
Individualism and Collectivism Culture to Audit Judgement

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Abstract:

Purpose: *This paper is to survey and examine the impact of individualism and collectivism culture on audit judgement in Central Java Provinces, Indonesia. The paper intends to audit judgement and factors influencing audit judgement, using survey data collected by the authors.*

Design/Methodology/Approach: *The study uses the cultural dimensions of individualism/collectivism with cultural variables consisting of individualism and collectivism culture on audit judgment at Public Accounting Firm. The data set is from senior auditors in Central Java Provinces, Indonesia, which perhaps limits its usefulness elsewhere.*

Findings: *The paper found that most of the respondents who have individualistic culture are not supportive to audit judgement, while respondents who have collectivistic culture are supportive to audit judgement.*

Practical Implications: *The paper will help auditors, accountants, and policy makers to consider individualistic and collectivistic culture on audit judgement.*

Originality/Value: *The paper uses original survey data collected by the author who has considered individualism and collectivism in the analysis to enable policy makers to consider individualism and collectivism on audit judgements.*

Keywords: *Individualism culture, collectivism culture, audit judgement, senior auditor.*

JEL code: *M42, M48.*

Paper type: *Research article.*

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1. Introduction

Judgement audit is an important step in the audit process, because the final result of audit process that strongly affects an auditor's opinion is the judgment audit step. Research on judgment audits has been widely conducted by Wright and Wright (1997) who argued that an auditor may consider revising audit decisions as they evaluate audit findings and find audit error detection. Tubbs *et al.* (1990) suggested several conditions which greatly affect judgment audits such as excess of assets and reduction of responsibility.

Hofstede (1980; 1991) revealed that one of the dominant factors capable of influencing a person in making decisions is cultural factors. Hofstede's (1980; 1991) statement followed by a research conducted by Hogarth and Einhorn (1992) using cultural variables as factors influencing someone to provide additional information in the audit process, indicated that culture is a very influential factor in an individual's decision to decide whether he or she should provide additional information in the audit process (Jindrichovska and Kubickova, 2016).

The national cultural effect on audit judgement is considered important for three reasons. First, as globalization emerges, the company feel that they need to establish an international operation. The question of whether a local audit firm can run an audit and a risk assessment brings about practical significance.

Second, because there are different cultures, it is not always clear whether the sent message has the same content as the received message. Equation of meaning is a necessary condition for effective communication (Osgood *et al.*, 1957; Johnson, 1977), since communication often exceeds the expected limit, messages received in a country may have different meanings due to cross-cultural differences (Bagranoff, 1990; Suryanto *et al.*, 2017; Grima *et al.*, 2017).

Third, International Standard on Auditing (ISA 400, par. 38, 2003) on audit risk assessment requires group consultation. (ISA 220, par. 14, 2003) on the quality control of audit work stated that professional judgment differences among personnel can be resolved through appropriate consultations. With globalization, some countries use international accounting and auditing standards. However, the way in which countries use and apply standards may differ because of national culture (Suryanto and Thalassinis, 2017; Amilin, 2017).

The study uses the cultural dimensions of individualism/collectivism proposed by Hofstede (1980; 1991). The study is a follow up of the research conducted by Sim *et al.* (2004) who examined the cultural effects on group decision making in eastern and western cultures. In this study we used national cultural variables consisting of individualism and collectivism culture on audit judgment at KAP (Public Accounting Firm) in Central Java Province.

2. Theoretical Basis and Hypothesis

2.1 Cultural impact on judgement audit

Hofstede (1980) defines culture as a collective mental programming that distinguishes one group from another. This programming contains social values and beliefs. Values are the tendency of individuals to like certain conditions than others. Hofstede presents four different work-related values between cultures, namely Individualism-Collectivism, Power Distance, Uncertain Avoidance, and Masculinity-Femininity. Subsequent research reported by Hofstede and Bond (1988) suggests the fifth cultural dimension, called Confucian Dynamism.

In the context of judgement audit, the effects of national culture tend to have an impact on how to conduct audit planning. Individual culture refers to the extent to which individuals are integrated into organizations or institutions, whereas collectivism refers to individuals acting as members of a group (Hofstede, 2001).

In individualist cultures, group members prefer open and direct communication channels in resolving conflicts. When an individualist audit group must make a final decision on audit risk, the dimension of individualism, which contains values associated with stimulation and intellectual autonomy, can have a certain impact. Therefore, group members should make more persuasive arguments, so the group makes more revisions when there are issues to be solved. Conditions are often found in situations where new supplemental evidence is relatively unlikely compared to initial information. The individualist attitude tends to avoid the risk of "shame" if someone makes a mistake, because the attitude of individualism considers "learning is the learning process from failure."

In contrast, collectivist culture always tries to keep the rhythm, collectivistic auditors try to maintain harmony and strengthen consensus by creating the majority. Shame is used as a mechanism to express mistakes (Triandis *et al.*, 1988). Due to the fear of losing "face" and embarrassment that the audit could lead to litigation of audit firms, auditors in collectivist cultures tend to choose "safer approaches". They expect their beliefs to be adjusted by increasing the budget amount of the audit hour. Because of fear of losing "face", there is less persuasive argument than group members and the failure to educate each member in the group. Consequently, they tend to perceive that the audit risk is high. Precisely, the collectivistic cultural auditor is very sensitive to negative evidence compared to individualistic cultural auditors.

On the other hand, collectivistic cultural auditors rarely want to revise their beliefs by reducing the budget number of audit hours when new pieces of evidence are received, which the new piece is favored rather than the very unlikely initial information. This result is caused by the fear of "losing face" when confronted with the first piece of information that is very unpopular. The unwillingness of reducing the clock budget reflects a strong "face" on the part of the audit firm. A strong obedient tendency makes

audit firms more cooperative than resisting, and avoidance is always considered "different". Based on the above explanation we can state the research hypotheses as follows:

H1: Individualistic culture has a positively effect on audit judgement;

H2: Collectivistic culture has a positive effect on audit judgement.

3. Research methodology

The population of this study is public accounting firms in Central Java Province, while the sample consisting of senior auditors from these firms. The reason for choosing senior auditors is because the senior auditor is more responsible for the decision in the audit process. Data collection was conducted by mail survey through questionnaires distributed directly to sample areas (personally administered questionnaire). The questionnaire form consists of related questions (structured questionnaire). This data is obtained through questionnaires distributed to each respondent by random sampling technique. Respondents answered the question posed on the questionnaire and selected the most appropriate of the various alternative answers provided without having the option to provide another answer, the questionnaire of this form is more attractive to the respondent because of its ease in providing answers and also the time spent to answer the questions is shorter.

3.1 Definition of operational variables and research instruments

Individualism culture tends to be related to modern culture. The individualist attitude tends not to risk the "shame" if someone makes a mistake, because the attitude of individualism considers "learning is the learning process from failure". Cultural collectivism is measured by five development indicators from Hofstede (1991) measured by the Likert scale with range 1 = strongly disagree up to 5 = strongly agree. Culture of collectivism always try to keep the rhythm; collectivist auditors try to maintain harmony and strengthen consensus by creating the majority. Shame is used as a mechanism to express mistakes (Triandis *et al.*, 1988). Cultural collectivism is measured by six development indicators from Hofstede (1991), and Godfellow (2002) measured by the Likert scale with range 1 = strongly disagree to 5 = strongly agree.

Judgment audit is a process of consideration or an auditor's perspective in responding to information relating to the risks and responsibilities faced by the auditor and influencing opinion making (Jusuf, 2012). Audit judgement measurement adopted from research conducted by Puspitasari (2014) with five indicators with the Likert scale with range 1 = strongly disagree to 5 = strongly agree.

3.2 Data Quality Test

There are two procedures performed for reliability and validity, namely; internal consistency test of respondents' answers on research instruments and the validity test

of constructs by correlating the score of each item with the total score. Description of the two data quality tests are as follows:

- Internal consistency test (reliability) is determined by coefficient of Cronbach alpha. A construct or instrument is said to be reliable if it gives a Cronbach alpha value above 0.60 (Hair, 1995);
- Test data homogeneity (validity) with Pearson's correlation test. If the result is significant then the data is said to be valid.

3.3 Classical assumption test

Before the multiple linear regression analysis was done, the classical assumption test is first performed. The regression model derived from the Ordinary Least Squares method is a regression model that produces the best non-biased linear estimator (BLUE/Best Linear Unbias Estimator) (Suliyanto, 2005). These conditions will occur if they meet all the classical assumptions such as:

a. Normality test:

This test aims to determine whether the data under study is normally distributed or not. One way to test the normality is to use Kolmogorov-Smirnov test against the residual standard value of the regression equation. When the sample Kolmogorov-Smirnov test is greater than the significant level used ($\alpha = 0.05$), then the distribution of data spreads normally.

b. Multicollinearity test:

This test is used to determine whether in the regression model found a high or perfect correlation between the variables. If the independent variables are perfectly correlated, then the resulting regression equation cannot be used. The most commonly used statistical tool for testing multicollinearity disorders is either the tolerance or VIF (Variance Inflation Factor) value used to detect the presence of multicollinearity. The tolerance value limit is > 0.10 and $VIF < 10$ (Suliyanto, 2011). If the tolerance value is below 0.10 or VIF value above 10 then it can be assured that multicollinearity has occurred.

c. Heteroscedasticity test:

This test is used to determine whether in the regression model there is a variance inequality of the residual of one observation to another observation. The heteroscedasticity test is done by looking at the plot graph, where if the plot graph is spreading and not forming the pattern it is concluded that there is no heteroscedasticity (Ghozali, 2005).

3.4 Hypothesis testing

Two ways test analysis of variance and main effects are used to see the effect of categories of independent variables that are more than 1. The result of this test will be

seen from the significance value of the test of between the variables-subject effect, where if $p < 0.005$ then it is certain that there is influence between the independent variable and the dependent variable. On the contrary if the result of significance shows value greater than 0.005 or $p > 0.005$ then it is certain that there is not influence between the independent and the dependent variable (Ghozali, 2015).

4. Results and Discussion

Characteristics of respondents by gender are grouped into female respondents and male respondents. Table 1 presents the characteristics of respondents by gender:

Table 1. Overview of respondents by gender

Gender	Number (People)	Percentage (%)
Male	28	58
Female	20	42
Total	48	100

Source: Primary data processed, 2018.

Table 1 shows that most of respondents were male (28) or 58%, while female (22) or 42%. Characteristics of respondents by age grouped into three categories of respondents whose age ≤ 25 years, 25-40 years, and ≥ 40 years. Table 2 presents these characteristics:

Table 2. Overview of respondents by age

Age (years)	Number (People)	Percentage (%)
≤ 25	10	21
25 – 40	28	58
≥ 40	10	21
Total	48	100

Source: Primary data processed, 2018.

Table 2 shows that most of the study respondents were aged between 25-40 years. Table 3 shows that most the respondents have undergraduate education, 23 persons or 47.9%, 10 are educated in S2 or 20.8%, and 15 have diploma or 32.2%.

Table 3. Overview of respondents by education

Education	Number (People)	Percentage (%)
Diploma	15	32,2

S1	23	47,9
S2	10	20,8
Total	48	100,00

Source: Primary data processed, 2018.

4.1 Data Quality Test

a. Reliability and Validity Test Results:

Based on the test data quality data is feasible to be analyzed to the next stage. Tables 4 and 5 present the results of the reliability and validity of data.

Table 4. Reliability test

No	Variable	Cronbach Alpha Value	Result
1	Individualism culture	0,877	Reliable
2	Collectivism culture	0,907	Reliable
3	Audit judgement	0,839	Reliable

Source: Data processed, 2018.

Table 5. Validity test

No	Variable	Correlation	Significance	Result
1	Individualism culture	0.741**-0.850**	0.01	Valid
2	Collectivism culture	0.435**-0.928**	0.01	Valid
3	Audit judgement	0.525**-0.847**	0.01	Valid

Source: Data processed, 2018.

4.2 Classical Assumption Test Results

a. Normality test results:

The normality test method used is Kolmogorov-Smirnov. Normality test results can be seen in the following Table 6:

Based on Table 6 the normality test results of all normal distributed variables have significance value greater than 0.05. Thus, it can be concluded all variables are normally distributed.

Table 6. Results of normality test of data

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		48
Normal Parameters ^{a, b}	Mean	.0000000
	Std. Deviation	4.34902535
Most Extreme Differences	Absolute	.091
	Positive	.058
	Negative	-.091
Kolmogorov-Smirnov Z		.631
Asymp. Sig. (2-tailed)		.820

a. Test distribution is Normal.

b. Calculated from data.

Source: Data processed, 2018.

b. Multicollinearity test results:

Table 7 presents the multicollinearity test results. Based on the test results the VIF value in each variable is less than 10 and the tolerance value is less than 1, so it is stated that all the independent variables are clean form multicollinearity symptoms.

Table 7. Multicollinearity test results

Coefficients^{a, b}

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	22.802	4.576		4.983	.000		
total_individualism	-.099	.153	-.093	-.647	.521	.996	1.004
total_collectivism	.294	.160	.264	1.836	.073	.996	1.004

a. Dependent Variable: total_judge

Coefficients^{a,b}

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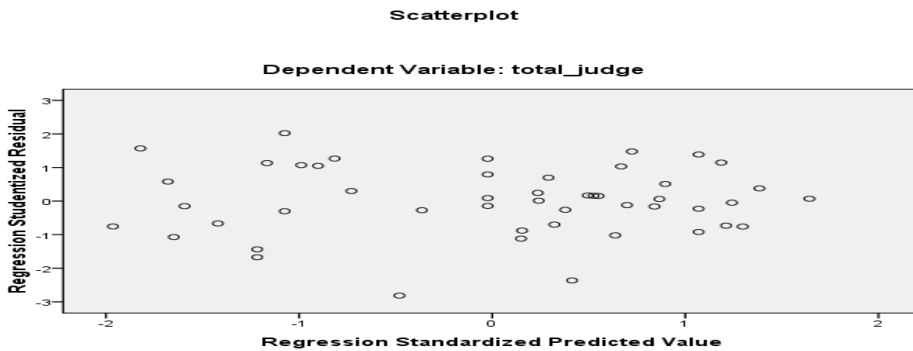
b. Weighted Least Squares Regression - Weighted by individual

Source: Data processed, 2018.

c. Heteroskedasticity test results:

The following heteroskedasticity test results using SPSS program are presented in Figure 1.

Figure 1. Scatter Plot heteroskedasticity test results



Source: Data processed, 2018.

The heteroskedasticity test was performed to test whether in the regression model there was a variance inequality of the residual from one observation to the other. If the variant of the other residual observations remains, then it is called homoskedasticity. A good regression model is homoskedastic or not heteroskedastic (Imam, 2002). Detection of whether heteroskedasticity is present is done by looking at the presence or absence of certain patterns (wavy, widened and narrowed) on the plot graph (scatterplot) between the predictive value of variables associated with its residuals.

Based on the results of the graph plot (scatterplot) above (Figure 1) that there is no pattern (wavy, widened and narrowed), it can be interpreted that there is no heteroskedasticity on the regression model.

4.3 Hypothesis testing

a. Levene's test of equality error variance test results:

Before stepping into the test of two ways analysis of variance and main effects then we do first the Levene's Test of Equality Error Variance to see if there are differences in variance shown in Table 8.

Table 8. *Levene's test result of equality error variance*

Dependent Variable: total_judge

F	df1	df2	Sig.
.823	40	7	.683

Tests the null hypothesis that the error variance of the dependent variable is equal across groups.

a. Design: Intercept + total_individualism + total_collectivism

Source: Data processed, 2018.

Levene's test of equality error variance shows that there is no difference in the variance between variables, because the F value of 0.823 is statistically insignificant ($p = 0.683$) which means the non-rejected the null hypothesis (qualify assumption of ANOVA)

b. Two ways analysis test of variance and main effects:

To know the influence of cultural individualism (X1), and collectivism culture (X2) on judgment we used two ways analysis of variance and main effects test by using significance level $p = <0.005$. Table 9 presents the results.

Table 9. *Two ways analysis test results of variance*

Tests of Between-Subjects Effects

Dependent Variable: total_judge

Source	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	621.913 ^a	22	28.269	2.072	.040
Intercept	9937.455	1	9937.455	728.412	.000
total_individualism	211.943	13	16.303	1.195	.338
total_collectivism	324.657	9	36.073	2.644	.002

Tests of Between-Subjects Effects

Dependent Variable: total_judge

Source	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	621.913 ^a	22	28.269	2.072	.040
Intercept	9937.455	1	9937.455	728.412	.000
Error	341.066	25	13.643		
Total	37649.000	48			
Corrected Total	962.979	47			

a. R Squared = .646 (Adjusted R Squared = .334)

Source: Data processed, 2018.

Two ways analysis of variance and main effects (ANOVA) test results show that the F value of cultural variables of individualism is 1.195 with significance level $p = 0.338$ (well above 0.005). These results indicate that there is no influence between individualism culture on audit judgment, so it is concluded that hypothesis 1 which states culture of individualism positively influence on judgment audit, is rejected.

For test result of collectivism variable show F equal to 2,644 with significance value $p = 0.002$ indicating that there is influence between collectivism culture to audit judgment or in other words hypothesis expressing culture of collectivism have positive effect to audit judgment, therefore it is accepted.

c. Individualistic culture has a positive effect on judgment audit:

It is known that individualistic culture is proven to affect negatively the judgment audit. The results of this study are different from the research conducted by Hofstede (2001). The result of this difference is due to the tendency of respondents which are senior level auditors with more than three years of experience. Enough experience makes the respondents to behave more wisely, not being individualistic in the audit work process in their team. The facts on the ground also show that respondents tend to be cautious in making decisions, they are not reckless in deciding something especially related to audit decisions. The concept of caution and avoidance of shame is important to improve their image in the society.

d. Collectivistic culture has a positive effect on judgment audit:

It is known that collectivistic culture has positive effect to judgment audit. The results of this research support the research undertaken by Hofstede (2001) and Godfellow (2002). The senior auditors sampled in this study always try to keep the rhythm, senior auditors maintain harmony and strengthen consensus by creating a majority against other team members in deciding things. Sharing information resources is very important in the team.

5. Conclusions

The individualistic culture has been shown to negatively affect the judgment of the audit. The results of this study are different from the research conducted by Hofstede (2001). The collectivistic culture has a positive effect on audit judgment. The results support the research undertaken by Hofstede (2001) and Godfellow (2002).

The sample of this study consists of senior auditors so results with a wider scope cannot be obtained. Future research is expected to add categories until both senior auditors, junior and direct leaders to be included in the sample. Also future research needs to add different cultural views in order to improve the generality of the findings.

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