

Culture, Collectivism, and Chaos: A Case Study

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For the cause that lacks assistance,
For the wrong that needs resistance,
For the future in the distance,
And the good that we can do.¹

This case study examines data from one kibbutz, providing evidence of the varying factors which influence its reporting modes and patterns, in the context of accounting as part of a cultural system and a way of life. Further inquiries would be necessary and appropriate before wider conclusions may be ascertained, and a sample of such proposed studies is provided. Through this study, the power and potential ". . . of culture as an explanatory variable"² and as an analytical tool is highlighted. This may motivate others to adopt a similar approach in order to explain why, and understand how, different systems evolve, and the varying attitudes that prevail towards them.

Introduction

A resurgence in the desire to understand cultural influences upon our society may be motivated by varying factors. Contributing factors may be failed multinational projects, failure in the democratization of African states, or attitudes that development and ability cannot be

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1. Preamble to the Cedar Vale Community Constitution 1874, quoted in Nordoff, C. *The Communist Societies of the United States* (New York: Dover Publications, 1966), pp. 354-5.
2. S. Ansari, and J. Bell, "Symbolism, Collectivism and Rationality in Organisational Control," *Accounting, Auditing and Accountability*, 4 (1991), 23.

transposed from one environment to another but rather "developed in and for one's self".³ If one accepts that the internal organization of an entity may be described by its decision-making, motivation and information structures,⁴ then studies explaining the relationship between decision-making and information structures, and influences upon them, may be of value.

Explanations of the relationship between, and influences of culture upon, accounting systems have emerged over the past five years. The issues raised range from the influence of culture on the evolution of accounting systems and standards within a national context⁵ to an international analysis.⁶ Alternatively, on a micro level, Ansari and Bell investigated the cultural influences upon the operations of a family controlled Pakistani ice-cream company.⁷ This interpretive study assessed the connection between culture, relationships and subsequent organization, the reporting devices at their disposal and their utility within varying commercial climates. Carnegie adopted a historical perspective to explain the cultural and environmental factors which influenced the nature of accounting in nineteenth-century Western District pastoral records.⁸

Consistent with Hofstede's definition of culture as "the collective programming of the mind which distinguishes the members of one human group from another,"⁹ this paper shall adopt the aforementioned Ansari and Bell framework to analyze the cultural influences upon accounting reports within the distinct sub-culture of the kibbutz. This shall be attempted by assessing the extent to which accounting is a cultural artifact, influenced directly by the ideological constraints and developments of the system which it serves. Ansari and Bell's study concentrated on the Pakistani family structure, religion and tradition,¹⁰ and Carnegie on the isolation in a livestock station in what was then considered outback Australia, and the

3. R. Ackoff, *Redesigning the Future* (New York: John Wiley, 1974), p. 222.

4. E. Neuberger, and W. Duffy, *Comparative Economic Systems: A Decision-Making Approach* (Boston: Allyn and Bacon, 1976).

5. P. Gerhardy, "Culture and Accounting Principles—The Case of West Germany" *QUT Accounting Research Journal* (Autumn 1991) 19-29.

6. S. Gray, "Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally," *Abacus* 24, 1 (1988) 1-15.

7. Ansari and Bell, 1991, 4-27.

8. G. C. Carnegie, "Pastoral Accounting in Pre Federation Victoria: The Jamieson Family, A Case Study," *Paper presented at Accounting Research Seminar Deakin University* (October 1991).

9. G. Hofstede, "The Cultural Context of Accounting" in Cushing, B. (ed.), *Accounting and Culture* (American Accounting Association, 1987), pp. 1-11.

10. Ansari and Bell, 1991.

influence of local educational institutions.¹¹ This study shall concentrate on assessing the influence of kibbutz ideology or 'way of life' on their financial reporting and commercial activities. We shall also explore the extent to which the relationship may be considered reflexive, i.e., what one may understand about the ideology, way of life, or degree of communalism from the accounting system.

Several prior published studies of communal societies have often touched, if only vaguely, on issues relating to their financial performance or bookkeeping methods. This apparent lack of literary exposure maybe partially explained by the notion that ". . . except during the period 1824-48, economic goals and strategies have seldom been the central issues of communitarian ideology."¹² This is consistent with feelings expressed within the Owenite settlement New Harmony in the 1820's that bookkeeping was deplored and depicted as a by-product of "all the depraved institutions of the trading world."¹³ Alternatively, in a description of Shaker ideals, it was noted that disdain for personal wealth did not hamper the development of an accurate and timely reporting system or fiscal accountability.¹⁴ Though beyond the scope of this paper, "the timeliness of the central tenets of utopianism"¹⁵ may justify a similar study into historical communities.

This paper will be structured as follows. A background providing an explanation of motivating forces behind the establishment of kibbutzim shall be followed by an outline of kibbutz entities and bookkeeping procedures. A short history of the young Galilean kibbutz, Kadarim, is provided to enable the assessment of certain notable changes evident in the structure and decision-making processes of the kibbutz. This is addressed through the guise of the "generic issues" raised by Ansari and Bell.¹⁶

Background

Since the 1800's there have been various attempts to set up co-operative, communal societies, based on persuasion rather than

11. Carnegie, 1991.

12. R. Kanter, *Commitment and Community: Communes and Utopias in Sociological Perspective* (Cambridge: Harvard University Press, 1972), p. 45.

13. P. Brown, *Twelve Months in New Harmony* (Cincinnati: Hill Woodward, 1827), pp. 16-17.

14. A. Faircloth, "The Importance of Accounting to the Shakers" *The Accounting Historians Journal* 15 (Fall 1988), 100. Also, M. Melcher, *The Shaker Adventure* (Princeton: Princeton University Press, 1941).

15. W. Metcalf, *Dropping Out and Staying In*, Unpublished Ph.D. Thesis, Griffith University (1986), p. 323.

16. Ansari and Bell, 1991, p. 4.

force. Among others Bakunin, Owen and Fourier advocated the development of social organizations through "... small autonomous communities based on complete voluntarism of work and sharing of wealth."¹⁷ The form of anarchist socialism that developed was dedicated to the building of small communities or societies, entailing direct/intimate relationships to solve social conflicts and eliminate injustice and alienation of man from society. One such society was the kibbutz.

At the beginning of the century when migration to the land of Israel began to increase, the first kibbutzim were established. They were built on the ideal and hope of creating an egalitarian society. The kibbutzim were not established for the sake of political power. However, "... neither was it meant to be no more than a personal paradise on earth for the sake of its own members only. The kibbutz always saw itself as a kind of vanguard for a better society and as carrying a major part of the burden of rebuilding the country. It was, therefore, both a social experiment and part of the political effort of the Zionist Movement as a whole and Labor Zionism in particular,"¹⁸ The kibbutz was seen as an idealistic and practical way of approaching the problem of building a new state and a better society.

Over the years the kibbutz has been widely recognized as one of the foremost of the various micro-socialist experiments. Little is known or has been published about the accounting methods used on kibbutzim. In the light of the demise of many Eastern bloc countries over the past few years, it seems of additional interest to examine elements involved in the functioning of kibbutzim, which may be seen as one of the last remaining bastions of the 'socialist dream.' There are about 280 kibbutzim, within three movements, with a total population of approximately three percent of the national population. It has been documented that kibbutzim contributed higher proportions of agricultural and industrial output in both comparative and dynamic contexts.¹⁹ Social contributions have been documented from the early years of the kibbutzim, one such being that in the first Israeli parliament in 1948, over a third of the members were kibbutznikim.²⁰ More recently, kibbutzim have also been reported to have absorbed a high degree of national security risks, as evidenced by the fact that

17. A. Groth, *Major Ideologies* (New York: John Wiley, 1971), p. 64.

18. A. Maniv, "Towards a New Political Pluralism in Kibbutz," *Kibbutz Currents* 2 (1988) 40.

19. H. Barkai, "An Empirical Analysis of Productivity and Factor Allocation in Kibbutz Farming and Manufacturing," *Discussion Paper No. 74. 08*, (Jerusalem: The Maurice Falk Institute for Economic Research in Israel, 1974), and "Productivity and Factor Allocation in Kibbutz Farming Manufacturing," *Revue Economique* (May 1978), 150-51.

20. A. Elon, *The Israelis*, (New York: Holt, Rinehart and Winston, 1971), p. 243.

twenty-five percent of the Six Day War deaths were kibbutzniks.²¹ Over the past five years within Israel, kibbutzim have received sizeable public exposure over their debt problems. Since the mid-1980's the Israeli government has been involved in various aid packages, rescheduling and erasing existing debt, attempting to ensure that kibbutzim did not collapse due to economic reasons.

A vital part of this examination is the events leading to, and results of, the aid packages. The following section explaining the entity structure and bookkeeping evident on kibbutzim, may clarify within which paradigms this study hopes to progress.

Kibbutz Entities and Bookkeeping

The common ownership of property and equality of members is the basis of kibbutz reporting systems. As a registered 'Agoudah Shitufit' (partnership association), there are specific laws in Israel pertaining to the reporting requirements of kibbutzim, the timing of reports and their taxation commitments. The government department responsible for this regulation and overseeing its implementation is the Ministry of Labour, through its arm 'Rasham Haagoudot' (Registrar of Associations). To a large extent, the format followed and information disclosed within their 'Maazanim' (Balance-sheets) is motivated by regulation, and there is little room for diversity. For most kibbutzim the audit of the financial reports is conducted by 'Brit Pikuach' (Agricultural Co-operative Auditors).

The kibbutz accounting system exists within a framework of commercial and consumer activities. Thus, the systems that have evolved have attempted to address problems pertaining to data considered necessary for both commercial and household management. In fact, the structure of the living expenses section would probably look like that of a suburban household. Depending on the size of the kibbutz in question, the varying elements of these living expenses cover large sums of money. For most of these activities there is an elected committee responsible for the utilization of specific funds. This committee is responsible to the Secretariat, and ultimately to the General Assembly, which approves the yearly budgets. Alternatively, the agricultural commercial activities have tended to be managed by individuals who are responsible to an Economic Committee, which has been answerable to the General Assembly, in a similar way to that of the Secretariat. Industrial projects may have their own management,

21. Ibid.

though they are often answerable to the Economic Committee. In the aforementioned examples it is relevant to note that the hierarchy stifles autonomy or freedom of management.

There are certain elements appearing within these statements that may be considered different from the financial reports we are accustomed to. These are mainly the consumer oriented accounts. An example is the sections pertaining to the size of the kibbutz population and the status of the inhabitants. The schedule of members is updated, including data of which new members were accepted, which left, and who was absent with leave or in the Israeli Defence Forces. This schedule is then transformed into a worksheet, which shows where each work day was spent, be it in production, services or holidays. The inhabitants schedule is also the starting point for calculation and distribution of the living expenses, which is split between permanent and temporary inhabitants, and children. This usually includes expenses such as food, health, culture, laundry, transport, telephone and electricity. After imputation and addition of National Insurance, this is eventually applied as the pseudo-labor costs.

Within the commercial sphere, the profit/loss report includes income from varying sub-categories such as subtropical fruit, citrus fruit, livestock, tourism and wages for individuals working outside the kibbutz. The expenses follow a similar format, though at no time in this report is there specific matching up of income and expenses from specific activities, profit centers or divisions. The balance sheet includes productive and non-productive assets (such as housing, communal dining room and kindergarten). Included in the non-productive assets, are items such as essential furniture, which the kibbutz provides to each inhabitant. Interestingly, the recording of these purchases does not mention the name of the person that the furniture was bought for, just one communal ledger for 'furniture in houses.' If a person leaves and takes this furniture with them (as they are entitled to), there is no recording of any reduction from this ledger, and on Kibbutz Kadarim since 1982 there has been no physical stock-taking of these items which appear within the furniture for houses ledger. A regular asset schedule entailing asset listings, purchases, sales, grants and depreciation is attached. Holdings in any regional co-operative institution (such as the regional packing house) are also included. Based upon these financial statements the kibbutz pays income tax and property tax. Appearing at the head of the report is the amount of land that the kibbutz has under its control, with a schedule of any yearly changes. In the reports, rental of the land and not its purchase costs appear, as ninety-five percent of land in Israel

is owned by the National Land Authority, which leases lands on forty-nine-year leases that are renewable and inheritable.²²

Also appearing in these reports are profits (or losses) made through separate legal entities that the kibbutz may own. These generally fall into the categories of limited partnerships or proprietary limited companies. Apart from examples of actual operating partnerships, these entities were traditionally established to appease the demand of the *Encouragement of Capital Investments Law 1959*²³ This law stated that in order to receive government assistance under 'Approved Industries' status, one had to operate as an independent entity and provide separate books. Initial examination reveals that these activities were not perpetually separate. Apart from predominantly external accounts and invoices being recorded, costs connected with the kibbutz, such as labor and electricity were usually only recorded once a year to appease the auditors. These activities were usually in the industrial or tourist sectors. Traditionally, due to congenial benefits offered in regard to taxation payments, and profit shifting arrangements, the partnership option was adopted. Recently, due to the desire to create a corporate veil limiting liability between the kibbutz and its entities, the limited liability option has become increasingly popular. This option also makes it more attractive for a kibbutz to solicit external investors or to actively raise funds in money markets.²⁴

In Israel there is a value added tax of seventeen percent which is calculated on the fifteenth of the following month, as are fringe benefits tax and income taxation of any outsiders employed within the kibbutz. This structure ensures that on a macro level the financial reporting is kept up to date. National Insurance and 'Kupat Holim' (Health Insurance) payments are also due monthly and calculated on inhabitant data provided by the kibbutz.

As one may note through the references to legislation, the legal requirements of a kibbutz with a turnover of two million dollars or two hundred million dollars do not differ. There has never been a case of a kibbutz that has folded due to financial problems. Though there have been numerous cases of kibbutz failures, most of these are traced to social problems.

The attitude that one takes toward wealth and its accumulation

22. E. Sadan, *Agricultural Settlements in Israel, A Study in Resource Allocation* (University of Chicago: Department of Economics, 1962).

23. *Encouragement of Capital Investments Law* (Jerusalem: Government Printing Office, 1959).

24. A. Epstein, Interview in the *Jerusalem Post* (23 June 1989), 15.

may be used to help explain how one relates to financial reporting. Though the desire to live on a kibbutz may be related to an ideal, there is nothing to suggest that this ideal necessarily implies that one need shy away from wealth. The implicit ideal is that the wealth be distributed evenly.

Kibbutz accounting records of both commercial and household activities generally operate on a ten digit coding system. The first five figures apply to external data, and the second five relate to internal or costing data. The costing element's accuracy and usefulness is generally kibbutz specific, and reliant upon their desire to implement such a system, and structurally it allows for a more enlightening inter-kibbutz analysis than the financial reports. These internal reports can be provided for each category of living expenses, in comparison to the periodic budget, thus encouraging accountability from those responsible. Some kibbutzim may wish to present each item as a cost center, and for most components there is a committee or individual responsible to ensure that budgets are adhered to. For example, the 'Vaadat Chinuch' (Education Committee) is responsible for the expenses of the baby houses, kindergarten and education of the overseers. This costing exercise theoretically can be extended to include the labor costs of those working in this service.

The preceding description of the recording of living expenses, may be seen as a distinctive sign of the communalism evident in terms of collective consumption and the means of distribution. This section of the accounting reports includes the allowances directly provided to individuals to spend as they see fit. This allowance, usually set at the beginning of each year, is indexed to the Consumer Price Index, and each month inhabitants receive an account of how they have fared. These accounts can be credited with just cash transactions, or can be credited with other charges such as purchases in the store or transport. As the kibbutz members do not own vehicles individually, their use is normally distributed according to a roster/request system, and the members are charged a set rate per kilometer. The rates are usually reset bi-annually, the cost being a function of the variable and fixed costs of each separate vehicle. The mileage is recorded in a log, and the individuals or branches of work are charged accordingly. Usually, this transaction is not a financial one but rather only appears in the internal records. Thus, in the financial records, debits still appear in the transport ledgers, where in the internal reports, the total charges tend to almost balance out. Small discrepancies appear in the individual automotive ledgers as the charges per kilometre are an average of all the vehicles.

The small store ideally does not operate as a profit motivated

entity, but rather as a service to those on the kibbutz. Thus, in the accounts, there is usually a balance. In the area of labor, kibbutzim tend to differ. Some will not charge the shop for labor and others will, expecting the prices to be adjusted accordingly to include these charges. Obviously, appearing as the debit are the purchase, though credit balances may often appear only in internal records. The credit is balanced by a debit to the personal allowance ledger of each individual. Of what significance is it whether the credit is recorded as a financial or internal transaction? Firstly, within the prepared booklets for completion of the financial reports as prepared by the 'Agricultural Co-operative Auditors,' a notation for small shop expenses still appears, although it may merely be an artifact from times gone by. It may also be due to the fact that in the past many items were distributed without personal cost to the members or were subsidized, though as a whole this practice has declined in recent years.

The internal records also record the amount of holidays the individual has owing, from the twelve days usually allocated annually. The extent to which these internal records have developed around personalized ledgers is a sign that the kibbutz may not be following the principle of "To each according to his needs, from each according to his ability."²⁵ Gone are the days of free distribution of cash according to one's needs or conscience. Even as recently as the 1980's, new kibbutzim attempted this method, such as Kibbutz Tuval (established in 1980 by groups from an English and South African Labour Zionist Youth Movement). Due to the large amounts of cash withdrawals, the system was scrapped by 1984. In 1991 Tuval scrapped the concept of unrestrained holidays, and personalized records begun.²⁶ Thus with the emergence of the personalized financial and holiday accounts, it seems that the ideology fulfilled was that the wealth (and free time) was distributed, or more correctly, allocated evenly; not allocated according to need, unless one assumes that all individuals have homogeneous material needs. Such assessments are possible through an analysis of individuals' ledgers, which clearly reflect this interpretation of egalitarianism, through equitable allocations.

Again, the implication of formal constraints seem to bear directly on the individual records kept. This is a far cry from the original kibbutzim, where there were no personal belongings and even clothes were shared. Though not yet examined, it would be interesting to discover at what point personalized accounts were introduced

25. E. Fischer, *Marx in His Own Words* (Melbourne: Penguin, 1980), p. 100.

26. Kibbutz Tuval, *Secretariat Minutes and Newsletters* (1980-1991).

into the kibbutz recording systems. A commonly cited debate within kibbutz assemblies is that surrounding the private kettle. It was proposed that by allowing individuals to have a kettle in their rooms, meeting in the communal dining hall would decline and thus the fibre of the socialist dream diminished. Strangely, it seems that the introduction of personalized accounts was not as well documented as the introduction of the kettle.

Kibbutz Kadarim

Established as part of the government program to populate the Galilee, Kibbutz Kadarim was established in 1980. It is situated in the hills of Northern Galilee, between the towns of Safad, Karmiel and Tiberias. The original settlers were from a range of backgrounds, a group of young families and soldiers from within the 'Pioneer Corps,' who were later joined by members of Australasian Habonim Dror (a Labour Zionist Youth Movement). The ensuing analysis of accounting reports on Kibbutz Kadarim is facilitated by the use of the following records;

- Accounting records of the kibbutz
- Register of members
- Legal and Land correspondence
- Meetings of kibbutz committees and general meetings
- Other records held in the accounting department of analytical value
- Kibbutz Kadarim Archives.²⁷

The kibbutz owns about 100 acres of citrus and subtropical fruit trees. These were established over the past decade. In the mid-eighties (1984-86), there were continual debates as to whether to hire outside workers to help pick the citrus crop. The arguments were whether or not to disrupt the functioning of the rest of the kibbutz operations. As the yield grew, it became obvious that minor reorganization and three hours extra work a day would not solve the problem. By the end of the Eighties, it was not even a regular issue for debate come the picking season. This led to the emergence of ledgers such as hired workers, and the bookkeeping department for the first time had to prepare wage slips.

The kibbutz has two broiler chicken sheds, with a capacity to produce about 400 tons of meat a year. The kibbutz also has a beef cattle herd, of about 350 head spread over a range of 3000 acres. The

27. Kibbutz Kadarim, *Financial Reports, Correspondence, Minutes, Newsletters, Archives and Various Documents* (1980-92). This group of documents is the basis for much of the ensuing narrative.

supplementary statements that are necessary for this branch are that of livestock movement and the annual added value of the herd. The kibbutz also operates a youth hostel from accommodation that was transferred from the previous site. The costs of moving and preparing these buildings originally appeared within the ledger of housing, but by June 1989 these were transferred to the youth hostel ledger. Examination of the records, and supplementary correspondence show that after an appeal, the fifteen percent value added tax was returned, after it was shown that these buildings were to be used for a productive venture. Also appearing in the same set of financial records are the wages earned by kibbutz members who work outside. The documents show that in the past, these workers could be categorized into two. The first set are those that receive a pay slip including payments and accruals of any social award, such as superannuation and education funds, and their wages are paid directly into the kibbutz's bank account. The second set, are those for whom the kibbutz sends an invoice to their employers, and then is paid. Analysis of the ledgers show that between the years 1986 and 1989 when the kibbutz had a large portion of its workforce outside, the second set was the most used for billing. It should be noted that this system was used mainly in contact with other kibbutzim. In 1990 and 1991 it seems that most of those that worked off the kibbutz in the surrounding hospitals, schools and factories received a pay slip. In the financial statements from 1988, it was required to differentiate in separate sub-headings between these two forms of income. As previously noted, all of these branches and activities appear in the same set of financial reports.

The kibbutz owns two factories. The first was until 1991 a limited partnership; now for the aforementioned reasons, it has been registered as proprietary limited company. Kadarim Oil Seals was purchased in 1981 on behalf of the kibbutz, by the Rural Industrialisation Department of the Jewish Agency. It specializes in the production of rubber components through compression molding. It was not until 1990 that invoices were used between the kibbutz and the factory on an ongoing basis. Until then at the end of the year wages, electricity and other charges were made. Since the beginning of 1990, monthly the kibbutz charges the factory for labor, electricity and other expenses. From its inception through to 1990, the losses of the factory were added to the financial reports of the kibbutz. Thus the capital (shareholders) section of the report remained void of any mention of retained earnings (or losses). Needless to say, the partnership reports had to be completed before the kibbutz's could be. The second factory was purchased from Kibbutz Hagoshrim (producers of Epilady) in

1990, with payment to be made over an eight year period. It was established as a limited liability company, trading under the name Kapro (marketing under the original name Mepro). From the outset, the factory through monthly charges and payment, ensured itself of a separate and almost severable identity from the kibbutz. At the beginning of 1991, the factory paid a maiden dividend to the kibbutz.

Examination of the financial records of Kadarim enable us to note many structural changes that occurred. Kadarim attempted to improve the quality of life and the feeling of home on the kibbutz; deal with the problems of transience and turbulence among its members; and ensure the long-run financial well being of the members (regardless of the liquidity situation at any specific time). Each member is entitled to a severance fund, which is a function of the time spent on the kibbutz. Many kibbutzim suffering financial hardships found it hard to pay large sums to long-serving members, thus a form of security was sought. On Kadarim, the superannuation funds were implemented in 1989 to include retroactive benefits according to seniority. There was a debate as to whether these costs should be considered expenses or an investment. If it was an investment by the kibbutz, how could it appear in the individuals' names? Eventually, it was not considered an expense but rather appeared as an investment of the kibbutz, even though the policies are in the names of the individuals.

Despite the law requiring that the financial reports be tabled within a year, lags of almost two years were evident for the periods up to and including 1987. 1990 was the first year that the reports were available within a year of the reporting date. It may be worthwhile to examine the relationship between the lags evident of kibbutzim who recorded profits and those that did not, and assess if there is a correlation between bad or good news, and the lag. This is similar to a study conducted by Lont and Duncan, who attempted to test if such a correlation existed in New Zealand corporate reporting.²⁸ In an Australian context Sinclair and Young found evidence that financial reports containing 'good' news were released earlier than expected in comparison to firms releasing less favorable results.²⁹ If one accepts the need for accurate data which is determined by its precision,³⁰ then

28. D. Lont, and K. Duncan, "Timeliness of New Zealand Corporate Reporting," *Deakin University Occasional Paper* No. 119, (September 1991).

29. N. Sinclair, and J. Young, "The Timeliness of Half-Yearly Earnings Announcements and Stock Returns," *Accounting and Finance* 31 (November 1991), 31-52.

30. B. Jaggi, "The Impact of the Cultural Environment on Financial Disclosures," in *Notable Contributions to the Periodic International Accounting Literature 1975-8* (Sarasota: American Accounting Association, 1979), p. 119.

such lags render the data provided inaccurate and inappropriate for decision-making.

Presently, in regard to reporting lags, only a note of warning is issued by the office of the 'Registrar of Associations.' The problem seems to have been movement wide, as by the end of 1986, in the United Kibbutz Movement (U.K.M.), only 23 out of 180 kibbutzim had audited financial statements for the 1985 year.³¹ For many of the kibbutzim who entered the varying government sponsored aid programs of the late 1980's this situation has changed. Due to demands that the financial reports be produced within three months of the end of the period, there are also requirements for interim reports. The 1987-8 aid package to Kadarim and other settlements under the auspices of the R.S.D.J.A., did not include any demands for periodic or timely reporting. If the kibbutz is capable of preparing monthly data for Value Added (V.A.T.) and other taxation purposes, why is there such a reporting lag and apparent disregard for the financial reporting? This leads one to question what were the influences upon the kibbutzim and their members that enabled them to enter into such debt? why were the financial reports ignored? and, upon which reports were decisions based in the kibbutzim?

The source of funding may be an interesting approach through which to analyze the reporting apparent on the kibbutzim. In 1985, Kadarim and some other young kibbutzim refused to pay back any loans to the banks, which may be seen as a catalyst to the debt re servicing agreement for the young kibbutzim sponsored by the R.S.D.J.A. in 1987-8. The kibbutz received loans from the 'Bank Ha-poalim' group (The Workers Bank), for housing, working capital or industry. There were few apparent constraints as guarantorship was provided by the U.K.M.

Another major source of funding for the kibbutzim's activities was the R.S.D.J.A. The Jewish Agency traditionally provided finance for the means of production of young settlements. In the financial reports, such finance is usually provided its own status, due to its nature. It is part grant (seventy-five percent), and part loan (twenty-five percent). The terms of the loan are ten years grace, repayments over twenty years, linked to the Consumer Price Index (C.P.I.), incurring three percent interest per annum. The provision of this form of finance tended to be a direct result of political pressure from the respective movements upon the R.S.D.J.A. Only in 1990 did the Agency begin to assess profitability or viability of individual projects. This source of finance can be documented through the records of

31. United Kibbutz Movement, *Statistical Analysis* (1989).

Kadarim in the branches previously cited. The defunct projects that the agency funded include avocados in 1980, hothouses in 1982-6, and a restaurant in 1989.

By December 1992, Kibbutz Kadarim (and its entities) had amassed a net debt of over \$US twelve million. Through none of the records examined, can it be noted that the members of the kibbutz are in any way responsible for any of the debts the kibbutz may amass. It seems that the members are able to enjoy any benefit but not be legally or financially responsible; thus when a person leaves this partnership, he or she is paid through the leaving fund rather than paying their share of the debt. It is such lack of individual identification with responsibility that may be seen as a possible source of the aforementioned description of attitudes towards the financial accounting data and the quality of collective decision-making. The kibbutz itself seemed to recognize this, and in a letter from August 1990, after the bank refused to offer additional housing loans, the kibbutz suggested that personal guarantees from the members might enhance the credibility of the request, and the dedication of the society to repay its debts if its constituent elements were guarantors of these loans.

An analysis of the financial and internal records of the kibbutz together is necessary to understand the scope of change. This is particularly due to the standard format of the financial reports. Theoretical support for this approach is found in the literature by those who claim that a value system such as communalism may be accurately reflected in terms of consumption and internal distribution techniques.³² From 1984 till 1991, the records of Kadarim show a stark trend towards the individual in terms of the amount of money spent on living expenses. The sources of change may be twofold. Firstly, as previously mentioned, kibbutzim began to forego the provision of free and subsidized items. This was due to practical financial reasons, that it was cheaper to give a person an expanded allowance than provide a range of free products, and this also aided budgeting. Another reason was ideological. It was an attempt to make the individual feel that he was his own master, but more importantly to enable freedom of choice. Previously, one could receive a newspaper or not, but not receiving one did not entitle you to anything else even if you did not want a newspaper but preferred to save up for a book or a record. It can be ascertained from the 1984 records that the kibbutz

32. C. Gide, *Communist and Cooperative Colonies*, translated by E. Row (London: George Harrap and Co., 1930), p. 114. Also B. Stein, "Internal Economics of Communes," in R. Kanter, (ed.) *Communes: Creating and Managing the Collective Life* (New York: Harper and Row, 1973), p. 265.

ceased to provide newspapers free, and instead the same monies were distributed to the individual allowances. In 1985, travel refunds were abolished, as were subsidies to cultural events in 1986. In 1987, work clothes and subsidies towards extracurricular activities again were added to the individuals' allowances. Prior to 1989, laundry was sent elsewhere, and paid for by the kibbutz. Superseding a prior decision to open a laundry, which would entail additional labor and for such a small community would be difficult to prove cost effective, the kibbutz opened a laundromat. The machines operate on coupons which can be purchased in the shop. In the internal reports one can note that debits occur upon electricity and machine related costs and credits in terms of sales of coupons. In 1989, when electricity meters were introduced, it was decided to charge only the productive and service branches but not the individual members. In 1990, when telephones were installed in individuals' rooms, the individuals' accounts were charged and the telephone account credited. The above decisions have altered the structure of the kibbutz's accounts, in some cases only the internal reporting, and in others both. In terms of the amount of ledgers, the category of living expenses has been reduced even though the value of transactions has not declined considerably. Practical money savers, ideological decisions as to the role of the individual, definitions of needs and expression of equality, all seem to directly effect the structure of the ledgers.

Collectivism has been defined as "a preference for a tightly knit social framework in which individuals can expect their relatives, clan or other in-group to look after them in exchange for unquestioning loyalty . . . The fundamental issues addressed by third dimension is the degree of interdependence a society maintains among individuals. It relates to people's self concept: I or we."³³ It is this type of collectivism which may be seen on kibbutzim such as Kadarim, up until the end of the Eighties. It should be added that the individualism or ". . . the relationship between the individual and the collectivity"³⁴ is the relationship that may influence reporting methods to change. Kibbutz members have recently been noted as saying that "[t]he freedom and responsibility of the individual are the basis [for change]. The individual does not sacrifice himself for the whole, but rather the individual builds himself and, through this, contributes to the whole—to the benefit of both entities".³⁵ If the level and extent of

33. G. Hofstede, "Cultural Dimensions in Management and Planning," *Asia Pacific Journal of Management* 1 (January 1984), 83-4.

34. G. Hofstede, *Culture's Consequences: International Differences in Work Related Values* (Beverly Hills: Sage Publications, 1980), p. 213.

35. B. Gal, Interview in *Kibbutz Currents* (December 1988), 9.

responsibility is to change, then it is possible that internal demand for reporting will also be affected.

Some have proposed that values/ideals are difficult to influence,³⁶ though there are those such as Gal (quoted above), who do not believe that such a shift towards individualism is a change in values. They would see it as a normalization process, and a necessary ingredient in order to continue to offer an alternative society. "Their complete design for living"³⁷ or organized collectivism, does not necessarily have to change but rather the level of individual responsibility.

Much of the aforementioned materials prompt theoretical questions. Are communal systems capable of rational economic decisions, and are those that have chosen to live such a lifestyle capable of responsible economic behavior? Such a debate surrounding the Von Mises Impossibility Theorem, and the incompatibility of Pareto optimality and collectivism, as applied to kibbutz, was addressed by Barkai.³⁸ He claimed that an "a priori inefficiency argument is invalid in the kibbutz case."³⁹ Despite this, the evidence provided in regard to Kibbutz Kadarim's behavior can hardly be regarded as optimal behavior. Further research as to the behavior of more kibbutzim would be needed to assess the validity of the extension of Barkai's claim, that "[r]ational economic calculation is not precluded by the collective form of an organization"⁴⁰.

Certain studies have proposed that worker owned entities are disadvantaged due to additional costs relating to their financial, legal and organizational environment and the inexperience of professionals dealing with their matters.⁴¹ The extent to which this is relevant within Israel should be questioned. Just as there are developed principles and guidelines for kibbutzim, there are lawyers, accountants and other advisers who specialize specifically in kibbutz matters. A purported lack of professional support or unreasonable costs of their services should not influence the organizational structure or the bookkeeping methods on kibbutzim. Kadarim, geographically located close to three towns, ensure that ample professional advice is

36. Hofstede, 1987, p. 2.

37. C. Kluckhohn, "The Study of Culture," *The Policy Sciences*, ed. Daniel Lerner and H. Lasswell (Stanford: Stanford University Press, 1951), p. 86.

38. H. Barkai, "Incentives, Efficiency and Social Control: the Case of Kibbutz", in W. Baumol (ed.), *Public and Private Enterprise in a Mixed Economy* (New York: St. Martin's Press, 1980).

39. Ibid., p. 244.

40. Ibid.

41. A. Ben-Ner, "The Life Cycle of Worker-Owned Firms in Market Economics: A Theoretical Analysis," *Journal of Economic Behaviour and Organization* 10 (1988), 290.

within a thirty minute drive. Office holders often travel to Tel Aviv on business, thus the physical location or isolation should not be seen as a contributing factor in this analysis. This is in contrast to the influence an isolated setting may have upon reporting systems, as proposed in the historical analysis provided by Carnegie,⁴² and this difference may be attributed to the development of transport and communication.

Change

"It is the dynamic processes of social change that are the heart of cultural studies".⁴³

As can be evidenced by the reduction of the reporting lag of audited data, the kibbutz began to deal with the problem of the data's timeliness and reliability. The kibbutz began to implement change towards the individual, which can be evidenced by the data provided. It can be viewed through the percentage of direct individual consumption relative to collective consumption and the introduction of pension schemes for the members and their children.

In an attempt to unravel the knots evident within their legal and reporting system, in 1989 Kadarim decided to separate its productive activities from those of the community. This initially was conducted under the internal accounting system, with the community receiving wages from all the branches. This was the monetary pool that was considered the basis for distribution to the members. This led the members to the realization that their most valuable resource was their labor, which needed to be allocated as efficiently as possible. By the end of 1990, such an operation was undertaken on a legal level; thus, now as well as the factories, the other productive branches are separate legal entities, releasing their own financial reports. Though an indepth analysis is beyond the scope of this paper, as a means of observing behavior to enhanced responsibility, the development of the concept of profit centers and its implementation on Kadarim between the years of 1989 and 1990 may be examined.

To supersede the Economic Committee, in 1990, the kibbutz appointed a Board of Directors, with three out of its seven members not members of the kibbutz. Theory motivating such action is consistent with themes developed in accounting literature justifying the appointment of outside directors,⁴⁴ and their purported contributions to

42. Carnegie, 1991.

43. Ansari and Bell, 1991, p. 8.

44. R. Leftwich, R. Watts and J. Zimmerman, "Voluntary Corporate Disclosure: The Case of Interim Reporting," *Journal of Accounting Research* 19 (1981 Supplement), 58.

firms due to levels of experience and expertise.⁴⁵ From the minutes of the meetings one can understand the scope of the decisions undertaken. Meeting fortnightly, within two months they had undertaken to close the restaurant and rent out the beef herd. The issue of the beef herd was for various reasons considered volatile and emotive. Minutes of the Economic Committee show that there had been attempts over the previous three years to solve this problem. The data necessary for decisions at these meetings was obtained from the internal records of the kibbutz.

It is possible to relate the descriptive data in this case study to the questions asked in the opening of the Ansari and Bell paper.⁴⁶ The first question, as to the initiation of accounting systems in the case of the traditional financial reports is of little significance as they are prepared according to law, and the format is standard for all kibbutzim. As kibbutzim may move away from the 'Agricultural Co-operative Auditors/ a pattern may be examined of reports which alternative accountants prepare, being different from those prepared previously. An interesting historical study may reveal how this format has developed over time. This could be related to the second question, of evolution of such reports over time, which has been addressed in terms of the kibbutz in general, and in the case of Kadarim as to how the accounts reflect changes in values and organization. This was also addressed by noting the content of ledgers, volume of ledgers and sums of money dealing with direct and indirect consumption. Again, a historical study of the development of the individualized accounts would provide an overview of a drift away from the 'each according to his needs' principle.

The third question relating to the role of such data in a crisis may be addressed through the kibbutz's attempt to close the reporting gap after the late Eighties, and the realization that timely data would be a prerequisite for any future aid package. Also, the role of the internal data for the Board of Directors cannot be ignored. It is in many respects this data that made the members aware that they were in a crisis. The varying groups of kibbutzim in aid packages may have altered the frequency of their reporting lags, though this may have been a prerequisite of their respective packages. In the light of the economic carnage spread throughout the kibbutz movements, it would be worthwhile to note any changes in reporting lags of kibbutzim not in financial strife, and whether the environment affected them, their reporting frequency and habits. A study entailing the

45. J. Juran, and J. Loudon, *The Corporate Director* (New York: American Management Association, 1966), pp. 19-21.

46. Ansari and Bell, 1991, p. 4.

reporting habits of kibbutz entities that are involved in partnerships with non-kibbutz parties, may help provide an insight into some influences and the pressures placed upon kibbutz from the outside world.

The final question posed by Ansari and Bell is that of connection (or lack of), between the accounting systems and data, and action. This may be interpreted as whether observed behavior is rational, and whether in fact it seems to be motivated by the accounting data.⁴⁷ In the case of Kibbutz Kadarim, the evidence provided would lead us to believe that their behavior is motivated by information provided by the internal records, and not the external records. This notion can be supported by the closure of problematic branches as early as 1986/7, and the recent action of the Board of Directors. The appointment of the Board's external members was initiated partially by the concern that decisions by kibbutz members may be induced by emotions or irrational behavior.

Kadarim's internal records produced up until 1987, were profit/loss oriented, seldom including data pertaining to changes in debt. A more extensive sample base, entailing an examination of internal data and behavior regarding debt accumulation, would be necessary before wider conclusions may be reached.

Conclusion

Using Kibbutz Kadarim as a case study, this paper has attempted to assess and interpret the cultural influences upon accounts, and the degree to which the accounts may be seen to reflect the ideology or 'way of life' evident on the kibbutz. This analysis has attempted to "illustrate the ways in which an individual [or] organisation participates in the process of social change,"⁴⁸ and how this can be observed through an analysis of the accounting reports. This unique lifestyle makes a perfect background for a study of this kind. The findings provide one with a deeper insight as to the extent of the influence that the socialist ideal (within the Kibbutz Movement) had upon reporting, and importantly, reflexively or conversely, the effect and influence that the informational content of the reports had upon the kibbutz's operations.

It seems that there needs to be a study of a greater number of kibbutzim, possibly over a longer period of time before such proposi-

47. Ibid.

48. M. Neimark, "How to Use Content Analysis in Historical Research," *The Accounting Historians Notebook* 6 (Fall 1983) 1.

tions can be consolidated. It is possible that future research may attempt to compare the patterns evident on kibbutzim and other modern day communes. Such an international, cross cultural analysis may be of interest. While studies comparing kibbutzim to other communes may be of interest, it should be noted that this avenue may lead to areas of peripheral significance in terms of impact upon national performance. Within the context of contribution to national economic figures, kibbutz related studies may be seen as more significant. For instance, in 1986, representing three percent of the national population, the kibbutzim produced six percent of the Israeli Gross National Product and eight percent of the exports.⁴⁹ This study has attempted to raise such issues and expose researchers to the potential possible in examining the reporting patterns and behavior of kibbutzim. As one of the remaining vanguards of contemporary socialism (albeit micro), such studies may be worthwhile. This is further fuelled by the recent 'End of History' debate,⁵⁰ which proposes that socialist endeavors were merely a 'detour in history'.

To the author's knowledge, there have been no prior studies in the specific area of kibbutz accounting methods, which makes it difficult to apply or assess this analysis in terms of prior work. This study has provided findings consistent with the notion that cultural analysis and contexts are worthy endeavors for accounting researchers. Recognition and development of the power, intrigue and potential "of culture as an explanatory variable,"⁵¹ or as an analytical tool, may move it into the mainstream of accounting research methodology. This may occur as accounting research and researchers alike recognize that different systems behave differently and that theories or explanations may not necessarily be found within familiar paradigms. Thus, one must be willing to trespass into other fields and disciplines to search for newer, broader and even intertwining perspectives.

Epilogue

The preceding inquiry into the accounting procedures of communes relied heavily upon an analysis of available data from Kibbutz Kadarim. Though it has already been deemed difficult to reach conclusions from one case, it is worthwhile to analyze specific behavior of this kibbutz in order to understand characteristics that

49. H. Kestin, "High Marx, Low Marx," *Forbes* 139, 2 (1987), 35.

50. F. Fukuyama, "The End of History," *The National Interest* 16 (Summer 1989), 1-47.

51. Ansari and Bell, 1991, p. 23.

may be identified as pertinent to, or requisites of, successful management.

Though the anomalies of the excessive debt, reporting lags and non-compliance with budgets cannot be condoned, there are certainly positive aspects of this evolution that are worthy of note. The basis of the reaction to the crisis can be traced to the management of the accounting system. Though there were lags in the presentation of the financial reports, the supplementary internal reports have been shown to be accurate and timely. It is upon the basis of this information that the kibbutz reacted to its financial and management crisis. Though slow in achieving its crest, the reaction can be traced back to 1984 with the beginning of the cuts in subsidies and items provided without cost by the kibbutz to its members. Within the case-study this has been traced to recent times, in the treatment of telephone and electricity charges. Such treatment may have been partially motivated through data available from the internal bookkeeping system which would include costing of these expenses to all the various profit centers, thus isolating for treatment the private element of these activities. Thus, the bookkeeping system may be seen as instrumental in implementing change, and such changes are apparent in the accounting system. According to those interviews, the rationalization of the service industries has led to a higher degree of satisfaction and utility for the kibbutznik consumer. The service may have improved (as is the case of the laundry), or the conscious decision to budget may have led to an improved product (as is the case with the kitchen). Though not implemented at this stage, a heated debate relating to the complete autonomy of the services as profit-centers continues to take place today. The cycle will be completed when all the services are charged for the manpower they utilize and accordingly receive an operating allocation from the community.

The utilization of data to prompt the closure of unsuccessful branches was noted from as early as January 1987. The partially external Board of Directors demanded an improved standard of reporting upon which to base their decisions. By enabling rational decision-making, it may also be proposed that they offered motivation to those responsible for the bookkeeping. The data provided are finally being utilized to facilitate decision-making, rather than mere emotion. If such a system had been introduced earlier, it is possible that the contribution of the beef herd, the restaurant and the rubber factory to liquidity problems and accumulated losses might have been significantly diminished.

As was apparent in the audited financial statements of Kibbutz Kadarim, there were cross guarantees between the kibbutz and its

entities.⁵² The process of legal separation between the kibbutz and its entities not only destroyed the banks' orchestrated system of cross guarantees, but also created a veil between the corporate and private lives of the members. Though this may not be recognized today in terms of dollars and cents, it may take a catastrophe for the purported benefits of this to be recognized. An analogy is apparent to the small businessman who mortgages his home and signs personal guarantees to finance his operations. When the business fails, the businessman and his family are obviously destitute. The separation of the factories was already evident due to the laws relating to government assistance.

The aforementioned methods employed by Kadarim cannot be considered a successful blueprint for all kibbutzim. Firstly, the young, smaller kibbutz may suffer from certain dis-economies of scale, though it has definite advantages. The fact that it is young implies that there is little history/tradition. A break with tradition was necessary in order to close several branches and to open a laundromat. If this was construed as problematic to a settlement of seven years old, then impediments to change on seventy year old kibbutzim will be greater. The size of the kibbutz makes communication more effective and easier to appease all involved. The youth of the members probably contributed to their willingness to try new avenues. It is possible that the ethnic background of the young Anglo-Saxons attributed to their open-mindedness. Thus, the speed and apparent flexibility evident within this case study may only be transferable in its entirety to another young settlement. To test such a statement obviously data relating to a sample of young kibbutzim would be necessary. This data could be analyzed in terms of the effect of the economic turbulence of the 1980's upon them (if at all), and their subsequent reaction. Once such a representative sample for young kibbutzim was established, and the results evident, a similar exercise could be carried out among more established kibbutzim. Then factors and ratios indicating the severity of their financial situation would become evident. The speed and nature of their reaction to crisis could be assessed in comparison to those of younger settlements.

Though seen by the outside world as revolutionary, many kibbutznikim seem to prefer a quiet, stable life without change. The introduction of external decision-makers and creation of additional legal entities entail change. It is vital that a system of integrated financial and costing accounts must be operated, to enable effective timely decision making. Even though decision-making capacity may

52. Kibbutz Kadarim Financial Reports, 1989, p. 16; and 1990, p. 13.

differ for each kibbutz, a basic requirement for prudent management is the provision of relevant and accurate data. If this is not forthcoming, corporate veils and external decision-makers are useless, as no operative decisions can be made.

The provisions of appropriate information is the basic requisite ensuring that appropriate action and reform should become apparent. There are those that would argue that either banks, major creditors, or the government will eventually invoke reform within kibbutzim. Though this is highly probable, it should not be the sole motivator for change. It is hoped that based upon encouragement offered by the forerunners that those committed to developing a sustainable alternative lifestyle shall discover that the fruits of self-regulation are sweeter.