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The organizational culture of public accounting firms: evidence from Taiwanese local and US affiliated firms

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Abstract

This study examines the organizational cultures of public accounting firms with data from US affiliated international accounting firms in Taiwan and Taiwanese local firms. Hypotheses are tested about the impact of the national culture of the US firms on their Taiwanese affiliates, and about cultural differences across function and rank. The study extends previous research by (1) examining an oriental country whose culture is significantly different from that of the US, (2) using the Hofstede, G., Neuijen, B., Ohayv, D. D., & Sanders G. (1990). *Measuring organizational cultures: a qualitative and quantitative study across twenty cases. Administrative Science Quarterly, 35*, 286–316 practices-based measure of organizational culture, and (3) examining the importance of the fit between employee preferences and organizational culture in influencing organizational commitment, job satisfaction and propensity to remain with the organization. Support is found for the cultural impact and fit hypotheses. Additionally, while culture is found to be relatively homogeneous across function, differences are found across rank. © 2002 Elsevier Science Ltd. All rights reserved.

1. Introduction

The organizational culture of public accounting firms is an important area of research because of culture's ability to affect the motivation, behaviour and performance of accounting firm participants generally (see, for example, Holmes & Marsden, 1996; Hood & Koberg, 1991; Pratt & Beaulieu, 1992), and specific decisions and actions including auditor judgment on materiality

(Carpenter, Dirsmith, & Gupta, 1994) and auditor independence (Windsor & Ashkanasy, 1996).

In an era of increasing globalization, attention has also been given to the impact of organizational culture on accounting firm mergers across national boundaries (Pratt, Mohrweis, & Beaulieu, 1993, p. 627; Radebaugh & Gray, 1997, pp. 645–646), and the affiliation (or association) of international accounting firms with local firms in different nations (Iqbal, Melcher, & Elmallah, 1997, p. 487; Soeters & Schreuder, 1988, p. 76). Noting that the “big” international accounting firms are essentially US in orientation, Soeters and Schreuder (1988) studied the extent to which US national culture influenced the organizational

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culture of US firms operating in the Netherlands with Dutch employees. Similarly, Pratt et al. (1993) examined the extent to which the US culture of international accounting firms was inculcated in the value systems of British and Australian employees of those firms in Britain and Australia. Soeters and Schreuder (1988, p. 83) and Pratt et al. (1993, p. 627) pointed to the tensions and difficulties that may arise in merger and affiliation activities resulting from the problem of “culture clash”.

The importance of this issue remains, and indeed has increased, since these studies. With respect to mergers, the “Big Eight” of Soeters and Schreuder in 1988 had become the “Big Six” of Pratt et al. by 1993 and, by 1998, the “Big Five”. With respect to affiliations, national ownership and/or other legislative restrictions mean that for some nations (e.g. Taiwan, Indonesia and Japan), affiliation or association with a local accounting firm is the only way that an international firm can establish operations in that country (Radebaugh & Gray, 1997, p. 651). From another perspective, the current Vision Project of the AICPA, in recognizing the broader and higher levels of service provisioning of CPAs, also emphasises the importance of globalization, identifying international services as one of the top five core services of the CPA profession and citing global forces as a key issue in their “Profession-wide Visioning Process” (AICPA, 2001, pp. 07–08htm).

The literature also raises the issue of subcultures in accounting firms. Both Hood and Koberg (1991) and Pratt and Beaulieu (1992) suggest that culture may differ across function (specifically, management advisory services (MAS) and non-MAS functions of audit and tax) and rank. Cultural differences between audit and MAS functions were observed as long ago as Watson (1975), while Carpenter et al. (1994) also found evidence of differences across rank. The question of whether organizational subcultures exist is important. If culture differs across function, this may cause problems for organizational design, coordination and control. Pratt and Beaulieu (1992, p. 681) suggest that these problems are possible reasons why some firms have chosen to “spin off” their MAS function. If culture varies across rank, then, as Hofstede (1998, p. 11) points out, there is the

potential for decisions made at a higher level, and based on that level’s perception of organizational reality, to produce conflicts and adverse consequences when those decisions impact lower levels with different perceptions of reality.

In examining the potential influence of the US culture of the international accounting firms on their affiliates in Taiwan, the current study extends prior research in three ways. First, Pratt et al. (1993), who studied the influence of US culture on British and Australian employees of US international accounting firms in Britain and Australia, noted that both these countries were, like the USA, Anglo in cultural heritage with English as their national language. They were also countries where “the US presence is strong and large US firms are well entrenched” (Pratt et al., 1993, p. 627). Hence, culture transference might be more readily and easily achieved (and, hence, less visible as constituting transference) in these country combinations than where the combinations involve greater cultural differences. Pratt et al. (1993, p. 628) noted this as a limiting factor in their study, and called for future research to be conducted in oriental countries because the greater differences between US and oriental cultures may make cultural influences more difficult to achieve (and, hence, more visible as cultural influences).

Taiwanese culture is very different from that of the US and the cultures of Britain, Australia and the Netherlands, the countries at issue in the Pratt et al. (1993) and Soeters and Schreuder (1988) studies. For example, taking two of the most important cultural characteristics differentiating western and oriental cultures, individualism and power distance (Lachman, Nedd, & Hinings, 1994, p. 49), Hofstede (1983, p. 82) places the USA, Britain, Australia and the Netherlands in the small power distance and high individualism quadrant cluster of countries, and Taiwan in the opposite quadrant of large power distance and low individualism. Hence, as compared to prior studies, the current study can provide stronger tests of the effect of US affiliation on the organizational culture of accounting firms located outside the USA.

Second, this study extends previous research by using the Hofstede, Neuijen, Ohayv, and Sanders (1990) practices-based measure of organizational

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