Recommendations</b>	25
<b>A Final Note</b>	26
<b>Appendix A: Sample of ISA Requirements with Potential for Inconsistent Application</b>	28
<b>Appendix B: Statistics, Analysis and Graphs</b>	36
<b>Appendix C: Review of Literature on the Impact of Culture on the Implementation of Global Standards</b>	48
<b>References</b>	66

## **Abbreviations**

BRIC	Brazil, Russia, India and China
IAASB	International Auditing and Assurance Standards Board
IDV	Individualism/collectivism index
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
ISAs	International Standards on Auditing
ISQC	International Standard on Quality Control
PDI	Power-distance index
UAI	Uncertainty-avoidance index

## **The Effect of Culture on Auditors**

### **A Tale of Two Auditors**

One partner in a firm of accountants, was born of Indian parents, was raised in Tanzania and immigrated to Canada at age 12. He attended a prominent Canadian university, articulated with a major firm in Canada and has been in a small firm for the past 22 years. The other, born in England and raised in Canada from the age of four, also attended a prominent Canadian university, articulated with a major firm in Canada and has been with a small firm for the past 22 years. On the surface both auditors seem fairly similar. Dig a little deeper and significant differences start to emerge.

One of these two auditors sees a sound base of rules as essential to formulating professional judgments; the other views rules as tools to be used to advantage in solving problems. One first looks to precedent when faced with new situations and is rarely satisfied that he has enough evidence to back up a judgment; the other gives short shrift to tradition and obtains only as much evidence as he deems absolutely necessary to back up his judgments. One is intensely loyal to firm and family, sometimes at the expense of the tasks at hand, and he expects the same from staff and family; the other is focused on the task at hand, sometimes at the expense of firm and family, and he expects similar behaviour from staff and family.

Rajesh Mehta and I have been partners for 22 years. I cannot imagine practising public accounting without him. We both have thriving public-accounting practices and comply with the same professional standards. That said, our approaches to auditing are radically different and, notwithstanding attempts at convergence over the years, we are unable to reconcile our styles. Are the differences just due to personality differences, or do they originate from something else? There is growing evidence that the cultural traits learned in our youth have a pervasive influence in everything we do for the rest of our lives. The fact that Rajesh and I have such different approaches to auditing likely stems from our very different cultural

backgrounds. Had we known this before, the past 22 years might have been much different.

### **Purpose of the Discussion Paper**

The International Auditing and Assurance Standards Board (the IAASB) recently completed its Clarity Project.<sup>1</sup> This project resulted in a comprehensive set of auditing standards available for adoption by member bodies of the International Federation of Accountants (IFAC) for years beginning on or after December 15, 2009. The International Standards on Auditing (ISAs) are based on the assumption that they can and will be used globally without significant alteration by other audit standard setters: in other words, “the rules are the rules.” However, it is not known how the different cultural backgrounds of auditors will affect the auditors’ ability to implement the standards the same way all around the world.

This essay looks at what effect, if any, culture may have on the audit profession’s adoption of a uniform set of global standards.

### **Definitions of Culture**

Many things define us as human beings. Each of us is born with innate characteristics, such as a need to socialize with others and the ability to feel emotions such as anger, love and fear. We all have inherent traits, such as the flight-or-fight response and the ability to speak. Each of us also inherits some physical and emotional traits through our parents’ genes.

But in addition to the traits we are born with, we learn all of our basic social skills from our parents, our peers and others close to us. These skills include how to interact with family and other important groups in our lives, how to play the gender roles defined by our society and how to react to new and unknown circumstances. Each individual emerges with a unique personality, one that has both innate and socially moulded

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<sup>1</sup> The IAASB redrafted or revised all the ISAs and ISQC1 in a project called the Clarity Project, which ended in March 2009. The resulting standards are often collectively referred to as the clarity ISAs.

characteristics. The part of our brain that regulates personality is largely developed by age 10, and after that changes to personality are extremely limited (Doidge 2007: 59-60, 80).

Culture is to society as personality is to the individual. Each society has a core set of values that it has developed as a response to its own physical and economic situation and to the need to ensure survival. Those values enable people to differentiate between opposites such as good and evil, beauty and ugliness, normal and abnormal, safe and dangerous. These cultural values are passed on to children in their formative years, and once learned they become an individual's core values. These values are hard-wired into the individual's personality for life.

Cultural values are relative and not absolute. Every culture develops in response to a unique set of circumstances; every culture is unique just as each person has a unique personality. In the first half of the 20th century, anthropologists tried to discover if there were a set of problems common to all cultures, problems that all cultures must solve for survival and well-being. They identified a number of core problems, including how members of a culture react to authority and power, how individuals within a culture relate to others and how a culture deals with conflict and allows feelings to be expressed.

There are many different definitions of culture, but for the purposes of this paper, culture is defined as "the collective programming of the mind that distinguishes the members of one group or category of people from another." This is a definition of culture used by the leading cultural theorist Geert Hofstede (2001: 9), an anthropology professor from Maastricht in the Netherlands, who is by far the most quoted author encountered in the literature that was reviewed. (See literature review in Appendix C.)

That literature is unanimous in its opinion that culture influences almost every facet of professional and personal life, but that people are often unaware of how their actions are influenced by culture. Often without our realizing it, the way we speak, think and interact with others and even

such details as the strength of our eye contact are all influenced by the culture in which we were raised.

In the late 1960s, Hofstede set out to discover if there were cultural differences between the employees of a multi-national company that operated globally. The initial assumption of the company was that a country's culture would have only a minor impact on work values and that the employees would both adopt and adapt to the work values promoted globally by the company. Hofstede's conclusion, however, was exactly the opposite. Cultural values were found to be based overwhelmingly on the values of the employees' country, and not on those of the company. Hofstede also found that these values could be compared on a country-by-country basis.

Between 1967 and 1973, Hofstede collected a large amount of data from 72 IBM subsidiary offices in 50 countries around the world (he surveyed more than 116,000 people, many of whom were also interviewed). On the basis of his empirical data, he isolated four measurable and independent cultural variables that dictate human interactions in all cultures. Hofstede called the four variables dimensions (later he added a fifth one). These dimensions, each of which is statistically independent of the others, are responses to common social conditions experienced by people in all cultures. Being independent of each other means that the existence of a given trait does not predispose that culture to having one of the other traits. These five empirically verified dimensions form the foundation for much of the cultural literature reviewed. The conclusions of the study have since been validated over the past 40 years in many subsequent studies of non-IBM groups.<sup>2</sup> Data for an additional 16 countries was added in the 1980s. Hofstede's study, which continues to be one of the most cited sources in the Social Science Citation Index, is considered a research classic and is a foundation of the modern study of culture.

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<sup>2</sup> For a list of those studies see Hofstede (2001: 91-92, 154-155, 219-220).

Three of the cultural dimensions identified are very relevant to the auditing profession:

1. How individuals deal with inequality (that is, with authority and power)
2. How society deals with uncertainty
3. How individuals in a society relate to groups in their society and how those groups in turn relate to individuals.

Using interview questions and factor analysis, Hofstede developed a numerical scale that made it possible to compare a trait in one culture with the same trait in another culture. The numerical scores for the independent dimensions for a particular culture can be used to form a cultural “fingerprint” of a given country’s culture.<sup>3</sup>

The measure of each of the dimensions for each country have been found to remain unchanged even when the analysis is limited to the more highly educated members of the sample who were interviewed, such as managers and professionals. For that reason, the comparability of the dimensions is likely to be applicable to professional accountants from country to country. The three dimensions that may result in difficulties with a globally consistent application of the ISAs are as follows<sup>4</sup>:

1. *Power distance*. The extent to which less powerful members of organizations and institutions accept and expect that power is distributed unequally.

Cultures with a low power-distance index work actively to decrease the appearance and

influence of power inequality. For example, the former Prime Minister of Austria, Bruno Kreisky, made a practice of riding the subway to work (Gladwell 2008: chap. 7). Cultures with a high power-distance index acknowledge and respect power difference. For example, in a culture with a high power-distance index, a junior staff accountant would not expect to be permitted to communicate directly with a partner. The indices vary from 1 to 100. Austria has a relatively low power distance index (11), whereas India has a relatively high index of 77 (see Appendix B, Figure 4).

2. *Uncertainty avoidance*. The extent to which a culture programs its members to feel either uncomfortable or comfortable in unstructured situations.

This index measures how much ambiguity and deviation from set procedures a culture is able to withstand. Values range from 1 (low need to avoid uncertainty) to 115 (high need to avoid uncertainty). A culture with a limited ability to tolerate uncertainty will need more information and possibly time to reach a decision than one that is able to better tolerate uncertainty. People in a culture with a high ability to tolerate ambiguity can live with fewer rules for day-to-day living, because they are more confident in their ability to deal on an ad hoc basis with challenges as they arise. Great Britain (with an index of 35) is an example of a country with a relatively low need to avoid uncertainty; Russia (with an index of 95) is one with a relatively high need to avoid uncertainty (see Appendix B, Figure 4).

3. *Individualism versus collectivism*. The degree to which individuals are supposed to look after themselves or remain integrated into groups, usually around the family. Stated another way, the extent to which a culture expects individuals to act independently as opposed to engaging in a collective lifestyle.

The index ranges from 1 (that is, a low social value is placed on individualism) to 100 (a high social value is placed on individualism). The United States is a good example of a country that

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<sup>3</sup> Countries are often made up of more than one culture. Hofstede has demonstrated that with a very few exceptions a country can be treated as a single culture since in most cases everyone in the same country is subject to similar educational, legislative and political systems and follows a single set of laws. These commonalities reinforce social norms making countries for the most part an acceptable proxy of cultures. The exceptions noted by Hofstede are those of Belgium and Canada where the two distinct language groups in each country have markedly different cultural fingerprints (Hofstede 2005: 18-19).

<sup>4</sup> The other two dimensions identified by Hofstede, the masculinity-femininity index and long- and short-term outlook index have not been reviewed here for the sake of brevity and because they appear to be less directly applicable to auditing.

values individualism (its index is 91); Pakistan is a country that places great value on collectivist behaviour (its index is 14). (See Appendix B, Figure 4).

### **Professional Standards and Culture**

To predict what the influence, if any, of culture would be on the consistent adoption of global standards, I designed and directed a literature search focused on four spheres of professional activity: medicine, peacekeeping, aviation and environmentalism (see Appendix C). The study reviewed a sample of academic literature on the influence of culture in all four professions. That review makes it clear that the effect of culture on standards implementation is both pervasive and considerable. Many researchers noted that translation in and of itself may influence the way in which rules are interpreted, but so too do a person's individualism, respect for authority, tolerance of uncertainty, sex and ability to deviate from tradition. In fact, a failure to understand cultural factors and take them into account has resulted in plane crashes, peacekeeping failures, poor health care and species extinction (McMahon 2004, Gladwell 2008, Rubinstein 1989, Moran 2006).

A number of authors also pointed out that it is nearly impossible for a culture to be able to recognize its own cultural traits and biases. We are, as it were, blind to our own upbringing. This would appear to make it very difficult for standard setters to identify cultural impediments or consequences until the application of a standard has been seen to fail.

From the literature reviewed, it appears that any set of professional standards will have inherent cultural assumptions and biases. This includes the ISAs, in spite of the fact that they have been developed by a committee with members who, from 2002 to 2008, have come from 17 different countries (see Appendix B, Figure B-6). Judging by the experiences of other professions, it is very likely that culture will have some unintended consequences for IFAC member bodies when they adopt the ISAs. As a result, what

is intended to be a single set of rules may well be applied differently in different parts of the world.

Almost all of the literature reviewed was concerned with the negative impact of cultural differences on inter-regional and global interactions. The absence of literature describing successful ways of dealing with cultural obstacles was notable. Although a number of authors made suggestions for solving problems in their fields of study, there were no indications that their recommendations had been acted on or that a magic cure-all exists.

### **Culture and Auditing**

Is an audit engagement in France carried out under global standards performed consistently with audits carried out in Great Britain or South Korea under those same standards? It is unlikely, because the very different cultures of these nations have an effect on the interpretation and practice of audits carried out under similar global standards. The influence of culture on the consistency of implementation of standards between any two countries is pervasive.

A primary reason for the effect that an auditor's culture has on the process lies in the very nature of auditing. Typically, an auditor applies a set of rules (generally accepted auditing standards) to form an opinion on a document prepared by someone else in accordance with another set of rules (generally accepted accounting principles). Since neither set of rules is absolute, it is an understatement to say auditing is an indirect process. The auditor must approach every audit with professional skepticism, must apply considerable professional judgment throughout the process and communicate extensively. As a result, auditing is much more an art than a science. And art is always the product of the artist.

Like any art form, the audit process and the final product are affected by the individual traits of the auditor. The auditor's intelligence, education, approach to ethics and cultural values all come into play in conducting an audit engagement. The auditor's traits are brought to bear when making judgments on both the fairness



of presentation of the document being audited and the application of the audit rules. Personal traits do matter.

Judgment and communication are significant factors in the field of auditing. And the way in which auditors make judgments and communicate with others during an audit engagement is greatly affected by cultural upbringing. Audits performed by auditors of different cultures will look and “feel” different even if those auditors comply with the same set of standards and use the same words to express their opinions. Translating the words alone is not enough; a cultural “translation” is also necessary for consistent application of those standards. One of the most crucial requirements of the audit process is the need for clear communication. Auditors must communicate both orally and in writing with, for example, the members of their audit team, their colleagues in their firm, their client’s management and staff, and those charged with governance and audit regulators. Clear and understandable communication is essential to the process of interpreting rules, applying judgment and forming and reporting opinions.

Communication styles vary greatly by country. For example, junior auditors in some countries such as Canada expect that they will be able to at least talk to the lead auditor on an engagement; in some other countries, such as Malaysia, junior auditors have no such expectation. The same difference in expectations may also occur when an auditor is of a different social class than the senior management of the entity being audited. These cultural differences in communication style will result that audits that look and feel different even though the auditors are following the same rules.

Our patterns and styles of communication and how we exercise judgment depend of course on how we were raised and are based on values laid down in our youth. Communication styles are affected by, among other factors:

- How we react to and deal with inequality (social, economic, educational and so on.) in our day-to-day interactions

- How we respond to every-day uncertainty in our lives
- How we as individuals relate to our social groups and how our social groups relate to us.

These three factors are those identified by Hofstede (2001) in *Culture’s Consequences*. All three of these will have an influence on the application of the ISAs.

## **Culture and the audit process**

### **How Auditors from Different Cultures Deal with Inequality**

We all learn to deal with inequality in our day-to-day lives at an early age. When we are born we are faced with the all pervasive inequality between us as helpless infants and our parents. The inequality gets more specialized as we grow older and we learn to cope with physical, economic, and apparent intellectual inequalities. The inequalities between clients and auditors (which may be based on social class, wealth, apparent intelligence, and so on) and among audit professionals themselves (such as engagement partners and staff) are particularly relevant to auditing.

Communication between people with different amounts of authority (e.g. an engagement partner and a staff accountant) can differ greatly between countries. Cultures with few barriers to communication up and down the chain of command will have a different pattern of communication than those where communication between people of unequal status is less free. The free flow of information between all parties may not be as natural as assumed in the ISAs, and documentation styles may also be markedly different as a result. For example, in some cultures, the members of the audit staff might expect to be consulted or at least be able to have a discussion with an audit partner on various engagement matters such as planning. In other cultures the closest that staff person would get to an audit partner is to see the partner’s name on a door plaque. The measure of this “distance”

between, for example, a subordinate and his boss, is termed the power distance index (Hofstede 2001: 79).

In simple terms, power distance is a measure of a culture's attitude to inequality, the degree to which less powerful members of society, an organization or an audit team accept that power is distributed unequally. In a country with a relatively low power-distance index, inequality is considered an unfortunate fact of life that must be accepted. In an audit engagement team or a firm there will be relatively little "distance" between unequal members, and the decision-making structure will be decentralized. Subordinates expect to be consulted, and the engagement partner is a democratic team leader relying on the support of others.

On the other hand, in a culture with a high power-distance index (that is, where there is a considerable "distance" between unequal members), inequality forms the basis of the social order. Audit teams are likely to have a centralized decision-making structure in which the engagement partner is an autocratic team leader. Subordinates expect to be told what to do.

Cultures with low and high power-distance indices will likely approach ISA requirements in different ways. In countries where subordinates do not have cultural permission to communicate with superiors directly, lines of communication up the audit team's chain of command are likely to be more formal. Lines of communication are likely to be more horizontal when subordinates expect to have access to those with greater authority. In an audit situation, this would result in culture-specific styles of communication.

For example, the ISAs call for a planning discussion among the members of the engagement team. But how can that discussion best be carried out in countries where communication up and down the line of seniority on the engagement team will be limited by cultural customs? Similarly, in a

culture with a high power-distance index, there may be cultural barriers to free-flowing communication between the audit team and the client. This could make it difficult, for example, for an engagement partner to ask the client's senior management direct questions about sensitive issues, such as whether they have knowledge of actual, suspected or alleged fraud (ISA 240.18; see IFAC 2009), and to report serious deficiencies that could imply criticism (ISA 265.09; see IFAC 2009). These communication requirements must be met in all ISA audits. But how auditors actually comply with the standards will be affected by cultural approaches to personal interactions. In some countries, direct discussions of this nature will just not be acceptable.

Moreover, in cultures with low power-distance values, the impetus for small and medium-sized practices to convert to ISA audits may come not only from local leaders in the profession, but also from bottom-up pressure as students push for change. However, in a culture with a high power-distance value, the impetus for change will have to come from those in authority.

On the basis of extensive surveys and interviews, Hofstede (2001: 107) has predicted a number of differences in the work environment arising from differences in a culture's approach to inequality (see Table 1 below). For examples of countries with low and high power-distance indices, see Table 2.

### **How auditors from different cultures deal with uncertainty**

Uncertainty is a fact of life we live with every day. Our societies have developed elaborate systems to ensure, with varying degrees of success, that we will have food and water, shelter to keep us warm, security to be able to go about our lives with safety, and social customs to help us function

**Table 1: Attributes of the power-distance dimension as it pertains to the workplace**

<b>Attributes of a culture with a low power-distance index</b>	<b>Attributes of a culture with a high power-distance index</b>
Decentralized decision structures; less concentration of authority	Centralized decision structures; more concentration of authority
Small proportion of supervisory personnel.	High proportion of supervisory personnel.
Managers rely on personal experience and on subordinates	Managers rely on formal rules
Subordinates expect to be consulted.	Subordinates expect to be directed what to do.
Consultative leadership leads to satisfaction, good job performance and productivity	Authoritative leadership and close supervision lead to satisfaction, good performance and productivity.
Innovations need good champions.	Innovations need good support from hierarchy.

*Source:* Adapted from Hofstede (2001: 107).

**Table 2: Examples of countries with low and high power-distance indices**

<b>Countries with a low power-distance index</b>	<b>Countries with a high power-distance index</b>
Great Britain – 35	Russia – 93
Germany – 35	China – 80
Australia – 36	India – 77
Netherlands – 38	Brazil – 69
United States – 40	France – 68

*Notes:*

1. Global mean 60; global standard deviation 22.
2. For the purposes of this discussion paper, the mean is the arithmetic mean, that is, the sum of values in a data set divided by the number of items in the set. The standard deviation, being the square root of the variance of a data set, is, in simple terms, a measure of how much variation there is from the mean of that data set. Approximately 68% of the values in a data set are within one standard deviation of the mean of that set.

*Source:* Hofstede (2001: 500-502). See also Appendix B, Figure B-4, for source data.

efficiently (driving on one side of the road for example). The ways in which a culture deals with uncertainty are a product of its specific environment. Some of the tools with which we try to control uncertainty in our physical, social and spiritual lives are technology, laws and religion.

The cultural attribute described as uncertainty avoidance is “the extent to which the members of

a culture feel threatened by uncertain or unknown situations” (Hofstede 2001: 161). Uncertainty is not the same as risk. Risk is the probability that a specific event or situation will occur; uncertainty is a state where anything can happen in the future and is a basic fact of human existence.

A culture with a relatively high uncertainty-avoidance index gravitates to more rules-based

systems to reduce ambiguity. People are more likely to view change as dangerous and will act accordingly. A feeling of powerlessness when faced with external forces beyond their control leads to a desire for clarity and structure. On the other hand, a culture with a relatively low uncertainty-avoidance index (that is, a greater tolerance for ambiguity) can cope better with a more principles-based system for dealing with new situations as they arise. People in a country with a low uncertainty index rating tend to view change with curiosity and feel more able to influence their own lives. Consequently they feel more comfortable with ambiguity, new situations and disorder.

Countries with a tolerance for uncertainty will react differently to problem solving than those whose culture has an aversion to uncertainty. Specifically, professionals with a greater cultural tolerance for uncertainty may be comfortable exercising judgment in a principles-based environment, whereas professionals with less cultural tolerance for uncertainty may be less comfortable making judgments in the absence of detailed rules. These cultural differences could result in real differences in the audit process, such as the degree of categorization of control deficiencies and the amount of work deemed an appropriate response to an identified risk. For example, the requirement to “evaluate the design

of those controls [relevant to the audit] to determine whether they have been implemented, by performing procedures in addition to inquiry of the entity’s personnel” (ISA 315.13. see IFAC 2009) is a principles-based requirement that does not stipulate what procedures must be followed in order to ensure compliance. The procedures and hence work effort deemed necessary to satisfy the requirement may differ from culture to culture, especially where an audit team is faced with a situation not previously encountered. An auditor’s work effort will likely increase with the degree of his or her discomfort with new situations. The work effort deemed necessary to reduce risk to a culturally acceptable level in an audit engagement in some countries could be seen as prohibitive and could therefore result in the requirement being applied to different degrees by different auditors.

Different cultural reactions to uncertainty are highly complex. These differences can be expected to have a considerable influence on the amount of work deemed necessary given the constant need to form judgments throughout the audit process.

A sample of differences in the work environment that arise from differences in a culture’s approach to dealing with uncertainty is shown in Table 3. For examples of countries with low and high uncertainty-avoidance indices, see Table 4.

**Table 3: Attributes of the uncertainty-avoidance dimension as it pertains to the workplace**

<b>Attributes of a culture with a low uncertainty-avoidance index</b>	<b>Attributes of a culture with a high uncertainty-avoidance index</b>
Hope of success.	Fear of failure.
Students learn that “Truth” may be relative.	Students learn that “Truth” is absolute.
Weak loyalty to employer; short(er) average duration of employment.	Strong loyalty to employer; long(er) average duration of employment.
Skepticism toward technological solutions.	Strong affinity for technological solutions.
Innovators feel independent of rules.	Innovators feel constrained by rules.
Innovations welcomed but not necessarily taken seriously.	Innovations resisted but, if accepted, applied consistently.
Less resistance to changes.	More resistance to changes.

Source: Adapted from Hofstede (2001: 169).

**Table 4: Examples of countries with low and high uncertainty-avoidance indices**

<b>Countries with a low uncertainty-avoidance index</b>	<b>Countries with a high uncertainty-avoidance index</b>
Denmark – 23	Russia – 95
China – 30	Belgium – 94
India – 40	Japan – 92
United States – 46	France – 86
Germany – 65	Pakistan – 70

*Note:* Global mean 67; global standard deviation 24.

*Source:* Hofstede (2001: 500-502). See also Appendix B, Figure B-4, for source data and statistical analysis.

### **How Auditors from Different Cultures Deal with Groups and Groups with Individual Auditors**

One of the first social skills we learn as children is how to relate to our families. We observe how our parents manage our families, who makes what decisions and how responsibilities are assigned and carried out. As we grow older, these lessons are applied to how we interact with our teachers, community leaders and, of course, our peers. The relationship is a two-way street since we in turn learn how to relate as a member of a group (such as a family, a neighbourhood or a company). The way we relate to groups of individuals and the way groups relate to us is one of the fundamental traits of any society. The relative measure of this interaction between individuals and groups is termed the individualism/collectivism dimension.

The individualism/collectivism dimension “describes the relationship between the individual and the collectivity that prevails in a given society” (Hofstede 2001: 209). This dimension compares, for example, how individuals relate to families, extended families, work groups and teams. In the words of Hofstede (2001: 225):

Individualism stands for a society in which the ties between individuals are loose: Everyone is expected to look after him/herself and her/his immediate family only. Collectivism stands for a society in which people from birth onwards are integrated into strong, cohesive

in-groups [e.g. extended families or sects], which throughout peoples’ lifetime continue to protect them in exchange for unquestioning loyalty.

A high individualism/collectivism index means that a culture sees independence as a positive trait and does not emphasize loyalty to social groups (such as the extended family). A low individualism/collectivism index means that a culture sees dependence on one’s group as a positive trait and stresses loyalty to social groups (such as the extended family).

Cultural differences in relationships between individuals and the groups they commonly interact with could have significant implications for relations within the audit team and between the client and the auditor. In collectivist cultures the hiring of relatives can be commonplace. In individualist cultures the hiring of relatives is usually not the norm and in fact nepotism and cronyism are usually frowned upon. This could have an impact on, for example, the engagement quality-control standard for work review by an audit team requiring that: “work of less experienced team members [be] reviewed by more experienced team members” (ISQC1 33: see IFAC (2009)). The implicit assumption is that the more experienced reviewer will conduct an impartial review of the work performed. However, the impartiality of the review could be affected by a family relationship between the reviewer and the

less senior member of the audit team, a situation that, in many countries, may be very common.

The ISAs clearly set out the audit risks associated with related-party transactions, and the mandatory procedures assume that related-party transactions are inherently risky in an auditing context. However, in many countries related-party transactions are the norm and not the exception. In fact, transactions with "family" or "in-group" parties are preferred in many countries because they are based on a trust shared within the local culture. As a result, it may be hard for local practitioners in such countries to understand how to apply the requirements without some guidance in interpreting what appears to be a cultural assumption in the standard. For example, in a country where transactions among related parties are the norm and not the exception, how will an auditor separate the high-risk transactions in all the day-to-day business conducted with related parties? The relevant standards may therefore be interpreted quite differently depending on the cultural context.

In countries where individual opinions are valued, patterns of communication within groups

(such as an audit team or the client's management) are likely to be very different from those in countries where group consensus is more important. For example, the process of the audit team arriving at a consensus on what internal control deficiencies are classified as reportable to an audit committee is likely to be quite different in a culture requiring group consensus than in one valuing individual opinion. While the end result may be the same, the route to get there could be much different.

A sample of differences in the work environment arising from differences in a culture's interactions between individuals and groups is shown in Table 5. For examples of countries with low and high individual/collectivist indices, see Table 6.

Some interesting and in many cases not surprising differences are evident when we compare the rankings of various countries. Table 7 lists the indices of a sample of countries around the world for all three attributes (see Appendix B, Figure B-4 for the complete list of 69 countries and regions).

**Table 5: Attributes of the individualism/collectivism dimension as it pertains to the workplace**

<b>Attributes of a culture with a low individualism/collectivism index</b>	<b>Attributes of a culture with a high individualism/collectivism index</b>
Relatives of employer and employees preferred in hiring	Family relationships frowned on in hiring
In business, personal relationships prevail over task and company	In business, task and company prevail over personal relationships
Belief in collective decisions	Belief in individual decisions
Interesting work more important than earnings	Earnings more important than interesting work
"Traditional" society	"Modern" or "post-modern" society
Company responsible for employees	Employees responsible for themselves
Less social mobility across occupations	Greater social mobility across occupations

*Source:* Adapted from Hofstede (2001: 244).

**Table 6: Examples of countries with low and high individualism/collectivism indices**

<b>Countries with a low individualism/collectivism index</b>	<b>Countries with a high individualism/collectivism index</b>
Pakistan – 14	United States – 91
China – 20	Australia – 90
Brazil – 38	Great Britain – 89
Russia – 39	Netherlands – 80
Japan – 46	France – 71

*Note:* Global mean 43, global standard deviation 24.

*Source:* Hofstede (2001: 500-502). See also Appendix B, Figure B-4, for source data and statistical analysis.

**Table 7: Cultural indices of selected countries**

<b>Country</b>	<b>Power distance</b>	<b>Uncertainty Avoidance</b>	<b>Individualism</b>
Brazil	69	76	38
China	80	30	20
Denmark	18	23	74
East Africa	64	52	27
France	68	86	71
Hong Kong	68	29	25
Japan	54	92	46
Mexico	82	81	30
Russia	93	95	39
USA	40	46	91
Global mean	60	67	43
IAASB mean	44	51	74

*Source:* Hofstede (2001: 500-502). See also Appendix B, Figures B1 and B4, for source data and statistical analysis.

The United States is close to the top in valuing individualism over collectivist behaviour; China is close to the top in valuing collectivist behaviour over individualism. Denmark and Russia are at opposite ends of the spectrum of how people of different levels of equality deal with each other. China and Japan have markedly different cultural ways of dealing with uncertainty. It should be

noted that the variables are independent of each other; in other words, the existence of one trait does not imply that another will exist. Taken together, these independent rankings form a picture of the cultural dimensions of a country; the fact that every country has a unique set of rankings, indicates that each has a unique cultural fingerprint.

It is interesting to note that the United States, with a relatively low uncertainty-avoidance index and, hence, supposedly a high tolerance for uncertainty, is considered by many accountants to be a country with rules-based as opposed to principles-based, accounting and auditing standards. Given Hofstede's predictions, one might expect exactly the opposite. The answer may lie in the fact that individuals in the United States also have a very high regard for individualist behaviour. Thus, Americans are encouraged to pursue their own beliefs and to act accordingly, and they believe it is their right to do so. Detailed rules may be the result of attempts by professions to enforce some sort of consistent action from practitioners who were raised to act as individuals.

In that vein, the United States is also considered to be one of the most, if not the most, litigious countries in the world. Litigation, where one individual attempts to impose his or her will over another, is the antithesis of collectivist behaviour. The United States court system with its western-based concept of evidence requires detailed rules to be able to operate. These rules, again, could be a product of the litigious environment, which is itself a result of valuing individual behaviour over collectivism.

### **Cultural Attributes Inherent in Global Audit Standards**

What does the identification of cultural traits have to do with the successful implementation of audit standards? As noted above, countries can and do have measurably different cultural fingerprints. Moreover, there is widespread academic support for the belief that all global standards are imbued with the cultural attributes of the people who set the standards. Since the members of the IAASB that have set and approved the ISAs must each have brought his or her own cultural attributes to the table, it would be interesting to see if the IAASB itself has its own cultural fingerprint.

It must first be noted that members appointed to the IAASB have generally had considerable experience on the international stage before

joining the Board. With their prior exposure to a variety of cultures over the course of their business careers, one might expect the members to be culturally neutral. However, as Hofstede demonstrated so forcefully in his study, which has been replicated many times with the same results, exposure to different cultures as an adult has little effect on the way people act in their day-to-day dealings with other people. Although people may acquire much new information as adults, it appears that the way in which it is processed depends mainly on their cultural upbringing. Avoiding cultural bias is not possible.

Take for example the process of collective decision making. In my experience, one or a small number of people will often champion a position, make the case before the group and carry the day. This type of interaction favours members who have experience with and value the expression of individual opinions in a group. But persons raised in a culture that values group over individual expression of opinion could be at a disadvantage in a situation where individual opinion is often very persuasive. I suspect that if the IAASB had been founded in South East Asia, the standard-setting process and dynamics of the standard setting boards might be quite different from what they are today.

### **Physiological Resistance to Cultural Change**

There appear to be significant differences between the average cultural attributes of IAASB member countries of origin and those of many of the IFAC member-body countries (see Table 8). Is it possible that IAASB members have learned and adopted cultural values different from those of their countries of origin? In short, can people in general learn and adopt a new cultural orientation as adults?

Recent research in human-brain development suggests that cultural transformation verges on impossible without an inordinate amount of effort. Some time around the age of 10 to 12, the neuro-chemistry of the brain switches off the ability to almost effortlessly absorb certain types of new information such as language and social



development, and focuses on reinforcing and developing what is already there. The actual number of neural connections in adults is actually 50% less than those in young children (Doidge 2007: 42). Since most of our cultural inheritance is passed on to us in our first decade, it is implanted before the consolidation takes place. Subsequent physiological development reinforces already programmed beliefs and ways of relating to our environment rather than creating new ones. This explains in part why immigration so often creates the phenomenon called culture shock once the euphoric stage of moving to a new country passes. Unless an immigrant lives in a compound of like-cultured people in the new country, the new stimulations not only require the learning of new everyday activities, but they also challenge (not change) existing cultural brain programming. Cultural reprogramming, which requires the neural pathways in the brain to be reprogrammed, is extremely difficult to do short of being brainwashed, and often it does not occur until the second, and sometimes the third, generation after immigration. As Doidge (2007: 299) writes:

Cultural differences are so persistent because when our native culture is learned and wired into our brains, it becomes “second nature” seemingly as “natural” as many of the instincts we were born with. The tastes our culture creates – in foods, in type of family, in love, in music – often seem “natural,” even though they may be acquired tastes. The way we conduct non-verbal communication – how close we stand to other people, the rhythms and volume of our speech, how long we wait before interrupting a conversation – all seem “natural” to us, because they are so deeply wired into our brains. When we change cultures, we are shocked to learn that these customs are not natural at all.

We now understand that this cultural programming is more than just a state of mind. In 2000, Merlin Donald, a Canadian cognitive neuroscientist, proposed that different cultural upbringing results in differences in the way the brain physically functions (Donald 2003: 19-38). It has since been shown that differences in brain

functions can only occur if the actual anatomy of the brain is different. Cross-cultural studies on people from the United States, Korea, China and Japan have demonstrated that when people from different cultures were shown the same images, they actually saw, not just interpreted, different things (Doidge 2007: 302). In short, it appears that the incessant cultural programming we receive every day does have a profound influence on both the physiology of our brains as children and the way we subsequently perceive the world. Altering this perception after adolescence requires an effort that would appear to put substantive cultural change out of the reach of most people unless there is a very compelling need for it.

In short, it appears extremely unlikely that people are able, after adolescence, to understand and adopt a set of cultural values different from their own. If auditors do adopt a set of auditing standards built on cultural assumptions that are radically different from their own, they will need help to “translate” the standards culturally so they can be implemented in a culturally appropriate manner.

Since everyone’s cultural attributes are learned largely in the first 10 years of life and are rarely altered without prolonged and intensive indoctrination, it would be surprising if the standards produced by a group of individuals each with their own cultural leaning did not, at least in part, reflect the group’s cultural norm.

### **Assessing the IAASB’s Cultural Fingerprint**

To determine whether the IAASB has its own cultural fingerprint, I looked at the country of origin of the 18 IAASB voting members from 2002 through 2008. Those years encompass the entire Clarity Project in which all of the ISAs effective for years beginning December 15, 2009, were redrafted or revised. For each year I compared the mean Hofstede index of the country of origin of each of the IAASB members with the mean for all 69 countries and three regions, again as measured by Hofstede (see Appendix B, Figure B-1).

All IAASB members are instructed to vote according to their own opinions. In addition, it must be noted that the IFAC Nominating Committee goes to great lengths to balance regional, gender, and professional diversity in arriving at the best person for the position on

committees. Nevertheless, as can be seen in Table 8, the mean indices indicate that the Board appears to have a distinct cultural leaning, and this leaning is different from that of many countries represented in IFAC.

**Table 8: Means of Hofstede cultural indices compared to means of IAASB Board members' countries of origin indices**

<b>Attribute</b>	<b>IAASB 2002-2008 mean</b>	<b>IAASB standard deviation</b>	<b>Hofstede mean</b>	<b>Hofstede standard deviation</b>
Inequality	44	16	60	22
Uncertainty	51	17	65	24
Individualism	74	20	43	24

*Note:* See Appendix B, Figures B6, B7 and B8, for all source data and statistical analysis.  
*Source:* IAASB annual reports, 2002 to 2008, <http://www.ifac.org>.

If the IAASB collectively has a distinct cultural fingerprint originating from the members' countries of origin, then that fingerprint has the following characteristics:

In the relative measure of dealing with inequality, the IAASB mean of 44 is outside the range of one standard deviation of the Hofstede global mean of 60 (that is, 68% of all country rankings are between 49 and 71). The IAASB members come from countries where the cultural barriers between individuals of unequal authority or power are significantly less than the mean of the 69 countries measured by Hofstede. This could predispose the standards to assume there is more cultural permission to communicate than actually exists in many countries. The IAASB standard deviation is also a narrower range than that of the global group (that is, the cluster is more tightly grouped around the mean). In other words, the IAASB grouping is more focused than that of the global population as a whole.

As regards tolerance for ambiguity, the IAASB mean is again outside of one standard deviation of the Hofstede global mean. Since IAASB members have in the past generally come

from countries with a greater tolerance for uncertainty than the global mean, it could be inferred that the standards which the members have approved are more principles based than many countries may find comfortable. Thus, some cultures may have difficulty understanding how to apply professional judgment to the extent that is familiar to the standard setters.

Most significantly, the countries of origin of IAASB committee members greatly favour individualism over collectivist behaviour. The IAASB member country of origin mean is 74, whereas 68% of the global mean is between 31 and 55, a score that favours collectivist behaviour over individualism. Again, it could be inferred that the standards were approved on the assumption that auditors will generally act in ways that value individual as opposed to collectivist behaviour.

I was raised in Canada, a country that values individualism, has a tolerance for uncertainty and has a relatively flat social hierarchy. Canada's cultural fingerprint is very close to that of the IAASB mean in all three categories. The clarified ISAs are written with what appear to be the

following assumptions, which are all very familiar to me:

- There are requirements mandating a great deal more communication with all parties involved in the process. Although I may have to spend more time communicating, I foresee no cultural barriers to doing so. But I am not sure how I would implement the standards on engagement acceptance, planning, communicating with those charged with governance and group audits if I felt there were prohibitions on asking clients for information on and discussing sensitive issues such as fraud, compliance with laws and regulations, and control deficiencies. Planning would also be quite different if I were not used to discussing issues with anyone in my firm. In short, my communication processes under the clarified ISAs will differ for me in degree but not in kind.
- The clarified ISA requirements assume that transactions between unrelated parties will generally take place at fair value and that there is a greater risk that those between related

parties may not. This fits well with my Canadian environment, where bribery is illegal and it is assumed that transactions take place between unrelated parties at fair value. Similarly, since in my environment transactions between related parties are not the commercial norm, they need to be examined more closely. I am not sure how I would implement the ISAs in an environment where bribery is accepted as a common business practice and transactions with related parties are the norm.

Those are two examples of apparent cultural assumptions I have been made most aware of in my research. I am sure there are many more of which I am not aware.

Over the past seven years, the majority of IAASB voting members have come from the so-called “developed nations.” Differences in relative cultural attributes are even more apparent when relative rankings of the BRIC group (Brazil, Russia, India and China), a proxy for developing nations, are compared with those of the IAASB fingerprint.

**Table 9: Hofstede cultural index for BRIC countries compared to the IAASB Board mean by members’ countries of origin**

<b>Attribute</b>	<b>Brazil</b>	<b>Russia</b>	<b>India</b>	<b>China</b>	<b>BRIC mean</b>	<b>IAASB mean</b>
Inequality	69	93	77	80	80	44
Uncertainty	76	95	40	30	60	51
Individualism	38	39	48	20	36	74

*Note:* See Appendix B, Figures B1 and B4 for all source data and statistical analysis.

Although the four BRIC countries may not be a perfect proxy for the developing nations as a whole, the cultural attributes of this group for all three traits are markedly different in the following ways from those of the IAASB members’ countries of origin over the past seven years:

The BRIC mean for dealing with inequality is much higher than the mean for the countries of origin of the IAASB members. This indicates that, on average, relationships within audit teams and between clients and auditors are likely to be more authoritarian in the BRIC countries than in the countries of origin of the IAASB Board members.

BRIC countries have either significantly more or significantly less tolerance for uncertainty than

the countries of the IAASB Board members. In other words, the ISAs may be pitched to suit none of the BRIC countries in terms of tolerance of uncertainty.

Most notably, the mean of the countries of origin of the IAASB's members greatly favours individualism over collectivist behaviour. The BRIC mean, on the other hand, reveals a culture that values collectivist over individual behaviour. This difference is even more pronounced than when the mean of the IAASB members' countries of origin (74) is compared with the global mean. (See Appendix B, Figure B-4.)

Appendix A analyzes some of the differences in audit "style" that could occur in audit requirements for a selection of the following International Standards on Auditing<sup>5</sup>:

- Engagement acceptance (ISA 210)
- Quality control (ISA 220)
- Fraud and irregularities (ISA 240)
- Communicating with those charged with governance (ISA 260)
- Risk assessment and response (ISAs 315 and 330)
- Related party transactions (ISA 550)

## A Model of Cultural Interaction

The literature review confirmed that standards intended for global adoption have the built-in cultural bias of the standard setter (see Appendix C). The IAASB appears to have a distinct cultural fingerprint, and that fingerprint is different from that of many countries which are in the process of adopting the standards. As a result, standards may be implemented inconsistently. Given this possibility, what, if any, is the obligation of the standard setters to practitioners (that is, their

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<sup>5</sup> Being an immigrant raised in Canada by parents born in England I have my own set of cultural attributes. I do not presume to be able to predict how, or understand why, people from other countries would react in any given situation. My analysis of possible implications is not based on empirical data since audit standards have not yet been implemented. The actions hypothesized by Hofstede and others over the past 40 years, on the other hand, are based on information obtained from the tens of thousands of surveys and interviews with professionals around the world.

member bodies) to ensure both effective and efficient application in the field? To answer that question, I will examine a model of cultural interaction developed for the aviation industry, an industry that has significant parallels with the auditing profession.

First to the auditing profession: Many types of entities either require or request audits. These entities can be divided into two main categories: those that raise funds on the world's capital markets (listed entities)<sup>6</sup> and those that do not. Today the majority of the world's invested capital is in the United States and other western countries (see Appendix B, Figure B-5). These countries have been largely responsible for the development of securities trading rules and regulations, including the requirements for financial reporting and the need for listed entities to have their annual financial statements audited as a condition of participating in the market. If market participants and the auditors engaged to audit them want to play in these capital markets, they have to play by the market setter's rules. The group that sets the rules can be described as the dominant group, and the rest of the world as minority players who must adopt the rules of the dominant group if they want a seat at the global capital table. However, although the auditors of listed public entities must follow the audit rules specified by the world's capital markets, auditors of non-listed entities need not. Instead, they must follow the rules established by their local member bodies, many of which are IFAC members, or by their local regulatory bodies. IFAC member bodies, in turn, have agreed to abide by IFAC audit standards as a condition of membership. Therefore, all auditors governed by either an IFAC member body or a local regulator that has adopted IAASB audit standards will presumably be required to follow the ISAs at some point in the future.

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<sup>6</sup> A Listed Entity is defined in the IFAC *Handbook of International Standards on Auditing and Quality Control* as: "an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body" (IFAC 2009: 27).

But local economies are not governed by the requirements imposed by global capital markets and local auditors are not subject to global audit regulation. Therefore, if the ISAs are to be adopted consistently around the world, they must make sense to the participants in the local economies. Among the many factors that will determine whether this adoption of global standards will succeed, that is, will result in effective and efficient audits, are the educational, ethical and cultural characteristics of auditors. But whereas the IFAC standards include educational and ethical requirements for auditors, they have nothing to say about cultural characteristics.

**Parallels with the Aviation Industry** Global capital markets as discussed above have parallels with the aviation industry. In the aviation industry, the dominant stakeholders are the United States and other western countries. They are the principal developers of aviation technology and have established and maintain the safety rules and regulations for commercial flight in North America and Europe. This is not surprising, given that this group is responsible for over 70% of world departures.<sup>7</sup> Aviation rules and regulations have been “exported” around the world in that all airlines wanting to fly to and from the United States and other western countries must comply with “global” safety rules and regulations. The system has met with varying degrees of success. A number of major airplane disasters have resulted from cultural “misunderstanding” of the imposed aviation rules (Gladwell 2008: Chap. 7).

The University of Texas Human Factors Research Project has studied the question of cultural characteristics extensively in relation to the global aviation industry (Merritt 2003: 797-

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<sup>7</sup> In 2000, the aviation industry contributed 9% of US GDP (US\$ 900 billion). The places of origin of air travel were as follows: United States 40%, Europe 26%, Asia-Pacific region 11%. The 100 smallest state members of the International Civil Aviation Organization contributed in total less than 0.5% to global aviation activity. North America accounted for 19% of all crashes, less than half of its share of the percentage of departures, whereas Africa, with 3% of all departures, accounted for 16% of all crashes, a rate five times as great as its share of departures (Merritt 2003: 797).

802). The conclusions of the study appear to be highly relevant to the upcoming implementation of the ISAs. Merritt developed a model of cultural interaction to analyze the various situations in which a dominant culture develops standards and then expects these standards to be adopted by minority cultures. Merritt’s model, which refers to the global commercial aviation industry, explores the following four options:

**Option 1: Assimilation** (One size fits all)  
Minority culture(s) learn and adopt dominant culture’s ways completely.

**Option 2: Cosmetic compliance** (Let’s pretend)  
Minority culture(s) give the appearance of adopting the dominant culture’s ways

**Option 3: Integration** (Informed local solutions)  
Minority and dominant cultures learn each other’s ways and modify their approaches

**Option 4: Marginalization** (Regional enclaves)  
Minority culture(s) are unable to assimilate; no other option; minority is isolated

The four options can be applied to the global adoption of the ISAs as follows:

#### **Assimilation**

The assimilation option assumes that all countries adopt the ISAs and adopt the cultural dimensions inherent in the standards. That is, all auditors learn and understand the cultural assumptions in the ISAs affecting working practices, communications and client-auditor relations. As Merritt (2003: 799) points out in reference to the aviation industry:

The closer that a country is in terms of political socio-economic and aviation factors to the dominant culture, the more chance it has of fully assimilating into the dominant culture model and succeeding.

For the global accountancy firms, it may be feasible to adopt this one-size-fits-all option for audits of listed entities. That is because the global firms have developed safeguards to promote

worldwide consistency of application of the ISAs, including, among other measures, extensive professional development programs, partner placements in international offices, frequent inter-office visits by partners and standardized methods of inter-office communication. In fact, the creation of audit requirements that could be applied to all global public companies was a primary goal in the development of ISAs.

This top-down, one-size-fits-all option is based on the assumption that all cultures will learn and adopt the cultural dimensions inherent in the ISAs. It requires local practitioners in many countries not only to learn a new set of rules, but also to understand and, more important, to adapt to the cultural assumptions underlying the ISAs. For both practical reasons (such as time and out-of-pocket costs) and political reasons, it will not be feasible for all small and medium-sized firms and their member bodies to do that. This is especially likely because, once cultural traits are ingrained, they are exceedingly hard to change.

As previously noted, it appears extremely unlikely that auditors will be able to understand and adopt a set of standards based on cultural values significantly different from their own. If they are to understand and adopt a set of auditing standards built on cultural assumptions which are different from their own, they will need help to “translate” the standards into a cultural language that they recognize.

Finally, imposing a global one-size-fits-all option on all auditors has elements of cultural imperialism.

### **Cosmetic compliance**

Again, in Merritt’s (2003: 800) own words:

Cosmetic compliance applies to those cases where the minority culture(s) want to emulate the dominant culture and its practices, but full assimilation is not possible, usually because they do not share the same contextual traits. The result is superficial adherence based on incomplete understanding of mismatched tools and priorities. It’s like trying to play the game when you don’t know the rules, or you know them, but they don’t make sense to you.

In this scenario, practitioners may use their best efforts to apply the standards, but they do not understand the full context in which they are set or they may say they are applying the new standards and continue business in their usual way. In either case, implementation would be inconsistent, ineffective and inefficient.

An example of this is an auditor applying the related-party requirements blindly in a case where related-party transactions are the cultural and hence business norm. The point of this standard is to reduce risk of material misstatement to an acceptable level when a transaction may be outside the normal course of business. But to apply this standard to all transactions in the normal course of business would miss the point of the standard and would not be useful.

### **Integration**

The integration option, where both the dominant and minority cultures learn each other’s ways in order to negotiate a truly one-size-fits-all solution, is an ideal that may not be practical. Integration assumes (a) a willingness on the part of the minority group to study and learn the cultural dimensions inherent in the ISAs; and (b) a willingness on the part of the dominant global adopters to accept changes that will facilitate consistent application. The trade-off is between a single set of standards that fits the dominant culture well and a more flexible set of standards that are more adaptable to local situations.

Merritt (2003: 800) states in reference to the aviation industry:

The concern for global safety, threats in common airspace, or the promise of new customers, all move us toward an Integrationist perspective. On one level, Integration is obvious and trite – a plea for mutual understanding. It is however the only way to develop *efficient* solutions to local problems, and it is anything but simple in its execution.

This option is likely the most expensive in time and money, as it requires an ongoing discussion among all parties adopting the standards and a

willingness to negotiate change where necessary to resolve critical local issues. There is also the danger that the negotiations will result in standards that are too flexible and hence, less rigorous.

### **Marginalization**

If local practitioners consider that implementation will cost too much time and money, or the cultural differences between a minority country and those inherent in the ISAs are too large, then local member bodies may revert to the pre-ISA status quo and make no attempt to implement the global standards at all. If local auditors refuse to issue assurance reports based on standards sanctioned by their member bodies, global adoption of the ISAs and hence global audit consistency will not be achieved.

Marginalization differs from Cosmetic Compliance in that no effort is made to follow the standards. (In the case of Cosmetic Compliance, the effort is ineffective because auditors lack the understanding to apply the standards properly.) In some ways Marginalization is preferable to Cosmetic Compliance since the rules are stated explicitly and understood by everyone.

Merritt (2003: 800) concludes her analysis of the cultural integration options in relation to aviation safety standards as follows:

To be fair, contextual and cultural assumptions are built into all models and tools and rarely articulated; aviation safety is no different.

Whether one advocates Assimilation (Do Like Us) or Integration (Informed Local Solutions) as the best model of global air safety, the first step has to be explicating the underlying logic and intent of the dominant culture models and tools. And this, I believe, is *the only real obligation that the dominant culture has to minority cultures – to explain the assumptions and contextual factors that underlie its latest technology and procedures.* The minority culture(s) cannot do this; it has to come from insiders of the dominant culture.

I believe it is the *obligation of the minority culture(s) to assess the extent to which*

*conformance to the dominant model is plausible.* [All emphasis is Merritt's.]

Applying Merritt's conclusions about the aviation industry to the audit profession, we can see that if we want our standards to be applied consistently around the world, it is not enough just to develop the standards and distribute them. When it comes to auditing at the local level, the implication is that IFAC member bodies need to help local practitioners interpret the standards in a culturally appropriate manner.

### **Barriers to Implementation of a Global Vision of Auditing**

The Internet has made the vision of the world as a global village a reality.<sup>8</sup> The imminent introduction of a set of uniform auditing standards makes the vision of a global auditing profession a possibility for the first time. IFAC is the professional world leader in that respect. Differences in auditing practice at the local level, though not a serious issue in the past, must now be met head on if the vision of a single set of auditing standards in use around the world is to be realized.

Translating a world vision into reality is not always easy because we all have our own culturally based visions of the world. In 1543, Nicolaus Copernicus announced to the western world that the earth might not in fact be the centre of the universe. This was a profound shock to his culture, and Galileo Galilei was subjected to the inquisition in 1615 just for his tentative support of the theory. Similarly, for many of us it is a rude awakening when we discover that our way of living in and relating to the world is not a universal norm.

A strong sense of cultural identity, of social belonging and connection to others, is essential to our confidence and self-esteem. Confidence and self-esteem are two hallmarks of a good professional accountant who is often required to

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<sup>8</sup>The Canadian educator, philosopher and scholar, Marshall McLuhan, coined the term in 1962 to describe his vision of how the globe would become a virtual village as a result of electric technology enabling the instantaneous dispersal of information around the world.

make difficult and complex judgments in the course of an audit engagement. That strong sense of cultural identity must be maintained for the good of the profession because it is essential for clear and effective communication between auditors and clients and within audit teams. If local auditors try to communicate in their own countries in ways foreign to them and their clients, communication will be unclear and the audit process may well break down. All communication in an audit must be culturally appropriate if it is to be effective.

Some of the ISA requirements are procedural in nature and require neither significant judgments to be made nor very much communication. I suspect these requirements can be implemented fairly easily and consistently without much cultural interpretation. How the results of the procedures are interpreted, however, will depend on how clearly the auditor understands the objectives of those procedures. Many requirements which call for considerable professional judgment or communication will need cultural translation if they are to be applied consistently. Member bodies will be invaluable in helping local practitioners to implement these requirements.

Researchers and member bodies that provide guidance to local practitioners must be careful when doing so. We all see the world through our own cultural lenses, and we can interpret the ISA requirements only from that perspective. Member bodies that obtain implementation guidance from other countries must realize that the preparer will have interpreted the requirements from the cultural perspective of his or her own country, which may or may not be locally appropriate. Similarly, member bodies in countries with cultural characteristics significantly different from those embedded in the ISAs may misinterpret the intent of the requirements and inadvertently give misleading guidance to local practitioners.

It is essential that the people who prepare implementation material be aware of their own cultural attributes and those underlying the ISAs. That awareness might be achieved by holding

training and information-sharing sessions where professionals from different countries who are preparing implementation material for local practitioners can discuss the issues. There are likely to be significant benefits from sharing implementation experiences of different countries in venues such as the annual IFAC Small and Medium Practices Forum.

### **Towards Achieving Consistency of Auditing Practices Globally**

Starting in 2010, many countries will be adopting the ISAs. Implementation is taking place at two main levels: (1) multinational company audits dominated by global accounting firms, and (2) local entity audits dominated by small and medium-sized local accounting practices.

Global accounting firms are currently developing their procedures and putting them into practice in their offices around the world, and IFAC member bodies are preparing to offer guidance on implementation to their practitioner members. The global assurance departments of the big-four public accounting firms are for the most part operating out of the United States and Great Britain. The global firms' assurance methodologies will reflect the culture of those in charge of preparing the material. Multinational accounting firms with uniform global audit methodologies are likely to have more success in achieving consistent application than many local practitioners in non-western economies. It may not, however, be all smooth sailing for the multinational firms, as Hofstede discovered in his study of IBM plants worldwide. Corporate cultural attributes are often quite superficial in comparison to cultural attributes learned in youth.

If inconsistencies in the application of the ISAs do occur, they will probably, however, be most pronounced between small and medium-sized local practices in different countries (that is, although a single country may achieve consistency, cultural differences may result in audit practice that differs considerably between countries). When preparing implementation guidance, member bodies, especially those of the



smaller countries, will likely either borrow from material that was developed by the larger member bodies (Australia, Canada, continental Europe, the United Kingdom and the United States) and that was prepared according to the cultural dimensions of the preparers, or will develop their own material incorporating their own set of cultural assumptions. It is hard to argue against the assumption that IFAC member bodies with cultural attributes closely aligned with those inherent in the ISAs will have an easier time adopting the standards than those with dissimilar cultural attributes.

## **Recommendations**

### **Recommendation 1**

**Since the top-down approach of assimilation assumes adoption of cultural values inherent in global standards and will not result in effective implementation in all cases, it should not be forced by global standard setters on all implementing bodies.**

The top-down approach of assimilation appears to be the most effective for cultures with attributes similar to those embodied in the ISAs. However, this could result in marginalization of countries where cultural attributes are so dissimilar as to make adoption of the ISAs ineffective. An attempt at integration could prevent marginalization, but it might also result in standards that are either too flexible or too rigid. In short, some compromise between assimilation and integration may be necessary.

### **Recommendation 2**

**Global standard-setting bodies, including the IAASB and the IESBA, should determine the cultural assumptions inherent in the standards that they have produced and should explain to all implementing bodies exactly what those assumptions are.**

The question is: How can IFAC best achieve consistent application of standards globally at the member-body level? To promote international

convergence, I believe the most helpful service global standard setting bodies can offer is to determine and explicitly communicate to all implementing bodies the cultural assumptions inherent in the standards they have produced. This will provide valuable information to member bodies attempting to provide culturally appropriate implementation material to their members.

As we all tend to be blind to our own cultural biases, the task of identifying cultural attributes in the standards will likely need to be carried out by a group other than the standard setting boards themselves, and most likely by a group of individuals from a variety of cultures.

Once the cultural assumptions have been enumerated, they should then be communicated to member bodies so that standards implementation material can be crafted to suit local environments. The IAASB implementation Task Force has concluded that meaningful information on the degree of consistency of ISA implementation will not be available before 2013 at the earliest. It would be useful to have examined the cultural assumptions imbedded in the ISAs before that time to assist member bodies to deal with inevitable implementation concerns.

### **Recommendation 3**

**IFAC should focus its implementation assistance in those countries whose cultural fingerprints differ the most from that of the standard setter, especially those countries with both a relatively high aversion to uncertainty and a high power/inequality index.**

The countries that are likely to be most resistant to change at the local level are those with a high aversion to uncertainty. It could be especially difficult to “sell” the new standards at the local level in these countries. The change in standards may also be complicated by the existence of vested local economic interests of both clients and firms. In these countries implementation will probably start with the multinational firms and, over time, spread to the small and medium-sized practices as students trained in the ISAs bring their knowledge of the ISAs to the

workforce. IFAC member bodies and local audit regulators will have a crucial role in explaining the benefits of the global standards to their members. Publications by IFAC, such as the September 2008 position paper, “IFAC’s Support for a Single Set of Auditing Standards: Implications for Audits of Small- and Medium-sized Entities,” which explains the global benefits of convergence, should be very helpful to these member bodies.

In countries with high power/inequality indices, the adoption of new audit standards will have to begin with the leaders of the local professions or firms since those are the people that subordinates in those countries look to for leadership. In such countries, the focusing of implementation efforts on people entering the profession may not have much effect on the adoption of the standards.

Perhaps the hardest sell will be to auditors in countries with both a high aversion to uncertainty and a high power/inequality index. I hope that leadership from the multi-national firms will gradually result in a measure of compliance on the part of small and medium-sized practices. Again, local audit regulators will probably play a vital role in promoting implementation of the global standards in these countries.

#### **Recommendation 4**

**Global standard setters should resist pressure to change global standards to fit local needs. The focus should instead be on ensuring that local implementing bodies understand the principles underlying the standards so that they can prepare culturally appropriate implementation guidance.**

Should the standards themselves be changed to suit local cultural conditions? The answer is no. The standards were developed after extensive due process in a transparent environment, with considerable public interest oversight throughout the process. Changing the standards themselves to suit local needs would be self-defeating since the goal of the Clarity Project is to have one set of standards used by auditors worldwide. The

standard-setting process and the standards issued need not be changed.

#### **Recommendation 5**

**A global standard-setting body should be composed of members with the best qualifications for the task of setting the standards for which that body is responsible.**

Should the composition of the members on the standard setting bodies be adjusted to more closely align with the mean cultural profile of the world? Again, I believe the answer is likely no. The IFAC nominating committee goes to great lengths to ensure they get the best people available for the positions available while balancing regional, economic, practise size and gender composition. This is no mean feat. As debate is essential on standard-setting boards and expression of personal views critical to that, it seems evident that individuals from cultures which value individual expression of opinion are essential to the process. But then that is just my personal opinion based on my own cultural background.

#### **A Final Note**

Nature is full of proof that diversity breeds strength and that monoculture and in-breeding often result in weakened species. With the introduction of a global set of audit standards, auditors around the world have a truly historic opportunity to learn from one another and to shape and strengthen the auditing profession. This sharing of diverse experiences and practises can only result in a stronger profession, more robust and better-run businesses and stronger economies for all countries. The key is for auditing professionals in all countries to keep open minds and to continue to learn from one another.

My partner, Rajesh Mehta, and I come from distinctly different cultural backgrounds. We both work successfully with the same set of auditing standards, although the way we implement them is often quite different. Had we understood in 1986 the effects of our cultural upbringing on our auditing practices, I suspect we would have had a

much easier time reconciling our approaches. The way forward for us now seems less complex.

## Appendix A: Sample of ISA requirements with Potential for Inconsistent Application

ISA reference	Requirement	Dealing with authority (power-distance)	Dealing with uncertainty (uncertainty-avoidance)	Dealing with groups (individualism)
ISA 210	Agreeing the terms of audit engagements			
210.06(b)	<p>The auditor shall: ...</p> <p>(b) Obtain the agreement of management that it acknowledges and understands its responsibility:</p> <p>(i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;</p> <p>(ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error</p>	<p>The requirement assumes the auditor and management can have frank discussions about sensitive issues. Otherwise actual understanding could suffer (i.e., “Education” of management in the audit process by an auditor might not be socially acceptable, or management might not be comfortable with asking an auditor for clarification.)</p>		
210.19	<p>If the auditor has determined that the financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation, the auditor shall accept the audit engagement only if the following conditions are present:</p> <p>(a) Management agrees to provide additional disclosures in the financial statements required to avoid the financial statements being misleading</p>		<p>An auditor and /or management may have more difficulty coming to this conclusion in a country with a high tradition of adherence to law and regulation than in a country with less reverence for the law.</p>	

ISA reference	Requirement	Dealing with authority (power-distance)	Dealing with uncertainty (uncertainty-avoidance)	Dealing with groups (individualism)
ISA 220	Quality control for an audit of financial statements			
220.11	<p>The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall: ...</p> <p>(c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards</p>			In cultures where dealing with in-groups is the norm rather than the exception, the opinion of an engagement partner as to what constitutes a threat to independence may be different than in cultures where this is not the case. Safeguards will need to be culturally appropriate.
220.20	<p>The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:</p> <p>(a) Discussion of significant matters with the engagement partner</p>	Assumes that the engagement quality-control reviewer and the engagement partner can have frank discussions. For example, a senior manager may be an appropriate engagement quality-control reviewer in some cultures but may be culturally inappropriate in others.		An engagement quality-control reviewer in a firm that values collectivist behaviour may be reluctant to criticize a colleague's work directly under any circumstances. Culturally appropriate methods of expressing criticism may have to be developed.
ISA 240	The auditor's responsibilities relating to fraud in an audit of financial statements			
240.15	ISA 315 requires a discussion among the engagement team members and a determination by the engagement partner of which matters are to be communicated to those team members not involved in the discussion. The discussion shall occur setting aside beliefs that the engagement team members may have	The extent to which the various members of the engagement team take part in the discussion will depend on the cultural attitude to inequality. The discussion could range from		

ISA reference	Requirement	Dealing with authority (power-distance)	Dealing with uncertainty (uncertainty-avoidance)	Dealing with groups (individualism)
	that management and those charged with governance are honest and have integrity.	a de facto lecture by the engagement partner to a full sharing of ideas by all members of the audit team and a resulting group consensus.		
240.17	The auditor shall make inquiries of management regarding: (a) Management’s assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments; (b) Management’s process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist	Assumes that the auditor and management can have frank discussions about sensitive issues. In a culture where it is unacceptable to discuss sensitive matters directly, the approach will have to be different than in a culture where such discussions are acceptable.		In a country valuing individual expression of opinion, the response of a single person might not represent a group consensus. The process might need to be different and take a longer in a country where individual managers cannot express opinions without consensus of the senior management group.
240.18	The auditor shall make inquiries of management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.	As for 240.17 but widened to include inquiries by the auditor to those charged with governance and others noted in ISA 240.A16.		As for 240.17 but widened to include inquiries by the auditor to those charged with governance and others noted in ISA 240.A16.
ISA 260	Communication with those charged with governance			
260.22	The auditor shall evaluate whether the two-way communication between the auditor and those charged with governance has been	This requirement must be read in conjunction with the overall objective of ISAs		See comment in “Dealing with authority” column.

ISA reference	Requirement	Dealing with authority (power-distance)	Dealing with uncertainty (uncertainty-avoidance)	Dealing with groups (individualism)
	adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any, on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and shall take appropriate action.	200.11(b) and 260.09. Since not all countries have the same way of dealing with inequality, methods of communication will not likely be consistent globally. If communication is to be effective in all audits, it must conform to cultural norms. The resulting evaluation will reflect this.		Communication styles must always be culturally appropriate. Since countries have different acceptable practices for dealing with groups and individuals, communication styles will differ. If the requirement is to be effective in all audits, the evaluation must conform to the cultural norms.
ISA 265	Communicating deficiencies in internal control to those charged with governance and management			
265.06(b)	Significant deficiency in internal control. A deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.	The categorization of a deficiency as significant could depend on the way a country deals with laws and regulations. Auditors in countries with a tradition of adherence to laws and regulations may classify more deficiencies as significant than auditors in countries with less reverence for laws and regulations.	The categorization of a deficiency as significant is likely to depend on the way a country deals with uncertainty. It is possible that auditors in countries with a lower tolerance for uncertainty may classify and report more deficiencies as significant than auditors in countries with a higher tolerance.	
265.09	The auditor shall communicate in writing	See comments on 260.22.		See comments on 260.22.

ISA reference	Requirement	Dealing with authority (power-distance)	Dealing with uncertainty (uncertainty-avoidance)	Dealing with groups (individualism)
	significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis.	The time required to report significant deficiencies could be greater in some countries than others. The proportionate impact of this on time and hence on audit fees would likely be greater on audits of smaller entities than on audits of larger entities.		
ISA 315	Identifying and assessing the risks of material misstatement through understanding the entity and its environment			
315.05	The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels.		Since the extent of the procedures to be performed is not specified, auditors in countries with a lower tolerance for uncertainty may perform more detailed or extensive procedures than auditors in countries with a higher tolerance for uncertainty. This difference in approach to audits could be pervasive throughout ISA 315.	
315.10	The engagement partner and other key engagement team members shall discuss the susceptibility of the entity's financial statements to material misstatement, and the application of the applicable financial reporting framework to the entity's facts and	See comments on 240.15. Both the extent of the work needed for an auditor to comply with ISA 315 requirements and the amount of associated inter-		See comments on 240.15 and across.



ISA reference	Requirement	Dealing with authority (power-distance)	Dealing with uncertainty (uncertainty-avoidance)	Dealing with groups (individualism)
	circumstances.	team communication will likely vary from country to country. Note that fulfillment of the objective of 315 does not depend on the amount of work performed. Rather, professional judgment is key to determining levels of sufficiency and appropriateness of procedures performed.		
315.14	<p>The auditor shall obtain an understanding of the control environment. As part of obtaining this understanding, the auditor shall evaluate whether:</p> <p>(a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and</p> <p>(b) The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control, and whether those other components are not undermined by deficiencies in the control environment.</p>	See above comments in 210.06, 241.06, 240.17, 260.22 for possible inconsistencies in obtaining an understanding of the control environment.	The degree of understanding required by an auditor is likely to vary from country to country depending on how the culture deals with uncertainty.	<p>What is considered ethical behaviour will vary from country to country because there is no global standard of ethics applicable to all businesses on a local level. Consequently, an auditor will, one hopes, evaluate honesty and ethical behaviour against local ethical standards.</p> <p>Considerations are, of course, different when a group auditor can rely on the work of a component auditor.</p>
315.27	As part of the risk assessment as described in paragraph [315] 25, the auditor shall determine whether any of the risks identified	The process of coming to this conclusion depends on the cultural decision-making	Given the various ways in which different countries deal with uncertainty, it is	The process of coming to this conclusion depends on the cultural decision-

ISA reference	Requirement	Dealing with authority (power-distance)	Dealing with uncertainty (uncertainty-avoidance)	Dealing with groups (individualism)
315.28	<p>are, in the auditor's judgment, a significant risk. In exercising this judgment, the auditor shall exclude the effects of identified controls related to the risk.</p> <p>In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following:</p> <p>(e) The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and</p> <p>(f) Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.</p>	<p>style of the audit team (e.g., ranging from a top-down process at one end to team consensus building at the other).</p> <p>As a result, local audit teams from different countries may not always arrive at the same evaluation as to what constitutes significant risk.</p>	<p>hard to imagine that local auditors with dissimilar cultural backgrounds would always agree on what constitutes significant risk on any given engagement.</p>	<p>making style of the audit team (e.g., ranging from individual assessments at one end to group consensus at the other).</p>
ISA 550	Related parties			
550.02	<p>Many related party transactions are in the normal course of business. In such circumstances, they may carry no higher risk of material misstatement of the financial statements than similar transactions with unrelated parties. However, the nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.</p>			<p>In cultures where related-party transactions are the norm and not the exception, transactions with family or "in-groups" are often preferred because they are based on a trust shared within the local culture. As a result, it may be hard for a local auditor to understand how to apply ISA 550 in such a culture without guidance in interpreting the standard from his or her</p>

ISA reference	Requirement	Dealing with authority (power-distance)	Dealing with uncertainty (uncertainty-avoidance)	Dealing with groups (individualism)
				cultural perspective.
550.12	The engagement team discussion that ISA 315 and ISA 240 require shall include specific consideration of the susceptibility of the financial statements to material misstatement due to fraud or error that could result from the entity's related party relationships and transactions.	See comments on 240.15 and 315.10		See comments on 315.10
550.13	The auditor shall inquire of management regarding: (a) The identity of the entity's related parties, including changes from the prior period; (b) The nature of the relationships between the entity and these related parties; and (c) Whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions			In cultures where related-party transactions are the norm, auditors and management may have difficulty understanding why this requirement is necessary and may have difficulty with the volume and variety of disclosures required. Assistance with interpretation will be necessary at the local level.
550.14 to 550.17	“Maintaining alertness for related party information when reviewing records or documents” and “Sharing related party information with the engagement team”			See comment for 550.13 above.
550.27	Unless all of those charged with governance are involved in managing the entity, the auditor shall communicate with those charged with governance significant matters arising during the audit in connection with the entity's related parties.			See comment for 550.13 above. What constitutes a significant matter will depend largely on local culture.

## Appendix B: Statistics, Analysis and Graphs

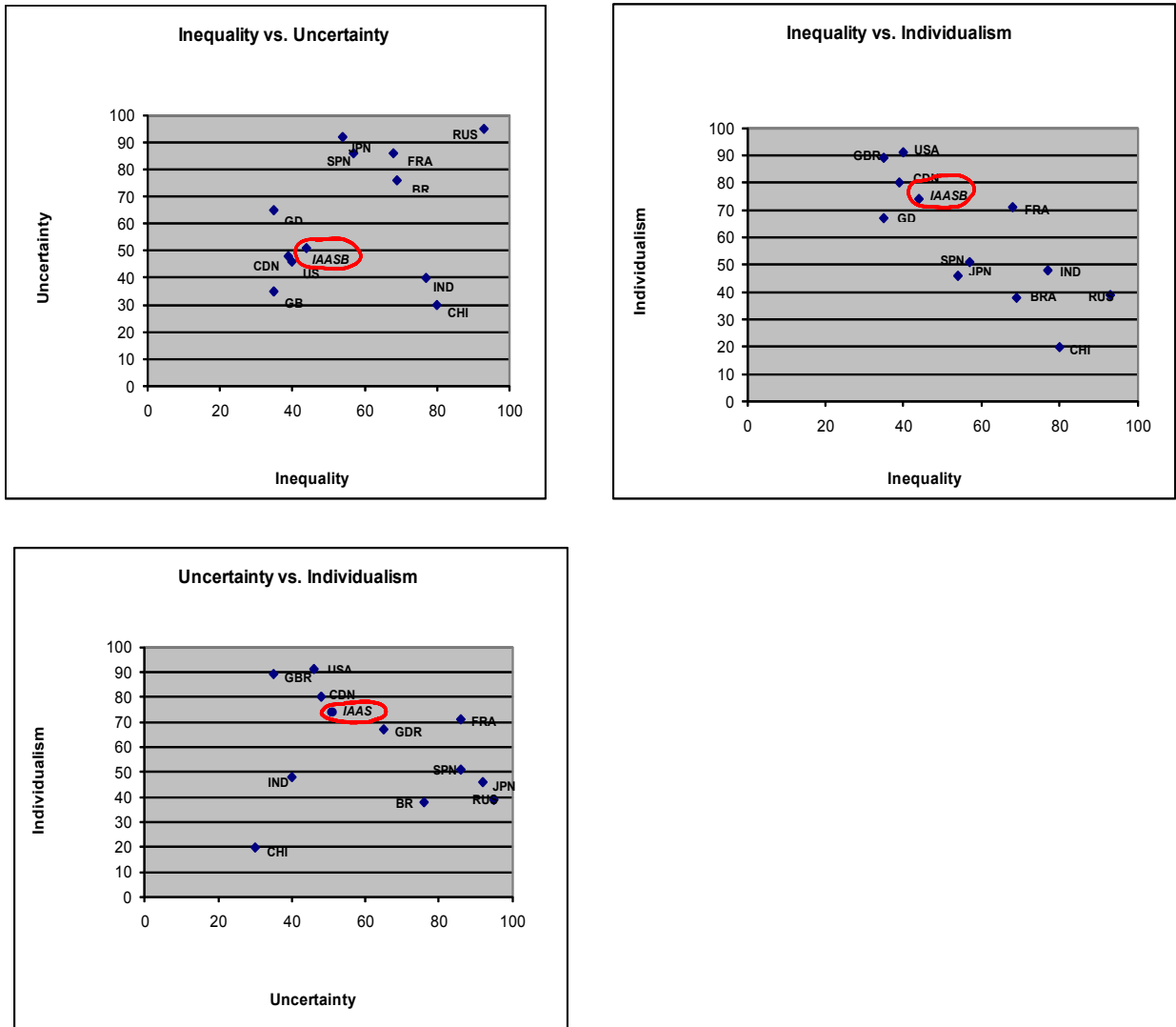
### Table of Contents

Figure	Description	Data source
B-1	<p>Comparison of Hofstede cultural index means to mean of IAASB Board members' countries of origin for the following cultural dimensions:</p> <p>PDI (Power-Distance Index.) The extent to which less powerful members of organizations and institutions accept and expect power to be distributed unequally. The higher the index, the greater the distance between people with unequal power.</p> <p>UAI (Uncertainty-Avoidance Index.) The extent to which a culture feels either uncomfortable or comfortable in unstructured situations. The higher the index, the more uncomfortable the culture is with uncertainty.</p> <p>IDV (Individualism/collectivism Index.) The degree to which individuals are supposed to look after themselves or remain integrated into groups. The higher the index, the more predisposed the culture is to collectivism (i.e., the orientation is to groups as opposed to individuals).</p> <p>MAS (Masculinity/Femininity Index.) The degree of differentiation of emotional roles between the sexes. The higher the index, the greater the differentiation between the roles of the sexes.</p> <p>LTO (Long- versus Short-Term Orientation Index). The extent to which a culture accepts delayed gratification of material, social and emotional needs. The higher the ranking, the more predisposed a culture is to accept a long-term outlook.</p>	<p>B-6</p> <p>B-7</p> <p>B-8</p> <p>B-9</p> <p>B-10</p>
B-2	Graphs of comparative cultural attributes of 11 countries comprising 79% of domestic market capitalization and the IAASB member country of origin mean.	B-4 and B-5
B-3	Graphs of cultural dimensions of 69 countries and regions and the IAASB member country-of-origin mean.	B-4
B-4	Chart of Hofstede cultural dimension indices by country.	
B-5	Chart of domestic market capitalization by country – monthly 2009 average to August	
B-6	Calculation of IAASB <u>p</u> ower- <u>d</u> istance <u>i</u> ndex (PDI)	
B-7	Calculation of IAASB <u>u</u> ncertainty- <u>a</u> voidance <u>i</u> ndex (UAI)	
B-8	Calculation of IAASB <u>i</u> ndividualism/ <u>c</u> ollectivism index (IDV)	
B-9	Calculation of IAASB <u>m</u> asculinity/ <u>f</u> emininity index (MAS)	
B-10	IAASB <u>l</u> ong- versus short- <u>t</u> erm <u>o</u> rientation ranking (LTO)	

**Figure B-1: Means of IAASB members' countries of origin, compared to Hofstede cultural index means**

<b>Index</b>	<b>Combined 2002-2008 IAASB mean</b>	<b>Combined all country Hofstede mean</b>	<b>Mean of Hofstede IBM set of 53</b>	<b>Standard deviation of Hofstede IBM set of 53</b>	<b>See Figures</b>
<b>PDI</b>	44	60	57	22	B-4 & B-6
<b>UAI</b>	51	65	65	24	B-4 & B-7
<b>IDV</b>	74	43	43	24	B-4 & B-8
<b>MAS</b>	55	50	49	19	B-4 & B-9
<b>LTO</b>	33	43	59	25	B-4 & B-10

Figure B-2: Graph of comparative cultural attributes of 11 countries comprising 79% (in 2009) of domestic market capitalization and the IAASB attributes



Sources: Hofstede (2001: 500-502); World Federation of Exchanges, 2009, www.world-exchanges.org. See also Figures B-4 and B-5.

The above graphs illustrate the relative measures of cultural dimensions for the top 11 countries by market capitalization.

There are a few points to note:

**Inequality (PDI)**

The IAASB ranks relatively low on the scale, especially as compared with the BRIC countries. The index is closely aligned with those of North American and the European countries. Note that the Hofstede indices for inequality have been adjusted for per capita GDP. They are independent of the wealth of the country.

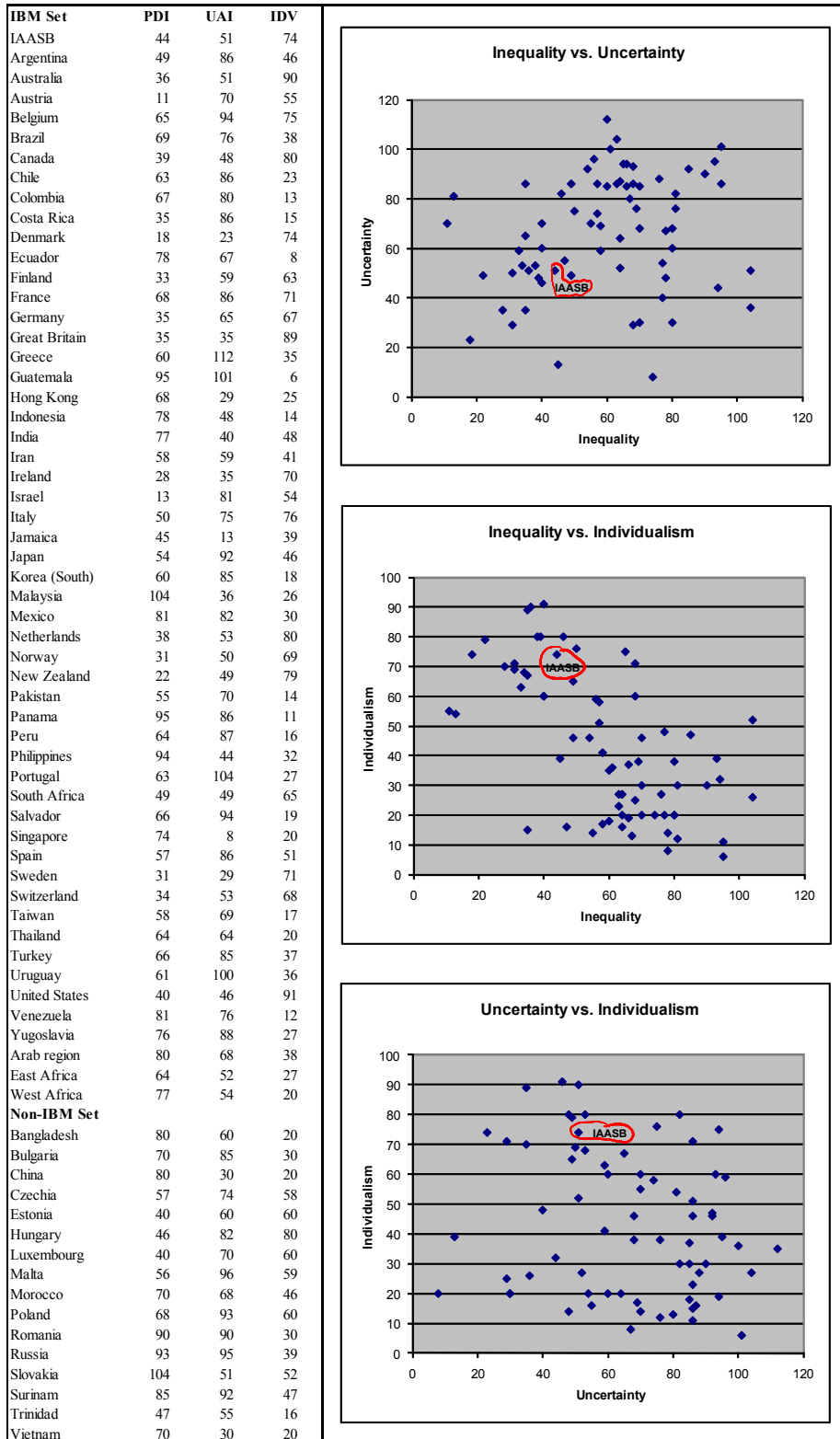
**Uncertainty (UAI)**

The IAASB index is close to the average for these 11 countries. However, while the North American and the European countries indices are close to the IAASB index, those of the BRIC countries are either significantly above or below the mean for the group (i.e., at both extremes of the scale). It appears not possible to generalize in this case.

**Individualism (IDV)**

The IAASB index roughly aligns with those of North American and the European countries. All of the BRIC countries are significantly more collectivist than the western nations with China being the most collectivist.

**Figure B-3: Cultural dimensions of 69 countries and regions and the IAASB 2002-2008 member countries of origin mean**



Source: Hofstede (2001: 500-502).

See notes below Figure B-3.

These graphs illustrate the measures of cultural dimensions for the 69 countries and regions as calculated by Hofstede. There are a few points to note:

**Inequality (PDI)**

The IAASB index is roughly aligned with those of North American and the European countries. Many of the countries on the graph are relatively small. An example of the difference in relative size is that between Russia and Surinam both in terms of area and population. They each, however, have one point of the graph. That said, the majority of the world's population lives in countries with higher power-distance culture indices than the IAASB mean.

**Uncertainty (UAI)**

The IAASB ranking is close to the average although there are many countries above and below the average, and the difference between the two extremes is considerable.

**Individualism (IDV)**

Although the IAASB index is in the middle of the relative scale, there are many more countries with a less egalitarian approach to inequality than the IAASB member country of origin mean. The majority of the world's population lives in countries with a more collectivist culture index than the countries of origin represented by the IAASB mean.



**Figure B-4: Hofstede cultural dimension indices by country**

IBM Set	PDI	UAI	IDV	MAS	LTO	Non-IBM Set	PDI	UAI	IDV	MAS	LTO
Argentina	49	86	46	56	31	Bangladesh	80	60	20	55	40
Australia	36	51	90	61	31	Bulgaria	70	85	30	40	
Austria	11	70	55	79	38	China	80	30	20	66	118
Belgium	65	94	75	54	65	Czechia	57	74	58	57	13
Brazil	69	76	38	49	23	Estonia	40	60	60	30	
Canada	39	48	80	52		Hungary	46	82	80	88	50
Chile	63	86	23	28		Luxembourg	40	70	60	50	
Colombia	67	80	13	64		Malta	56	96	59	47	
Costa Rica	35	86	15	21		Morocco	70	68	46	53	
Denmark	18	23	74	16	46	Poland	68	93	60	64	32
Ecuador	78	67	8	63		Romania	90	90	30	42	
Finland	33	59	63	26	41	Russia	93	95	39	36	
France	68	86	71	43	39	Slovakia	104	51	52	110	38
Germany	35	65	67	66	31	Surinam	85	92	47	37	
Great Britain	35	35	89	66	25	Trinidad	47	55	16	58	
Greece	60	112	35	57		Vietnam	70	30	20	40	80
Guatemala	95	101	6	37							
Hong Kong	68	29	25	57	96	Total	1096	1131	697	873	371
Indonesia	78	48	14	46							
India	77	40	48	56	61	Non-IBM set mean	69	71	44	55	53
Iran	58	59	41	43							
Ireland	28	35	70	68	43	Global mean	60	67	43	50	43
Israel	13	81	54	47							
Italy	50	75	76	70	34	Global standard deviation	22	24	24	19	25
Jamaica	45	13	39	68							
Japan	54	92	46	95	80						
Korea (South)	60	85	18	39	75						
Malaysia	104	36	26	50							
Mexico	81	82	30	69							
Netherlands	38	53	80	14	44						
Norway	31	50	69	8	44						
New Zealand	22	49	79	58	30						
Pakistan	55	70	14	50	0						
Panama	95	86	11	44							
Peru	64	87	16	42							
Philippines	94	44	32	64	19						
Portugal	63	104	27	31	30						
South Africa	49	49	65	63							
Salvador	66	94	19	40							
Singapore	74	8	20	48	48						
Spain	57	86	51	42	19						
Sweden	31	29	71	5	33						
Switzerland	34	53	68	70	40						
Taiwan	58	69	17	45	87						
Thailand	64	64	20	34	56						
Turkey	66	85	37	45							
Uruguay	61	100	36	38							
United States	40	46	91	62	29						
Venezuela	81	76	12	73							
Yugoslavia	76	88	27	21							
Arab region	80	68	38	53							
East Africa	64	52	27	41	25						
West Africa	77	54	20	46	16						
Total	3012	3464	2282	2583	1279						
IBM set mean	57	65	43	49	41						

Source: Hofstede (2001: 500-502).

Data collected in 1967-1969, 1971-1973, 1993.

**Figure B-5: Domestic market capitalization by country, 2009**

Ranking	Country	Stock exchange	Percentage
1	USA	NYSE Euronext (US)	26.02 %
2	Japan	Tokyo SE	8.35
3	USA	NASDAQ OMX	6.84
4	Europe	NYSE Euronext (Europe)	6.25
5	Great Britain	London SE	6.15
6	China	Shanghai SE	5.14
7	China	Hong Kong Exchanges	4.67
8	Canada	TSX Group	3.44
9	Germany	Deutsche Börse	2.89
10	Spain	BME Spanish Exchanges	2.83
11	India	Bombay SE	2.60
12	Australia	Australian SE	2.56
13	Brazil	BM&FBOVESPA	2.48
14	India	National Stock Exchange India	2.45
15	Switzerland	SIX Swiss Exchange	2.38
16	Select Scandinavian countries	NASDAQ OMX Nordic Exchan	1.88
17	Korea	Korea Exchange	1.75
18	South Africa	Johannesburg SE	1.66
19	Italy	Borsa Italiana	1.53
20	China	Shenzhen SE	1.43
			93.28
	Other		<u>6.72</u>
			<u>100.00% %</u>
	Total capital August 2009, (USD billions)		<u>\$41,660</u>

Source: World Federation of Exchanges.

**Figure B-6: IAASB power distance index ranking (PDI)**

2002		2003		2004		2005		2006		2007		2008	
IAASB member country of origin	PDI	IAASB member country of origin	PDI	IAASB member country of origin	PDI	IAASB member country of origin	PDI	IAASB member country of origin	PDI	IAASB member country of origin	PDI	IAASB member country of origin	PDI
Germany	35	Germany	35	United Kingdom	35	United Kingdom	35	United Kingdom	35	United Kingdom	35	United Kingdom	35
Canada	39	Canada	39	Canada	39	Lebanon*	80	Canada	39	Canada	39	Canada	39
United Kingdom	35	United Kingdom	35	Lebanon*	80	Malaysia	104	Malaysia	104	United States	40	Germany	35
United States	40	United States	40	United States	40	Germany	35	Germany	35	United States	40	United States	40
The Netherlands	38	The Netherlands	38	United Kingdom	35	United States	40	United States	40	The Netherlands	38	United Kingdom	35
Brazil	69	Brazil	69	The Netherlands	38	Brazil	69	The Netherlands	38	United Kingdom	35	United States	40
Denmark	18	Denmark	18	Malaysia	104	Japan	54	United Kingdom	35	Japan	54	The Netherlands	38
Japan	54	Japan	54	Germany	35	United Kingdom	35	Japan	54	Italy	50	China	80
South Africa	49	South Africa	49	United States	40	Italy	50	Italy	50	France	68	France	68
United Kingdom	35	United Kingdom	35	Brazil	69	France	68	France	68	Pakistan	55	Pakistan	55
United States	40	United States	40	Denmark	18	Canada	39	Canada	39	Canada	39	Canada	39
United Kingdom	35	United Kingdom	35	Japan	54	United Kingdom	35	United States	40	United States	40	United States	40
Italy	50	Italy	50	United Kingdom	35	United States	40	Denmark	18	Denmark	18	Canada	39
France	68	France	68	Italy	50	Denmark	18	Canada	39	Canada	39	United States	40
China	80	China	80	France	68	Germany	35	Germany	35	United States	40	Australia	36
Canada	39	Canada	39	Canada	39	Sweden	31	Sweden	31	Sweden	31	Sweden	31
Australia	36	Australia	36	Australia	36	Australia	36	Australia	36	Australia	36	Australia	36
Australia	36	Australia	36	Australia	36	Australia	36	United Kingdom	35	United Kingdom	35	United Kingdom	35
IAASB mean	44		44		47		47		43		41		42
Combined 2002-2008 IAASB mean	44	Combined all country Hofstede mean	60	Mean of Hofstede IBM set of 53	57	Hofstede standard deviation of IBM 53 + 16	22						
IAASB standard deviation 2002-2008	16												

\*Hofstede rating for Arab region.

Sources: Hofstede (2001: 500-502); IAASB annual reports (2002 to 2008).

IAASB member years by country of origin, 2002-2008					
United Kingdom	21	Denmark	6	China	3
United States	18	Italy	6	Malaysia	3
Canada	16	Japan	6	Lebanon	2
Australia	12	The Netherlands	6	Pakistan	2
Germany	8	Brazil	4	South Africa	2
France	7	Sweden	4		

**Figure B-7: IAASB Uncertainty avoidance index ranking (UAI)**

2002		2003		2004		2005		2006		2007		2008	
IAASB member country of origin	UAI	IAASB member country of origin	UAI	IAASB member country of origin	UAI	IAASB member country of origin	UAI	IAASB member country of origin	UAI	IAASB member country of origin	UAI	IAASB member country of origin	UAI
Germany	65	Germany	65	United Kingdom	35	United Kingdom	35	United Kingdom	35	United Kingdom	35	United Kingdom	35
Canada	48	Canada	48	Canada	48	Lebanon*	68	Canada	48	Canada	48	Canada	48
United Kingdom	35	United Kingdom	35	Lebanon*	68	Malaysia	36	Malaysia	36	United States	46	Germany	65
United States	46	United States	46	United States	46	Germany	65	Germany	65	United States	46	United States	46
The Netherlands	53	The Netherlands	53	United Kingdom	35	United States	46	United States	46	The Netherlands	53	United Kingdom	35
Brazil	76	Brazil	76	The Netherlands	53	Brazil	76	The Netherlands	53	United Kingdom	35	United States	46
Denmark	23	Denmark	23	Malaysia	36	Japan	92	United Kingdom	35	Japan	92	The Netherlands	53
Japan	92	Japan	92	Germany	65	United Kingdom	35	Japan	92	Italy	75	China	30
South Africa	49	South Africa	49	United States	46	Italy	75	Italy	75	France	59	France	59
United Kingdom	35	United Kingdom	35	Brazil	76	France	59	France	59	Pakistan	70	Pakistan	70
United States	46	United States	46	Denmark	23	Canada	48	Canada	48	Canada	48	Canada	48
United Kingdom	35	United Kingdom	35	Japan	92	United Kingdom	35	United States	46	United States	46	United States	46
Italy	75	Italy	75	United Kingdom	35	United States	46	Denmark	23	Denmark	23	Canada	48
France	86	France	86	Italy	75	Denmark	23	Canada	48	Canada	48	United States	46
China	30	China	30	France	59	Germany	65	Germany	65	United States	46	Australia	51
Canada	48	Canada	48	Canada	48	Sweden	29	Sweden	29	Sweden	29	Sweden	29
Australia	51	Australia	51	Australia	51	Australia	51	Australia	51	Australia	51	Australia	51
Australia	51	Australia	51	Australia	51	Australia	51	United Kingdom	35	United Kingdom	35	United Kingdom	35
IAASB mean	<u>52</u>		<u>52</u>		<u>52</u>		<u>52</u>		<u>49</u>		<u>49</u>		<u>47</u>
Combined 2002-2008 IAASB mean	<u>51</u>	Combined all country Hofstede mean	<u>65</u>	Mean of Hofstede IBM set of 53	<u>65</u>	Hofstede standard deviation of IBM 53 + 16	<u>24</u>						
IAASB standard deviation 2002-2008	<u>17</u>												

\*Hofstede rating for Arab region.

Sources: Hofstede (2001: 500-502); IAASB annual reports (2002 to 2008).

**Figure B-8: IAASB Individualism and collectivism index ranking (IDV)**

2002		2003		2004		2005		2006		2007		2008	
IAASB member country of origin	IDV	IAASB member country of origin	IDV	IAASB member country of origin	IDV	IAASB member country of origin	IDV	IAASB member country of origin	IDV	IAASB member country of origin	IDV	IAASB member country of origin	IDV
Germany	67	Germany	67	United Kingdom	89	United Kingdom	89	United Kingdom	89	United Kingdom	89	United Kingdom	89
Canada	80	Canada	80	Canada	80	Lebanon*	38	Canada	80	Canada	80	Canada	80
United Kingdom	89	United Kingdom	89	Lebanon*	38	Malaysia	26	Malaysia	26	United States	91	Germany	67
United States	91	United States	91	United States	91	Germany	67	Germany	67	United States	91	United States	91
The Netherlands	80	The Netherlands	80	United Kingdom	89	United States	91	United States	91	The Netherlands	80	United Kingdom	89
Brazil	38	Brazil	38	The Netherlands	80	Brazil	38	The Netherlands	80	United Kingdom	89	United States	91
Denmark	74	Denmark	74	Malaysia	26	Japan	46	United Kingdom	89	Japan	46	The Netherlands	80
Japan	46	Japan	46	Germany	67	United Kingdom	89	Japan	46	Italy	76	China	20
South Africa	65	South Africa	65	United States	91	Italy	76	Italy	76	France	71	France	71
United Kingdom	89	United Kingdom	89	Brazil	38	France	71	France	71	Pakistan	14	Pakistan	14
United States	91	United States	91	Denmark	74	Canada	80	Canada	80	Canada	80	Canada	80
United Kingdom	89	United Kingdom	89	Japan	46	United Kingdom	89	United States	91	United States	91	United States	91
Italy	76	Italy	76	United Kingdom	89	United States	91	Denmark	74	Denmark	74	Canada	80
France	71	France	71	Italy	76	Denmark	74	Canada	80	Canada	80	United States	91
China	20	China	20	France	71	Germany	67	Germany	67	United States	91	Australia	90
Canada	80	Canada	80	Canada	80	Sweden	71	Sweden	71	Sweden	71	Sweden	71
Australia	90	Australia	90	Australia	90	Australia	90	Australia	90	Australia	90	Australia	90
Australia	90	Australia	90	Australia	90	Australia	90	United Kingdom	90	United Kingdom	89	United Kingdom	89
IAASB mean	<u>74</u>		<u>74</u>		<u>73</u>		<u>71</u>		<u>75</u>		<u>77</u>		<u>76</u>
Combined 2002-2008 IAASB mean	<u>74</u>	Combined all country Hofstede mean	<u>43</u>	Mean of Hofstede IBM set of 53	<u>43</u>	Hofstede standard deviation of IBM 53 + 16	<u>24</u>						
IAASB standard deviation 2002-2008	<u>20</u>												

\*Hofstede rating for Arab region.

Sources : Hofstede (2001: 500-502); IAASB annual reports (2002 to 2008).

**Figure B-9: IAASB Masculinity and femininity index ranking (MAS)**

2002		2003		2004		2005		2006		2007		2008	
IAASB member country of origin	MAS	IAASB member country of origin	MAS	IAASB member country of origin	MAS	IAASB member country of origin	MAS	IAASB member country of origin	MAS	IAASB member country of origin	MAS	IAASB member country of origin	MAS
Germany	66	Germany	66	United Kingdom	66	United Kingdom	66	United Kingdom	66	United Kingdom	66	United Kingdom	66
Canada	52	Canada	52	Canada	52	Lebanon*	53	Canada	52	Canada	52	Canada	52
United Kingdom	66	United Kingdom	66	Lebanon*	53	Malaysia	50	Malaysia	50	United States	62	Germany	66
United States	62	United States	62	United States	62	Germany	66	Germany	66	United States	62	United States	62
The Netherlands	14	The Netherlands	14	United Kingdom	66	United States	62	United States	62	The Netherlands	14	United Kingdom	66
Brazil	49	Brazil	49	The Netherlands	14	Brazil	49	The Netherlands	14	United Kingdom	66	United States	62
Denmark	16	Denmark	16	Malaysia	50	Japan	95	United Kingdom	66	Japan	95	The Netherlands	14
Japan	95	Japan	95	Germany	66	United Kingdom	66	Japan	95	Italy	70	China	66
South Africa	63	South Africa	63	United States	62	Italy	70	Italy	70	France	43	France	43
United Kingdom	66	United Kingdom	66	Brazil	49	France	43	France	43	Pakistan	50	Pakistan	50
United States	62	United States	62	Denmark	16	Canada	52	Canada	52	Canada	52	Canada	52
United Kingdom	66	United Kingdom	66	Japan	95	United Kingdom	66	United States	62	United States	62	United States	62
Italy	70	Italy	70	United Kingdom	66	United States	62	Denmark	16	Denmark	16	Canada	52
France	43	France	43	Italy	70	Denmark	16	Canada	52	Canada	52	United States	62
China	66	China	66	France	43	Germany	66	Germany	66	United States	62	Australia	61
Canada	52	Canada	52	Canada	52	Sweden	5	Sweden	5	Sweden	5	Sweden	5
Australia	61	Australia	61	Australia	61	Australia	61	Australia	61	Australia	61	Australia	61
Australia	61	Australia	61	Australia	61	Australia	61	United Kingdom	66	United Kingdom	66	United Kingdom	66
IAASB mean	<u>57</u>		<u>57</u>		<u>56</u>		<u>56</u>		<u>54</u>		<u>53</u>		<u>54</u>
Combined 2002-2008 IAASB mean	<u>55</u>	Combined all country Hofstede mean	<u>50</u>	Mean of Hofstede IBM set of 53	<u>49</u>	Hofstede standard deviation of IBM 53 + 16	<u>19</u>						
IAASB standard deviation 2002-2008	<u>19</u>												

\*Hofstede rating for Arab region.

Sources: Hofstede (2001: 500-502); IAASB annual reports (2002 to 2008).

**Figure B-10: IAASB Long- versus short-term orientation ranking (LTO)**

2002		2003		2004		2005		2006		2007		2008	
IAASB member country of origin	LTO	IAASB member country of origin	LTO	IAASB member country of origin	LTO	IAASB member country of origin	LTO	IAASB member country of origin	LTO	IAASB member country of origin	LTO	IAASB member country of origin	LTO
Germany	31	Germany	31	United Kingdom	25	United Kingdom	25	United Kingdom	25	United Kingdom	25	United Kingdom	25
Canada	23	Canada	23	Canada	23	Lebanon*		Canada	23	Canada	23	Canada	23
United Kingdom	25	United Kingdom	25	Lebanon*		Malaysia		Malaysia		United States	29	Germany	29
United States	29	United States	29	United States	29	Germany	31	Germany	31	United States	29	United States	29
The Netherlands	44	The Netherlands	44	United Kingdom	25	United States	29	United States	29	The Netherlands	44	United Kingdom	25
Brazil	65	Brazil	65	The Netherlands	44	Brazil	65	The Netherlands	44	United Kingdom	25	United States	29
Denmark	46	Denmark	46	Malaysia		Japan	80	United Kingdom	25	Japan	80	The Netherlands	44
Japan	80	Japan	80	Germany	31	United Kingdom	25	Japan	80	Italy	34	China	118
South Africa		South Africa		United States	29	Italy	34	Italy	34	France	39	France	39
United Kingdom	25	United Kingdom	25	Brazil	65	France	39	France	39	Pakistan	0	Pakistan	0
United States	29	United States	29	Denmark		Canada	23	Canada	23	Canada	25	Canada	23
United Kingdom	25	United Kingdom	25	Japan	80	United Kingdom	25	United States	29	United States	29	United States	29
Italy	34	Italy	34	United Kingdom	25	United States	29	Denmark		Denmark		Canada	23
France	39	France	39	Italy	34	Denmark		Canada	23	Canada	23	United States	29
China	118	China	118	France	39	Germany	31	Germany	31	United States	29	Australia	31
Canada	23	Canada	23	Canada	23	Sweden	33	Sweden	33	Sweden	33	Sweden	33
Australia	31	Australia	31	Australia	31	Australia	31	Australia	31	Australia	31	Australia	31
Australia	31	Australia	31	Australia	31	Australia	31	United Kingdom	31	United Kingdom	31	United Kingdom	31
IAASB mean	<u>34</u>		<u>34</u>		<u>36</u>		<u>33</u>		<u>33</u>		<u>31</u>		<u>26</u>
Combined 2002-2008 IAASB mean	<u>33</u>	Combined all country Hofstede mean	<u>43</u>	Mean of Hofstede set of 28	<u>59</u>	Hofstede standard deviation of set of 38	<u>25</u>						
IAASB standard deviation 2002-2008	<u>15</u>												

\*Hofstede rating for Arab region.  
If the cell is blank, no ranking information is available.

Sources : Hofstede (2001: 500-502); IAASB annual reports (2002 to 2008).

## Appendix C: The Impact of Culture on Implementation of Global Standards – A Literature Review

### Summary

Literature reviewed demonstrates that in the area of global standards, cultural neutrality does not exist. Every set of standards is written with a set of cultural assumptions. Interpretation of language is important but by no means paramount.

Communication styles and attitudes to individualism, authority, uncertainty, gender and tradition also play important roles. Failure to understand the cultural assumptions that underlie global standards usually results in inconsistent application on a global scale at best and absolute failure at worst. In order to implement standards effectively and consistently in differing cultures, the cultural assumptions underlying the standards should be identified. This identification will assist others from different cultural backgrounds in interpreting the standards so they can be implemented to achieve the intended objectives.

### Introduction

#### *Purpose of the literature review*

The International Auditing and Assurance Standards Board (the IAASB) recently completed its Clarity Project, resulting in a comprehensive set of auditing standards available for adoption by International Federation of Accountants member bodies for years commencing on or after December 15, 2009. The ISAs are written on the assumption that they can and will be used globally without significant alteration by other audit standard setters. The “rules are the rules”; however, it is unknown what impact different cultural backgrounds will have on the ability of auditors globally to implement the standards in a consistent manner.

This review attempts to determine what impact, if any, culture has on other professions operating globally and following a uniform set of standards or codes.

### Definitions of Culture

Many different definitions of culture are in use and are often dependent on the purposes for which the definition is needed; for the purpose of this paper, culture is defined as “the collective programming of the mind that distinguishes the members of one group or category of people from another” (Hofstede 2001: 9) This is a definition of culture used by leading cultural theorist Geert Hofstede, by far the most quoted author encountered in the literature reviewed.

The literature reviewed was unanimous in its opinion that culture influences almost every facet of professional and personal life, and that people are often unaware of its impact on their actions. Although they don’t usually realize it, the way people speak, how they think, how they interact with others and even the strength of their eye contact are all influenced by the culture in which they were raised. Cultural theorists study the degree of culture’s influence on a variety of countries, professions, societies and customs.

In 1968 and 1972, Hofstede collected extensive data from 72 IBM subsidiary offices in 50 countries around the world (over 116,000 individuals were surveyed in all) to determine whether employees’ culture had an influence on their actions in a corporate setting governed by a uniform corporate ethic (and arguably a uniform cultural ethic). He isolated five measurable and independent cultural variables (termed dimensions) that dictate human interactions internally within and externally across cultures. These five empirically verified dimensions form the foundation for much of the literature reviewed. They are (Hofstede 2001: chaps. 3 to 7) as follows:

1. *Power distance*. The extent to which less powerful members of organizations and institutions accept and expect that power is distributed unequally. Cultures with a low powerdistance index actively work to decrease the appearance and in-



fluence of power inequality. An example is former Austrian Prime Minister Bruno Kreisky's penchant for riding the subway to work (Gladwell 2008). Cultures with a high power-distance index acknowledge and respect power difference (an example of which is an office where a staff accountant would not expect to be permitted to communicate directly with a partner).

2. *Uncertainty avoidance*. The extent to which a culture programs its members to feel either uncomfortable or comfortable in unstructured situations. This index measures how much ambiguity and deviation from set procedures a culture is able to withstand. A culture with a limited ability to tolerate uncertainty will need more information and possibly time to reach a decision than one better able to tolerate uncertainty.

3. *Individualism versus collectivism*. The degree to which individuals are supposed to look after themselves or remain integrated into groups, usually around the family. Stated another way, the degree a culture expects individuals to act independently as opposed to engaging in a collective lifestyle.

4. *Masculinity versus femininity*. This refers to the distribution of emotional roles between the genders. Opposites are "tough" masculine and "tender" feminine societies.

5. *Long-term versus short-term orientation*. This refers to the extent to which a culture programs its members to accept delayed gratification of their material, social and emotional needs.

## Approach

To determine the impact, if any, of culture on consistent adoption of global standards, we selected four spheres of professional activity: medicine, peacekeeping, aviation and environmentalism. We reviewed a sample of academic literature on the topic of the impact of culture for all four professions. The articles were not selected at random, but were drawn from an extensive pool by the lead researcher.

Five articles for each of the four professions and five additional references to studies of a more general nature related to global standards and culture were selected for inclusion in the annotated bibliography (see below).

## Findings

### General

Much has been said and written on the influence of culture on specific industries and professional cultures. The seminal work by Geert Hofstede, *Culture's Consequences*, is based on empirical evidence and measures significant differences in employees' cultural attributes within a single organization (IBM) with a common corporate culture. Countries (the study did not attempt to burrow down to sub-cultures within a country) had measurably significant differences in all of the five dimensions noted above. For example, the tolerance for uncertainty for employees in Denmark and Belgium were at opposite ends of the scale notwithstanding their geographic proximity. The study concludes that cultural differences are pervasive and exist regardless of a superimposed corporate ethos.

E.T. Hall and Richard Lewis have written extensively on the finesse required to navigate negotiations between cultures. Robert Rubinstein has spent his career determining why a peacekeeping-mission protocol that works flawlessly in one country can result in utter failure in another. Alexander Gillespie notes the interactions between culturally dissimilar environmental groups and indigenous people that both thrive and falter. The University of Texas Human Factors Research Group has spent decades determining the cultural aspects that affect human interactions and how knowledge of those interactions could prevent error and save lives.

In summary, every culture is complex. Attempting to integrate multiple cultures into a cohesive mode of action is even more multifaceted and is, therefore, even more complicated.

## ***Peacekeeping***

By definition, peacekeeping missions are executed over a variety of ever changing locations and by dominant cultures. Standards in peacekeeping are less stringent or uniform than those in fields<sup>9</sup> such as medicine, yet there are still unwritten expectations. Specifically, peacekeepers are expected to act in a moral and just way. They are required to protect those who are incapable of protecting themselves and move to establish a standard of peace that will remain after they leave. The consequences of not upholding these standards of action include continuing and/or escalating unrest, increased physical danger to all involved in conflict (citizens and fellow peacekeepers) and damaged reputations.<sup>10</sup>

The literature, not surprisingly, concludes that peacekeeping faces difficulties resulting from its multicultural reach. The literature reviewed consistently referred to the ability to deal with culture and cultural obstacles effectively as being fundamental to the success of any peacekeeping campaign. Cultural misunderstandings, often based on incorrect assumptions by all parties involved, are seen as the root cause of many of the peacekeeping failures of the past. A frequent cause of problems is that the peacekeepers do not understand their own cultural biases, let alone those of the host country.

Cultural conflict results from differences in conflict-resolution approaches, miscommunication because of language and dialect barriers, and inability to act competently in different cultural situations.<sup>11</sup> The literature shows that communication across language barriers is seen as difficult. Words can have different meanings in

different cultures even when people speak the same language or have translators.

The literature concludes that undesirable consequences can often be reduced when cultural differences are acknowledged by all parties involved and procedures are tailored to recognize those differences in peacekeeping plans. This is seen as being no easy task.

## ***Environment***

The environment does not adhere to political and country borders, and it is necessary that protection efforts not do so either. Environmental protection is an industry that, like peacekeeping, maintains no international body. There are, however, a number of global organizations that standardize the goals of the movement to some extent and provide structure as to conservation goals and standards of practice. The International Union for the Conservation of Nature (The IUCN), for example, dictates how and when animals can be traded. Involvement in the organization is voluntary, but failure to adhere to IUCN standards results in financial sanctions and a tarnished reputation on the international stage. Failure to adhere to conservation standards in general can lead to, among other things, the loss of biodiversity and ecosystems, a reduction in environment-related income<sup>12</sup> and public protests.

The view on what is at risk and thus needs to be protected differs greatly among different cultures. For instance, native cultures have on many occasions clashed with non-native cultures over the use of endangered species (see Gillespie 1998). Criticism of the harp seal hunt in Canada is a prime example. Also, the tolerance of government input, a much-used tool in environmental protection, differs from culture to culture.

Much of the power of environmental protection comes with legal action. Laws such as the United State's Endangered Species Act and Canada's Species at Risk Act put into action the efforts of activists and the wishes of citizens for a

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<sup>9</sup> There is no one governing body of peacekeepers. The United Nations comes the closest but many peacekeeping endeavours are the work of private NGOs and grassroots agencies. Much of the similarity in missions comes from the requirement to comply with funding agreements.

<sup>10</sup> As happened to Canada as a result of the Somalia affair.

<sup>11</sup> This is a good illustration of Hofstede's uncertainty-avoidance dimension. A person unable to act without having "all" the facts could be paralyzed in the often unpredictable and high-stress world of international peacekeeping.

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<sup>12</sup> Such as tourism and trade funds.

well-maintained environment. When these laws are created, input is gathered from many sources and many drafts are written before the legislation is finally passed.

Miscommunication because of language comes into play in the terminology of these acts and other statements of environmental protection. There are different cultural interpretations of words. “Endangered,” for example, became a point of contention between the native Maori of New Zealand and non-native New Zealanders. The Maori have faith in the continuation of species growth (that is, they did not believe extinction was likely) and therefore rejected the claim by non-native biologists that certain species were endangered.

While agreement on definitions of key terms may help to solve language confusion, since words and phrases can be interpreted culturally, it is difficult to forge agreements where both parties are explicitly aware of the outcomes and their responsibilities. The literature concludes that extreme care and sensitivity to cultural values are necessary in order to reach workable and sustainable outcomes.

### ***Aviation***

Aviation naturally crosses international borders as planes depart and arrive all over the world. It is also an industry with important safety standards created to protect the public. Culture has considerable influence on international operating standards and safety regulations. Failure to adhere to safety standards can result in plane crashes, loss of airport privileges for airlines and loss of jobs or professional standing for individual employees. Research into the impact of culture on the industry is largely in response to a need to improve safety and reduce fatalities.

The literature reviewed indicates that, even though aviation is an international industry, pilot training, plane manufacturing and professional development all take place primarily in North America. Safety regulations are also promulgated primarily in the United States with, as one would anticipate, American cultural attributes. Extensive

study of this situation has identified significant cultural ramifications.

The language of aviation is predominantly English and in addition national culture has a significant influence on communication styles. While those who learned to communicate in North America are able to communicate effectively in the North American-based aviation industry, they may have difficulty communicating effectively with those who learned to communicate elsewhere notwithstanding that both are speaking English. Those who learned to communicate elsewhere may also run into difficulties with the North American cultural assumptions on which the aviation industry communication standards are based, as is noted by Hayward (1997) and Merritt (2003). Culturally misinterpreted communication among English-speaking flight and ground crew has resulted in a number of recent and, unfortunately, spectacular, plane crashes.

In addition to problems with communication, significant cultural differences in the investment in work obligations have been found (see Merritt 2000), especially between cultures that embrace a team-centred interaction over independence. (This is the characteristic described by Hofstede’s individualism/collectivism dimension.) A pilot from a culture that thrives on teamwork may be ineffective when flying with a team from a highly individualistic culture. Safety has been shown to suffer.

In addition, cultural differences can lead to differences in the societal value of work. When investment in work life differs among individuals, there can be conflict as to how much respect is given to aviation guidelines and protocols. It was found that individuals from societies with a high investment in work obligations are more likely to follow protocols and standards than those more invested in non-work obligations (Merritt 2000).

Finally, Malcolm Gladwell illustrates situations where cultural differences in respect for authority (Hofstede’s power-distance index) within a flight crew have resulted in disastrous breakdowns in communication on the flight team (Gladwell 2008). Safety regulations are written

from an American cultural perspective; the flight crews involved in the incidents he describes were not American. The resulting culturally based misunderstandings in emergencies resulted in fatal crashes.

### ***Medicine***

The impact of culture on medicine, a profession that is unquestionably international, has been studied for some time. From the work of the general practitioner to surgery to triage, the medical profession maintains an accepted standard of care. The Hippocratic Oath, national and international associations and legal precedent all dictate the patient's right to care and doctors' responsibility and subsequent obligations.

Even though the medical profession in every country operates relatively independently of those in other countries, cultural interactions between physicians, patients and medical organizations appear to have much in common. Culturally rooted terminology can lead to inaccurate and undesired outcomes. Through interviews with internationally trained physicians about their experiences practising in Canada, it was discovered that many non-Canadian physicians felt confused and uncomfortable with culturally specific terms that are used interchangeably with medical ones. For example, so apparently trivial a term as term "belly button," commonly used in Canada instead of "umbilicus," apparently lead to significant confusion among non-Canadian-trained physicians). Additional empirical evidence has also shown that confusion of meaning can have a detrimental impact on diagnoses when doctor and patient have different cultural origins.

The ability of a medical professional to determine a patient's standard for quality of life is also hampered by unfamiliarity with cultural definitions of words. Phrases like "overall quality of life" and "overall health" had different meanings indifferent cultures, with some respondents focusing on mental health, some on physical health and some on general well-being.<sup>13</sup>

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<sup>13</sup> Scott et al. go into great detail in discussing the cultural differences as to what quality life is. They give the example

Language incompatibilities are also seen in hiring practices (see Baron et al. 1999), where differences in interview and placement terminology have a negative impact on physicians seeking employment outside the culture in which they were educated.

Different ingrained societal values are also observed among medical professionals operating in different cultures. Physicians have a culturally based view of the way medical attention is provided and received and generally act according to that view. When patients or other medical professionals are familiar with a different model of care, conflict can occur. Benjamin D. Paul noted that foreign doctors in China had resistance from patients when the doctors asked to receive payment at the time of the treatment. Whereas the doctors were from a culture that values a medical opinion, the patients' culture values curative results. The patients were not prepared to pay until they had been cured. Differences in values and world view created a substantial problem until both sides acknowledged their differences of opinion and worked together to create a workable compromise.

Paul also noted the conflict between communal medicine and patient-doctor confidentiality. In a number of cultures, some form of communal decision making is used when there is a medical dilemma. The decision is made with the input of extended family, sometimes the final word even being left to a respected elder, and the course of treatment is not solely the decision of the patient. For example, many times doctors would prescribe a course of treatment to a patient, only to have it later rejected by extended family with the result that the patient returned soon after with the same ailment. However, when the doctor, with the patient's consent, includes the extended family in the treatment decision, there is greater success because the cultural values are being respected. In this case, extended family decision

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that in Islamic countries little value is placed on social functioning when quality of life is being determined, whereas north-central Europe and southwest Europe place great value on social functioning.

making takes precedent over an individual's decisions.

### **Conclusions from the Literature Review**

On the basis of a review of the literature on the four professions above, it is clear that the effect of culture on standards implementation is both pervasive and significant. While it is widely recognized that translation in and of itself may have an impact on the interpretation of rules, so too do degree of individualism, respect for authority, tolerance for uncertainty, gender and ability to deviate from tradition. Failure to understand and take cultural factors into account has resulted in plane fatalities, peacekeeping failures, poor health care and species extinction.

A significant number of authors also pointed out that it is nearly impossible for a culture to articulate its own cultural traits and biases. We are, as it were, blind to our own upbringing. This would appear to make the recognition of cultural impediments or consequences by standard setters very difficult in the absence of a observable failure in the application of a standard.

The vast majority of the literature reviewed was concerned with the negative impact of cultural differences on inter-regional and global interactions. The absence of literature on ways of dealing successfully with cultural obstacles was notable. While a number of authors made suggestions for solving problems in their fields of study, there was no indication that their recommendations had been implemented or that a magic cure-all exists.

### ***Interviews with professionals working in the field***

Five interviews were conducted with experts in aviation, peacekeeping and international auditing to determine if their experience in the field contradicts or replicates the review findings. All of the experts interviewed stated that

- culture has a significant impact on the application of any form of professional standards; and

- their professions are doing something about the impact of culture or, at least, have recognized the need for action.

They did, however, also provide more detailed information about their own professions. For example, in aviation, cultural issues can

- create difficulties in communication among members of flight crews and between crews and air traffic controllers; and
- affect judgment, such as decisions made by airlines to forgo repairs and training to save money and inappropriate adherence by pilots to regulations despite mounting in-flight problems.

Cultural issues in peacekeeping were found to stem from a lack of self-analysis. Bias was stated as being impossible to escape but it could be overcome by acknowledging its presence. Undefined partnerships where different cultural groups have unclear roles in a peacekeeping process can also create significant problems in the field.

North American auditors with international audit clients were confident that differences in culture, such as varying work ethics and communication styles, are acknowledged and that professional behaviour is adjusted to accommodate the differences. Accommodations include placement of North American employees in international offices to oversee audits or subsidiaries and requirements for highly structured communication within teams. . The partners acknowledged that they often visited auditors of subsidiary companies themselves in situations where there was significant audit risk.

### ***Consequences for implementation of the ISAs***

On the basis of the literature reviewed it appears that any set of professional standards will have inherent cultural assumptions and biases. This includes the ISAs, notwithstanding that they have been developed by a committee with international representation. Judging from the experiences of other professions, it is highly likely that culture will have a significant and at times unintended

impact on IFAC member bodies when they adopt the ISAs in the not-too-distant future. This may well result in a degree of global inconsistency in following what is intended to be a single set of rules.

It would be very beneficial to conduct research in the near future to identify the cultural assumptions and biases imbedded in the ISAs. This information could then be made available to IFAC member bodies so that culturally specific implementation guidance can be developed for local practitioners to help them “translate” the ISAs to ensure they are implemented globally on a consistent basis.

## **Annotated Bibliography**

### *Medicine*

**Baron, H., L. McFarland, R. Page and A.M. Ryan (1999). An International Look at Selections Practices: Nation and Culture as Explanations for Variability in Practice. *Personnel Psychology* 52: 359-391.**

Baron et al. surveyed 959 organizations in 20 countries to determine if differences in medical hiring practices can be explained through cultural differences, particularly cultural variability. They first reviewed literature on the subject, determining that both empirical and anecdotal evidence showed variability in hiring practices due to culture. What was not seen in the literature was an investigation into why culture affects hiring practices, investigation involving multiple countries or investigation carried out on a large scale. Baron et al. sought to fill the gap, deciding first to apply Hofstede’s cultural dimensions to determine likely differences in selection processes.

Baron et al. conclude with the possible implications of their research on hiring practices. Of particular interest is their assertion that cultural differences would make implementing international hiring practice standards very difficult and that additional research is required in this area. For example they state that cultural differences in the testing methodology (for example, between multiple-choice questions,

interviews, and so on) would cause individuals from one culture to be deemed more qualified than others when that may not be the case.

**Byszewski, A., S. Dojeiji, P. Hall, E. Keely and M. Marks (2004). Communication skills, cultural challenges and individual support: challenges of international medical graduates in a Canadian healthcare environment. *Medical Teacher* 26(2): 122-125.**

Byszewski et al. attempted to find a remedy for the communication challenges facing Canadian trained international medical graduates interested in practising in Canada. They determined that a better understanding of regional language and culture, such as family dynamics, religious beliefs, health-care organization and social support, was necessary for a successful medical career in Canada.

Literature on this subject was lacking, and programs to address these concerns were found to be only in the preliminary stages. Byszewski et al. used a series of focus groups, interviews and surveys and a literature review to reach their conclusions. They conclude with recommendations. These findings are of interest because they point out the impact that culture has, even between two English speaking countries, on implementation of a general body of knowledge, in this case the knowledge necessary to obtain a medical degree.

**McMahon, G.T. (2004). Coming to America – international medical graduates in the United States. *New England Journal of Medicine* 350(24): 2435-2437.**

McMahon discusses challenges facing internationally trained medical graduates who wish to practise in the United States. McMahon identifies many of these challenges, such as hospital organization, relationship with technology and terminology, as being culturally based. He also stresses that an impending doctor shortage in the United States is creating an increasing

dependence on US-trained international medical graduates and immigrant doctors.

He also notes that an ignorance of cultural challenges in the medical profession is exacerbating the detrimental effects on the quality of medical care resulting from the shortage. This reduction in quality of care is seen as resulting from a failure to enact professional standards as a result of cultural confusion. Internationally trained medical doctors have the necessary medical expertise, yet they lack the cultural knowledge to be effective members of the medical profession in their new environments.

**Paul, Benjamin D. (ed.) (1955). *Health, Culture and Community: Case Studies of Public Reactions to Health Programs*. New York: Russell Sage.**

Paul looked at a variety of case studies to determine the impact and influence of community in implementation of public health-care programs. While Paul's cases spanned geography, medical practice and implementation strategy, he noted in his introduction that when new health-care practices are implemented it is necessary to evaluate pre-existing habits and functions. He goes on to note the importance of varied implementation strategies, stating that all people come with a bank of medical knowledge derived exclusively from their home culture.

Of particular note are case studies which explored the impact of language on cross-cultural medicine and how family dynamics and social hierarchies rendered medical consultations and treatment in China ineffective. For example, one study found that Chinese villagers were unwilling to pay for medical treatment when it was received, preferring to wait and make payment only after the treatment had been seen as effective. As a result, they were reluctant to receive treatment in the first place. In another instance, a patient in China had come to a mutual agreement with the physician on a treatment plan only to decide not to use the prescribed medicine when a revered aunt objected to the use of western medicine. Paul concluded with general statements, obtained from the case

studies, referring to the effect of society, race, perception and innovation (that is, culture) on medicine.

What is of interest here is both the scope of the importance of culture on medical practice globally and its historical relevance. This book was first published in 1955, indicating that cultural conflict has been recognized for over 50 years; it is unlikely to resolve itself independently in the future.

**Scott, Neil W., et al. (2008) *The relationship between overall quality of life and its sub-dimensions was influenced by culture: analysis of an international database*. *Journal of Clinical Epidemiology* 61: 788-795.**

Scott et al. look at the impact that culture and geography have on measures of quality of life. Using data from 39,000 respondents to a European Organization for Research and Treatment of Cancer questionnaire, Scott et al. created a linear regression model tracking interactions between questionnaire results and social and cultural groupings. They also compared the results to those of seven other quality-of-life surveys spanning multiple cultures and geographies.

Scott et al. discovered significant international differences attributable to cultural values in determining quality of life from a patient's perspective. For example, in South Asia and Latin America, the loss of cognitive function has a greater impact on quality of life than it does in the United Kingdom. They conclude by discussing the implications of their findings for further research and treatment plans.

#### ***Aviation***

**Hayward, Brent. (1997). *Culture, CRM and aviation safety*. *Australian Society of Air Investigators*. Presented at the ANZSASI 1997 Asia Pacific Regional Air Safety Seminar. <http://asasi.org/papers/hayward.pdf> (retrieved June 15, 2009).**

Hayward provides an overview of research involving culture and aviation safety. Starting at

the beginning of interest in this topic in the last century, Hayward notes that research has moved from a way to investigate accidents, to an awareness of human error to its current focus on cultural influences on individual and group behaviour. He summarizes the leading researchers in culture, such as Hofstede, and those interested in culture and aviation, such as the Human Factors Research Project at the University of Texas.

Hayward's findings include factors seen to be fundamental to aviation, such as good communication, and factors that are culturally based, such as the degree to which personal problems will affect professional performance. He also notes differences in the influence of national culture and other subgroups of culture, such as vocational and organizational culture, and how they influence aviation safety. He concludes with insight into ways operational safety can be enhanced in the future.

Hayward's focus on subgroup cultures and their interactions with national cultures is of interest to this literature review.

**Helmreich, R.L., and J.M. Davies (2004). Culture, threat, and error: lessons from aviation. *Canadian Journal of Anesthesia* 51(6): R1-R4.**

Helmreich summarizes the importance of culture in maintaining a safe professional environment in both medicine and aviation. He discusses the similarities between the two professions, notably the focus on teamwork, before turning to the role of culture. He looks at national, organizational and professional culture individually, noting how ingrained cultural behaviour prevents the standards of medical and aviation environments from being upheld. For example, he notes that between cultures there can be a 19% to 85% difference among professionals as to whether written procedures are necessary for all in-flight situations.

Helmreich goes on to note that most problems are at the intra-team level, such as a nurse mishearing a doctor and following a different procedure than the one prescribed, and are not the

result of technical failures. Helmreich concludes with suggestions to reduce errors and increase safety in both professions.

**Merritt, A. C. (2003). Aviation safety: Dominant and minority culture obligations. In R. S. Jensen (ed.), *Proceedings of the 12th International Symposium on Aviation Psychology*. Dayton, Ohio: Ohio State University Press.**

Merritt outlines the issues relating to the dominance of the United States over commercial aviation. She begins by noting the political, educational, demographic, geographic and economic reasons for this dominance. She then goes on to discuss the fact that commercial aviation is a western-controlled industry and the negative implications for non-western countries. She focuses on the difficulty of adopting western technology in minority cultures, noting that while North America has 49% of the world's departures it is responsible for only 19% of the world's crashes. Africa, however, has 3% of the world's departures and is responsible for 16% of the world's crashes.

Merritt discusses the possible interactions between dominant and minority cultures and the obligations that they have to each other. She concludes with a case study of the aviation safety tool Line Operations Safety Audit (LOSA). In use in the United States, Asia, Australia-Pacific and Europe, LOSA was developed in the United States, under the influence of western research methods and with input from American airlines personal as a response to a problem identified by the western culture of aviation. Although LOSA has been adopted worldwide, Merritt argues that its effectiveness may be limited to the western culture in which it was developed.

The focus on the adoption by many minority cultures of procedures and technology that were developed in one, dominant culture is of interest here, as is the responsibility of dominant cultures to minority cultures.



**Sherman, Paul J., Robert L. Helmreich and Ashleigh C. Merritt (1997). National culture and flight deck automation: results of a multi-national survey. *International Journal of Aviation Psychology* 7(4): 311-329.**

Sherman et al. begin with a summary of automation as a tool, including its benefits and consequences. They then move to determine the influence national culture has on the use of flight-deck automation through a survey of 6,000 pilots from 17 airlines in 12 countries.

Sherman et al. find that national culture does play a role in attitudes towards flight-deck automation, noting that the area with least consensus among countries, with a variance between 5% and 74%, is enthusiasm for the use of automation. Further investigation found, however, that the most influential of cultures is organizational culture. Regardless of their national culture, pilots flying with airlines where automation is favoured are reluctant to fly manually, even when it is in the best interest of the flight to do so.

**Soeters, Joseph L., and Peter C. Boer (2000). Culture and Flight Safety in Military Aviation, *International Journal of Aviation Psychology* 10(2): 111-133.**

Following extensive research into the relationship of culture with civilian aviation, Soeters and Boer set about to investigate the relationship of culture with military aviation. Using data on losses per 10,000 flying hours by NATO air forces, Soeters and Boer hypothesized, using Hofstede's cultural dimensions, that countries with greater individualism will have fewer accidents whereas countries with high power-distance indexes and those that highly averse too uncertainty will have more accidents. Masculinity in cultures was predicted to have no relation to the number of accidents.

Evaluation of the data confirmed the researchers' predictions. Soeters and Boer note the significance of their findings for future interactions between air forces, for example, on

combined operations, and in the normalizing of selection and training practices across cultures. For example, Boer and Soeters have demonstrated that it is imperative to make adjustments ahead of time for pilots who fast during Ramadan. They conclude with ideas for the development of advanced intercultural communication skills and the recognition of the benefits of such interactions.

### ***Peacekeeping***

**Braslet, Donna. (1988). Values and the Exercise of Power: Military Elites, in Robert A. Rubinstein and Mary LeCron Foster (eds.), *The Social Dynamics of Peace and Conflict: Culture in International Security*. Boulder, Colo.: Westview Press.**

Braslet looks at the influence of cultural values and socialization on the decisions made and supported by senior officials in the United States military in the late 1980s. She concludes through a series interviews that there is significant ethnocentrism among American military elites, heightened by a gap between what non-US cultures are actually like and how American military officials perceive them. Many military officials noted the superiority of American social and political institutions, and they perceived non-American countries as "frustrated or potential Americans" unable to reach their full potential through conforming to American ideology.

Braslet is quick to note that while the existence of a cultural-understanding gap is the over-arching message from her interviews, other military personal (mainly retired) voiced opposing thoughts. In discussing the American presence in Vietnam, Braslet noted that failure to understand the international experience and cultural relations were reasons for the American failure. She concludes with a personal observation that an ignorance of cultural values is holding back the United States military from international success. She also provides suggestions for further anthropological research.

Of note here are the clear connections Braslet presents between an acknowledgment of cultural

differences and success in international endeavours.

**DeGroot, Gerard J. (2001). A few good women: gender stereotypes, the military and peacekeeping. In Louise Olsson and Torunn L. Tryggstad (eds.), *Women and International Peacekeeping*. Portland, Oreg. Frank Cass.**

DeGroot observes that the perception of women as fulfilling a care-giving role, and therefore being ill-suited to combat, is what predestines them to be effective peacekeepers. Research has shown that women can calm a stressful situation and induce better behaviour in their male colleagues simply by being present. He provides a detailed history of female involvement in military activity from the 18th century until the modern day. DeGroot makes note of the traditional viewpoint that women are physically and mentally different and are therefore not able to handle the rigours of warfare. He goes on to discuss that despite this accepted viewpoint, there has been extensive female participation in past military endeavours, from hauling water in the French and Indian wars to being fighter pilots in the Second World War.

What is of note to this investigation is how awareness of culture is presented as a positive attribute. By taking advantage of the cultural belief that woman are caregivers and not aggressors the United Nations can run more successful peacekeeping operations.

This discussion paper presents an awareness and acknowledgement that cultural differences can sometimes be of benefit and therefore are not always problematic on the global stage.

**Duffey, Tamara (2000). Cultural issues in contemporary peacekeeping. *International Peacekeeping* 7(1): 142-168.**

Although Duffey makes a strong case for the monumental influence of culture on peacekeeping, what is of note is her focus on the interaction of the culture of the host country with that of the peacekeepers. She argues that greater attention and

research efforts need to be invested in understanding the interaction among host cultures, the culture of the peacekeepers themselves and the culture of the peacekeepers' organizations. Duffey outlines two theoretical movements, ethno-conflict theory and elective peacekeeping, that have been developed in response to the criticism of the western slant of peacekeeping. She goes on to note the reasons for peacekeeping failures, such as unclear training standards that lead troops to believe mistakenly they all have the same understanding of a given situation. Duffey concludes with a case study of peacekeeping efforts in Somalia and insights into future actions. She prescribes a move towards a bottom-up approach to peacekeeping, whereby peace agreements begin in the field and end with international politics, as opposed to the top-down method, where peace is first brokered by treaties and international agreements and then trickles down to the field. The top-down method is the prevalent one today. In addition, she notes a need for twofold cultural training for peacekeepers, first to help them to understand their own culture and its influence on their actions, and then to help them understand the effect of their culture on the host cultures they are to encounter.

The recognition of the importance of both culture of origin and host culture is of note here.

**Paris, Roland. (2003). Peacekeeping and the constraints of global culture. *European Journal of International Relations* 9(3): 441-473.**

Paris argues for the recognition of global culture as a factor in peacekeeping strategies and decision making. He summarizes the concept of global culture and how it applies to the discipline of international relations. He first notes a correlation between trends in peacekeeping and trends in global culture and then demonstrates a reluctance in peacekeeping to deviate from the global-cultural norm.

Paris concludes with a case study on international trusteeship, in which he investigates why trusteeship is not a viable option in modern peacekeeping despite its theoretical suitability. He

does so through historical research and anonymous interviews with United Nations members.

The unacknowledged and possibly detrimental influence of culture is of interest here.

**Rubinstein, R. (2008). *Peacekeeping Under Fire: Culture and Intervention*. Boulder, Colo.: Paradigm.**

Rubinstein takes a broad look at the impact culture has on international peacekeeping. He does so through case studies, first-hand experience and a survey of leading theorists on the subject. He reviews the history of peacekeeping and its connection to both anthropology and symbolic and ritual activities.

Of relevance to this literature review is Rubinstein's extensive discussion of how the culture of peacekeeping organizations, such as the United Nations, of countries, such as Somalia, that are receiving peacekeeping aid, and of countries providing peacekeeping aid, such as Canada, have an impact on the possibility of instilling and maintaining peace as well as determining the need for peacekeeping. He concludes with a discussion of the concept of intervention as a whole and its connection to culture.

***Environmental protection***

**Dickson, Barnabas and Jon Hutton, ed. (2000). *Endangered Species, Threatened Convention: The Past, Present and Future of CITES*. London: EarthScan.**

In commemoration of the 25th anniversary of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), Dickson and Hutton present a collection of short essays on the effectiveness of the convention. A background on the convention is provided, along with discussions of CITES in practice, four concise case studies on rhinos, elephants, tigers and bears respectively, and a look at lessons learned and the future of the convention.

Of particular note is Chapter 3, in which R.B. Martin discusses why CITES has not lived up to

its potential. Martin explicitly argues that CITES is most effective in countries that have the mindset to back it up, that is, countries whose culture is both highly respectful of rules and tolerant of variation in implementation approaches.

All four case studies also acknowledge cultural reasons for both the endangerment and preservation of fauna. For example, bear paws and gallbladder brine are delicacies in some regions of Asia; hence the at-risk status of bears. And despite laws against eating bears and a desire to comply with CITES, there is an ingrained culture of killing bears that allows the laws to be largely ignored.

This book is of note for its examination of how treaty standards fare after implementation and the acknowledgment of the role that culture plays .

**Gillespie, A. (1998). *Environmental Politics in New Zealand/Aotearoa: Clashes and Commonality Between Maoridom and Environmentalists*. *New Zealand Geographer* 51(1): 19-26.**

Gillespie argues for the inescapable connection between ecological issues and the society and culture in which they arise. He focuses his argument on a case study of the Maori indigenous people of New Zealand, beginning with a detailed history of their involvement with conservation movements.

Gillespie covers the Maoris' influence on environmental law, which has allowed them the right to govern the natural resources found on their land, their positive attitudes towards the environment and their present-day clashes with conservationists. The disagreements include accusations of mismanagement and a conflict between conservation for spiritual reasons and for biodiversity reasons. Gillespie concludes with suggestions for a future-of-conservation plan that includes a united Maori and environmentalist front.

Of note in this paper is the acknowledgment of differing cultures as the root of disagreement. Although the environmental-protection laws were passed to the satisfaction of both the Maori and environmentalists, the implementation of the laws

caused conflict as a result of deeply rooted cultural differences.

**Gillespie, Alexander (2000). Aesthetic, cultural and recreational justifications. Chapter 7 in Alexander Gillespie, *International Environmental Law, Policy and Ethics*. New York: Oxford University Press.**

While profiling international environmental law, Gillespie acknowledges the close connection that environmental protection has with culture. A culture that values nature, for example, moves toward advocacy for it. He notes the inclusion of cultural interest in five separate international agreements as proof of this connection.

Gillespie believes that culturally based behaviour can lead to endangerment and possible extinction of species. He cites the rhinoceros as an example of this, for rhino tusk is prescribed, ineffectually, for a myriad of ailments in Taiwanese pharmacies. As a result of its supposed medicinal value, the rhinoceros is threatened with extinction. Rhino horn has also long been used for dagger handles in Yemen, but a change in cultural priorities which has slowed the demand for horn handles has also reduced the risk of extinction.

The ability of cultural behaviour to influence an industry, seen here with species protection being swayed away from extinction in the case of Yemen and towards extinction in the case of Taiwan is of note.

**Moran, Emilio F. (2006) *People and Nature: An Introduction to Human Ecological Relations*. Malden, Mass.: Blackwell.**

Moran examines the human connection to nature, focusing on interactions between people and the environment. He examines hunter-gatherer traditions and archeological records, analyzes human actions that affect the environment looks at migration and community building. He concludes with a discussion of human consumption of the environment and resources.

Moran notes that while all humans on earth are contributing to the earth's destruction, our cultures

of origin dictate how that is occurring. For example, though North America has a culture of information that allows the cause and effect of human interaction with the environment to be well known, it is still a prominent contributor to global warming through the over-use of cars and the under-use of public transit. Moran, citing Hofstede, suggests that this is due to North America's cultural value of individualism. While aware of the benefits of public transit, using it would infringe on North Americans' individual freedom of movement and therefore it is under-used.

Moran's findings are of interest because he highlights the irrational decisions that can be made because of cultural background.

**Raustiala, Kal, Skolinkoff, Eugene B. and David G. Victor. (1998) *The Implementation and Effectiveness of International Environmental Commitments*. Cambridge, Mass.: MIT Press.**

Raustiala, Skolinkoff and Victor present a compilation of three years' research by the International Institute for Applied System Analysis (IIASA) on the effectiveness of international environmental commitments. The book analyzes various strategies for implementation at both the national and international levels, with case-study examples, and speaks to the reasons for both the successes and the failures.

Of particular note are Chapters 11-15, which discuss the implementation and enforcement of environmental commitments in the face of cultural changes. The dissolution of the USSR, which led to changes from a centralized society and economy to decentralized states and which had a marked impact on compliance with environmental accords, is explored in detail.

### ***Cross-cultural Influences in General***

**Gladwell, Malcolm (2008). *The ethnic theory of plane crashes: 'Captain, the weather radar has***

**helped us a lot.” In *Outliers: The Story of Success*. New York: Little, Brown.**

In his book, Gladwell deconstructs the components of success to determine what differentiates overachieving “outliers” from the general population. Of note here is Chapter 7, “The Ethnic Theory of Plane Crashes: ‘Captain, the weather radar has helped us a lot,’” where Gladwell discusses the link between plane crashes and culture.

He uses crash case studies and black-box analysis and consults with experts in culture (Geert Hofstede and others) and aviation (Robert Helmreich and others) to determine why certain countries have such high crash rates in relation to others. Gladwell asserts that cultural upbringing influences speech patterns, relationships with authority and power, and decision-making. All play an unexpected role. Planes crashed with greater frequency when flight crews were from cultures with greater power-distance indexes (that is, communication barriers up and down the chain or authority) and receiver speech patterns favouring the receiver as opposed to the speaker.

The unexpected, and substantial, impact of culture on the implementation of aviation safety standards may have parallels to IAASB standards implementation.

**Matic, Jennifer L. (2008) Cultural Differences in Employee Work Values and their Implications for Management. *Management*. 13:2, 93-104.**

Matic presents the findings of her investigation into the difference in work culture between Croatians and Americans and the implications this will have for management techniques. She begins by noting that dominant management theories are from the United States and were thus developed in conjunction with American cultural leanings. This has led, Matic notes, to frequent failure when those theories are applied in other countries.

Matic undertook an 11-question survey of undergraduate students in both countries and

evaluated the results to determine if there were any difference in work values. She determined that there was substantial difference between what is valued in the two cultures. For example, 35% of Croatians valued having freedom to approach their job as they see fit, while only 18.75% of Americans shared that value. Matic further noted that 19.35% of Croatian women valued being included in company decision making while 0% of American women agreed. Matic concludes with an invitation for future research on the applicability of American models to Croatian culture.

This article demonstrates the danger of implementing western ideas without an investigation as to how compatible they will be with non-western environments.

**Hofstede, Geert. (1991). *Cultures and Organizations: Software of the Mind*. Berkshire, England: McGraw-Hill Europe.**

Hofstede provides a concise overview of how culture creates a state of mind and inherent mode of action that are inescapable. His conclusions are based on data he obtained through a survey of IBM employees worldwide. Hofstede used this data to create dimensions of cultural difference, such as the power-distance index, where countries are rated on their comfort with disagreeing with a superior; the individualism-versus-collectivism index; the masculinity index, where countries are determined to have a “masculine” or “feminine” culture; and the uncertainty-avoidance index, which ranks countries on their ability to accept ambiguity.

He discusses how individuals coming from different rankings on the various scales will have different modes of interaction, and he describes the likelihood of conflict between those from opposite ends of the scale. Hofstede also speaks to cultural bias, notably the difference between western and eastern cultures, and the difficulties of interaction between cultures. Hofstede’s country indexes demonstrate the significant impact culture has on an individual’s perceptions and actions in all aspects of their life, including the professional world.

**Lewis, R.T. (2006). *When Cultures Collide: Leading Across Cultures*. Boston: Nicholas Brealey International.**

Lewis's work is a handbook on how to interact in cross-cultural situations, specifically in the international business community. Lewis begins with breaking down the impact that different languages have on communication. He goes on to discuss the meaning of culture and its influence on individuals, how culture is categorized and the influence of culture on areas crucial to international business, such as time, communication, team organization, motivation and manners.

Lewis devotes a large portion of this book to cultural profiles of countries with the aim of providing insight into the most effective way to interact with individuals from a given country. For example, when interacting with someone from the Netherlands, it is advisable to show frugality and avoid extravagance. However, when interacting with someone from Mexico, Lewis advises indulging a tendency toward grandiosity.

Lewis's country-by-country profiles are of note because they demonstrate the polarizing differences between countries, even those that are seemingly similar.

**Wong, Peter. *Challenges and Success in Implementing International Standards: Achieving Convergence to IFRSs and ISAs*. New York: International Federation of Accountants, 2004.**

Wong discusses the challenges facing the adoption and implementation of international standards in global financial reporting. He does so by surveying a cross-section of the international financial-reporting community, including accountancy organizations, national standard setters, regulators and professional accountants. He discusses issues with translation, structure, changes, knowledge inequality and the implications for international financial reporting standards. He also refers specifically to the

challenges associated with small and medium-sized accounting firms in relation to implementation.

Finally, Wong notes proposed action plans to help overcome challenges to implementing global standards and hypothesizes about the future of international financial-reporting standards. Of relevance to this literature review is Wong's recognition of culture, notably on page 8. When discussing the reasons for the failure of international implementation, he points out that implementation is always affected by factors unique to the country in question, such as culture. Culture is also mentioned, on page 5, as a potential obstacle to the adoption and implementation of global standards.

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