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**THE ETHICAL DECISION-MAKING PROCESSES OF PROFESSIONAL  
AUDITORS IN THE PEOPLE'S REPUBLIC OF CHINA**

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**LINGNAN UNIVERSITY**

**2006**

**THE ETHICAL DECISION-MAKING PROCESSES OF  
PROFESSIONAL AUDITORS IN THE PEOPLE'S REPUBLIC OF  
CHINA**

by  
**LIU Mingzhi**

**A thesis  
submitted in partial fulfillment  
of the requirements for the Degree of  
Master of Philosophy**

**Lingnan University**

**2006**

## **ABSTRACT**

### **The Ethical Decision-Making Processes of Professional Auditors in the People's Republic of China**

by

**LIU Mingzhi**

**Master of Philosophy**

This study examines the effects of organizational ethical culture, idealism, relativism and guanxi orientation on the ethical decision-making processes of professional auditors in the People's Republic of China (PRC). It is hypothesized that auditors perceiving a positive organizational ethical culture, possessing higher (lower) degrees of idealism (relativism), and possessing lower degrees of guanxi orientation will make more ethical decisions. The findings of the study indicate that certain aspects of organizational ethical culture had a significant effect on professional auditors' behavioural intentions, but not on their ethical judgments. Idealism had a marginally significant impact on professional auditors' behavioral intentions, but not on their ethical judgments. Relativism did not have a significant impact on ethical judgments or behavioral intentions. Guanxi orientation had a significant effect on professional auditors' behavioural intentions, but not on their ethical judgments. This study also explores the potential effects of demographics on PRC professional auditors' ethical decision-making processes and the results suggest that CPA firm type (local/regional vs. international) had a significant effect on professional auditors' behavioural intentions. The overall findings suggest that organizational ethical culture, idealism, guanxi orientation, and CPA firm type play a significant role in PRC professional auditors' ethical decision-making processes.

*Key Words:* Organizational Ethical Culture; Idealism; Relativism; Guanxi Orientation

I declare that this is an original work based primarily on my own research, and I warrant that all citations of previous research, published or unpublished, have been duly acknowledged.

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LIU Mingzhi  
October 2006

# The Ethical Decision-Making Processes of Professional Auditors in the People's Republic of China

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# **The Ethical Decision-making Processes of Professional Auditors in the People's Republic of China**

## **I Introduction**

A great deal of concern has been expressed in recent years regarding the apparently negative effects on business ethics and morality of the transition of the People's Republic of China (PRC) to a socialist market economy. This issue has received increased attention in the wake of the PRC's entry to the World Trade Organization and its growing prominence in the global economic order. Following that concern, there has been much discussion in the business ethics literature of ethics and morality in the PRC context (e.g., Enderle, 2001; Koehn, 2001; Hanafin, 2002; Tam, 2002; Islam and Gowing, 2003). Overall, these studies seem to paint a rather grim picture of the current status of business ethics and morality in the PRC.<sup>1</sup> However, most of these studies have focused on broad issues of business ethics, rather than ethical issues in accounting and auditing.

Interest in auditors' ethical decision-making processes has been motivated by the key role of the audit in monitoring corporate financial reporting and a long-running controversy regarding the feasibility of auditor independence under

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<sup>1</sup> Claims of a recent deterioration in ethics and morality in the PRC have not been limited to the business literature. For instance, in his influential writings on contemporary developments in China, Wang (2003) suggests that systemic corruption in the PRC has "...seeped into every aspect of the political, economic, and moral spheres, giving rise to serious social inequities at every level..."

current institutional arrangements (e.g., Lee and Gu, 1998; King, 2002; Dopuch et al., 2003; Mayhew and Pike, 2004; Gendron et al., 2006). Accordingly, several studies have investigated the ethical decision-making processes of professional auditors (e.g., Knapp, 1985; Ponemon and Garbart, 1990; Ponemon, 1992a; 1992b; Shaub et al., 1993; Tsui and Gul, 1996; Sweeney and Roberts, 1997; Au and Wong, 2000; Douglas et al., 2001), and this area of research has received renewed emphasis in light of the recent wave of financial reporting scandals in the United States (e.g., Gul et al., 2003; Thorne et al., 2003; Buchan, 2005). However, empirical studies that examine the ethical decision-making processes of auditors in the PRC have been very limited.

The effect of organizational ethical culture on individuals' ethical decision-making processes within business organizations has been widely recognized. Many studies have examined the effects of perceptions of organizational ethical culture on individuals' behaviour in professional dilemmas (e.g., Key, 1997; Trevino et al., 1998; Shih and Tsai, 2005; Shih and Chen, 2006). However, previous research has not addressed the issue of organizational ethical culture in certified public accounting (CPA) firms, or the effect of the perceived organizational ethical culture in such firms on individuals' ethical decision-making processes. Individuals' ethical orientation (idealism and relativism) is also widely recognized to affect ethical decisions in business contexts, and prior studies suggest that ethical orientation has an effect on auditors' ethical decisions (e.g., Shaub et al., 1993; Douglas et al., 2001).

However, previous research has not investigated PRC professional auditors' ethical orientations, or the effect of ethical orientation on their ethical decision-making processes. Another issue that is often discussed in the context of business ethics in the PRC is the Chinese practice of guanxi (literally, interpersonal connections) (e.g., Tim, 1994; Yeung and Tung, 1996; Tsang, 1998; Lovett et al., 1999; Fan, 2002; Su and Littlefield, 2003; Warren et al., 2004; Hwang and Staley, 2005). It is often suggested that guanxi has a pervasive effect on business ethics in the PRC and that individuals' guanxi orientation affects their ethical decisions (e.g., Au and Wong, 2000; Chan et al., 2002; Tan and Snell, 2002), but the effect of guanxi on PRC auditors' ethical decision-making processes has generally been ignored.

This study hypothesizes that PRC professional auditors perceiving a more positive organizational ethical culture will judge questionable behaviours to be less ethical and will be less likely to develop unethical behavioural intentions. Based on previous research, it is also hypothesized that PRC auditors possessing higher (lower) degrees of idealism will judge questionable behaviours to be less (more) ethical and will be less (more) likely to develop unethical behavioural intentions. In contrast, it is hypothesized that auditors possessing higher (lower) degrees of relativism will judge questionable behaviours to be more (less) ethical and be more (less) likely to have unethical intentions. Furthermore, this study hypothesizes that PRC auditors possessing lower degrees of guanxi orientation will judge questionable behaviours to be less (more) ethical and will be less (more) likely to develop

unethical behavioural intentions. This study also addresses the effects of issues such as auditor hierarchical position (senior, manager, and partner) and CPA firm type (local/regional vs. international) on PRC auditors' ethical decision-making processes, idealism, relativism, guanxi orientation, and perceptions of organizational ethical culture.

The overall findings indicate that certain aspects of organizational ethical culture, idealism, guanxi orientation, and CPA firm type play a significant role in PRC auditors' ethical decision-making processes. More specifically, auditors perceiving a more positive organizational ethical culture would be less likely to develop unethical behavioural intentions; auditors possessing higher degrees of idealism would be less likely to develop unethical behavioural intentions; auditors possessing lower degrees of guanxi orientation would be less likely to develop unethical behavioural intentions; and auditors employed by international (local/regional) CPA firms would be less (more) likely to develop unethical behavioural intentions. Also hierarchical position and CPA firm type had significant effects on some of the independent variables. For example, hierarchical position had a significant impact on auditors' perceptions of organizational ethical culture, idealism, and relativism; and CPA firm type had a significant effect on auditors' idealism and guanxi orientation.

The findings of this study have potentially significant practical implications. From the perspective of accounting practitioners, they should be interested in

learning about the effects of auditor hierarchical position and CPA firm type on PRC auditors' ethical decision-making processes, idealism, relativism, and guanxi orientation. From the perspective of accounting regulators, especially the staff in the Chinese Institute of Certified Public Accountants and China Securities Regulatory Commission, this study might help them understand more thoroughly PRC auditors' ethical decision-making processes, which might have implications for auditing related regulations, policies, and professional examinations. From the perspective of accounting educators, the results might help them to identify inadequacies in accounting education, particularly education in accounting and auditing ethics.

The remainder of this study is organized as follows. Section 2 presents a literature review and conceptual discussion of the three principal constructs hypothesized to influence individuals' ethical decision-making processes. This section is followed by the development of testable hypotheses and research questions in Section 3. Section 4 describes the research design, including the sample description, the research instrument, and the measurement of variables. The empirical findings are summarized in Section 5. The final section discusses the conclusions, contributions, and limitation of this study.

## **II Literature Review**

Business ethics is a very broad and diverse field; however, there are several widely cited and influential theories regarding ethical decision-making in business contexts (e.g., Ferrell and Gresham, 1985; Hunt and Vitell, 1986; Trevino, 1986). These theories develop basic frameworks for thinking about ethical issues in business and introduce several types of variables that may impact individuals' ethical decision-making processes, providing the theoretical foundation for this study.

Ferrell and Gresham's (1985) contingency model suggests that significant others within the organizational setting and opportunity for action are organizational factors influencing individuals' ethical behaviors. Hunt and Vitell (1986) recognize the influence of organizational norms, industry norms, and cultural norms on individuals' ethical judgments, intentions, and behaviors. Trevino's (1986) interactionist model takes situational variables such as immediate job context, organizational culture, and characteristics of the work into consideration to explain individuals' ethical behavior. In short, these models all recognize the potential influence of organizational factors on individuals' ethical behavior, which supports the importance of examining the effects of organizational variables such as organizational ethical culture on individuals' ethical decision-making processes.

Ferrell and Gresham's (1985) contingency model also recognizes the influence of individual factors on ethical decisions. Similarly, Hunt and Vitell (1986) acknowledge the potential influence of numerous personal characteristics on individuals' ethical decision-making processes, including religion, values, beliefs,

moral character, moral development, and ethical sensitivity. Trevino's (1986) interactionist model also suggests that individual moderators influence ethical decisions. All these models thus recognize that individual factors have a potential influence on individuals' ethical decisions, supporting the potential importance of investigating the effects of individual variables such as ethical orientation and guanxi orientation.

### **Organizational Ethical Culture**

Organizational ethical culture is one construct that has been developed to represent the ethical context within organizations. With the three assumptions that much of human beliefs and behaviours in organizations are culturally determined; rules and norms are viewed as context-specific; and most organizational members will be socialized to conform to the existing rules and norms, Trevino (1990) suggests that the ethical component of organizational culture is created, maintained and developed by the interplay among various formal and informal organizational systems (see Figure 1).

[Insert Figure 1 here]

Formal systems contribute to the creation and maintenance of the organizational culture. Leadership, structure, selection systems, orientation and training programs, rules, policies, reward systems, and decision-making processes are parts of the formal organizational culture systems. Informal systems keep the organizational

members and outsiders informed about the operations of their formal organizational culture systems. Norms, heroes and role models, rituals, myths and stories, and language all contribute to the informal organizational culture systems. Based on this theoretical foundation, the Ethical Culture Questionnaire (ECQ) was developed by Trevino et al. (1995) to measure both the formal system and informal system of the organizational ethical culture. The results of previous studies (e.g., Key, 1997; Shih and Tsai, 2005; Shih and Chen, 2006) provide evidence to support the use of the ECQ to capture the characteristics of ethical culture within organizations.

Research focusing on organizational ethical culture in business contexts has increased in the past years (e.g., Key, 1997; Shih and Tsai, 2005; Shih and Chen, 2006). Key (1997) documents the relationship between managers' perceptions of their organizational ethical culture and managerial discretion measured by the willingness to take preventive actions in situations presenting financial and socio-political risks to the organizations. The findings indicate that when the organizational ethical culture is perceived as being more positive or ethical, managers will be more willing to take discretionary actions, which would reduce the risks. Shih and Tsai (2005) examine the relationships among marketing managers' perceptions of their organizational ethical culture, personal ethical philosophy (idealism and relativism), and role conflict based on the extent to which managers' feel that they receive inconsistent and incompatible requirements from two or more groups. The results suggest that, consistent with the hypotheses, perceptions of a



more positive organizational ethical culture were associated with higher degrees of idealism among managers. However, no significant relationship between organizational ethical culture and relativism was found. Furthermore, managers who perceived a more positive organizational ethical culture experienced less role conflict. Shih and Chen (2006) investigate the relationships among marketing managers' perceptions of their organizational ethical culture, role conflict, role ambiguity (perceptions of clarity and certainty of their roles at work), and behavioural intentions (the reported probabilities with which they would perform described unethical behaviours). The findings show that when the organizational ethical culture is perceived as being more positive or ethical, managers will be less likely to engage in unethical behaviours, and when the organizational ethical culture is perceived as being more negative or unethical, managers will be more likely to experience higher role conflict and role ambiguity.

The foregoing discussion suggests that perceptions of organizational ethical culture strongly affect individuals' ethical decision-making processes in a business context. However no research has examined the effects of perceptions of organizational ethical culture on professional auditors' ethical decision-making processes.

## **Ethical Philosophy**

The effect of differences in personal ethical philosophies has long been recognized. Forsyth and Schlenker (1977) proposed that when examining personal moral judgments, individual differences such as personal ethical philosophy or orientation must be taken into consideration as one of the important factors. Forsyth and Schlenker (1977) also suggest that individual differences in ethical judgments might be explained by two basic factors: idealism, the extent to which an individual assumes that desirable consequences can always be obtained with the ‘right’ action; and relativism, the extent to which an individual eschews universal moral principles in favour of reliance on personal perspectives and particularistic analysis of individual situations. According to Forsyth and Schlenker (1980), ethical orientation may be expected to vary along the combination of low and high idealism and relativism. Theoretically, the combination of the two dimensions results in the four possible types of ethical orientations<sup>2</sup> (see Figure 2). As mentioned in Figure 2, people with high idealism and relativism (situationist) reject moral rules and ask if the action yielded the best possible outcome in the given situation; people with high idealism and low relativism (absolutist) assume that the best possible outcome can always be achieved by following universal moral rules; people with low idealism and high relativism (subjectivist) appraisal based on personal values and perspective

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<sup>2</sup> If categorize individuals’ ethical philosophy into four groups with the combination of low and high idealism and relativism, this categorical measures will lead to the losing of the precision in the data. Consequently, most of the previous studies (e.g., Shaub et al., 1993; Douglas and Schwartz, 1999; Douglas and Wier 2000; Douglas et al., 2001; Swaidan et al., 2003) choose the continuous measures of idealism and relativism instead.

rather than universal moral principles; and people with low idealism and relativism (exceptionist) use moral absolutes guide judgments but pragmatically open to exceptions to these standards. Based on this theoretical foundation, Forsyth (1980) developed the Ethics Position Questionnaire (EPQ) to measure the extent of individuals' idealism and relativism, and to substantiate the typology of ethical orientation. The finding of Forsyth (1980) provides a reliable evidence to support the use of the EPQ to substantiate typology of ethical orientation in the following research.

[Insert Figure 2 here]

The EPQ has been influential in the study of ethics throughout the social sciences, and has been extensively tested over the past 25 years through many behavioural studies. Research focusing on ethical orientation in the business ethics literature (e.g., Douglas and Schwartz, 1999; Douglas and Wier 2000; Swaidan et al., 2003) has increased during the past decades, especially fueled by Forsyth (1992) discussing the influence of personal moral philosophies on the judgments of the morality of business practices and Barnett et al. (1994) specifically introducing the concept of ethical philosophy to the business ethics context.

Douglas and Schwartz (1999) explore the relationship between senior undergraduate accounting students' ethical orientation and ethical judgments based on agreement with actions described in a series of accounting-related vignettes. The results indicate that students with higher degrees of idealism tend to make more

ethical judgments, while students with higher degrees of relativism tend to make less ethical judgments. Douglas and Wier (2000) investigate the relationship between professional managers' ethical orientation and budgetary slack creation behaviours. The results suggest that, consistent with the hypotheses, as the degree of idealism (relativism) increases, managers' slack creation decreases (increases). Swaidan et al. (2003) examine the relationship between consumers' ethical orientation and attitudes toward questionable consumer activities. The findings show that consumers with higher degrees of idealism are more likely to reject questionable consumer activities, but no significant results were found for relativism.

Several empirical studies have tested the relationship between professional auditors' ethical orientation and their ethical decision-making processes (e.g., Shaub et al., 1993; Douglas et al., 2001). Shaub et al. (1993) examine the relationships among professional auditors' ethical orientation, professional and organizational commitment, and ethical sensitivity. The findings indicate that higher degrees of idealism are associated with greater professional commitment, while higher degrees of relativism are associated with lower professional commitment, organizational commitment, and ethical sensitivity. Douglas et al. (2001) explore the relationships between auditors' ethical orientation, and ethical judgments based on several auditing vignettes. The results show that higher degrees of idealism are associated with more ethical judgments. However, no significant relationship was found between relativism and ethical judgments.

The collective results of the above-discussed studies strongly indicate that there exists a relationship between individuals' ethical orientation and their ethical decision-making processes. However, prior literature has not documented the effect of professional auditors' ethical orientation on their ethical decision-making processes in the PRC context.

### **Guanxi Culture**

As a consequence of thousands of years of traditional Chinese Confucian culture, guanxi has been widely recognized as a key success factor when doing business in the PRC (e.g., Yeung and Tung, 1996; Abramson and Ai, 1999). Yeung and Tung (1996) presented Chinese executives with a list of 11 factors and asked executives to rank the factors in the order of importance to long-term business success in the PRC. The results indicated that guanxi was the only factor consistently chosen as a key success factor. Abramson and Ai (1999) conducted a survey of Canadian companies doing business in the PRC, finding that guanxi is one of the key success factors.

The importance of guanxi has increasingly attracted researchers' interests, resulting in many published articles focusing on guanxi in the business ethics literature (e.g., Au and Wong, 2000; Su et al., 2003). Au and Wong (2000) examine the relationships among Hong Kong professional auditors' guanxi orientation measured by the ability to resist the temptation to help a friend when the violation of

professional standards is required, cognitive moral development based on the P scores of the Defining Issues Test, and ethical judgments in audit conflict situations. The findings show that the extent of the impact of guanxi orientation on ethical judgments is dependent on cognitive moral development<sup>3</sup>. More specifically, auditors with lower levels of cognitive moral development and higher degrees of guanxi orientation will be less likely to make ethical decisions; while auditors with higher levels of cognitive moral development and higher degrees of guanxi orientation were more likely to make ethical decisions. Su et al. (2003) document the relationships among Chinese business executives' guanxi orientation, cognitive moral development, time in the profession, and level of education. Su et al. (2003) used the instrument developed by Ang and Leong (2000) to measure guanxi orientation, which includes nine statements that assess attitudes toward the acceptability of guanxi practices. The findings suggest that the longer the time in profession, the higher the degree of guanxi orientation and the higher the level of education, the lower the guanxi orientation. However, no relationship between cognitive moral development and guanxi orientation was found.

The foregoing research findings strongly suggest that guanxi orientation has significant implications for individuals' ethical decision-making processes in the PRC context. However, no previous study has empirically tested the effect of guanxi

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<sup>3</sup> Despite the documented interactive effect, this study didn't investigate the individual cognitive moral development. Because its instrument, Defining Issues Test, is too long (includes six stories and each story comprised of 12 questions).

orientation on the PRC professional auditors' ethical decision-making processes.

### **III Hypothesis and Research Question Development**

Based on the previous literature, this study will investigate the relationship between PRC professional auditors' perceptions of organizational ethical culture, and their ethical decision making processes. Rest's (1979, 1999) Ethical Action Model and Kohlberg's (1969) Cognitive Moral Development Theory suggests that there are four components of ethical decision making processes, namely identification of ethical dilemma, ethical judgment, intention to act ethically, and ethical behavior. Following most previous research on accounting ethics, we focused on the second and third components of this model, ethical judgments and behavioral intentions, due to two practical concerns. First, to ensure that all participants are responding to the same stimulus, it is important to present them with a clearly defined ethical issue, which eliminates consideration of ethical issue identification. Second, it is usually impossible to observe actual ethical behavior in practice, which eliminates the final component of the model.

Previous studies have found that organizational ethical culture is correlated with various ethical judgments and behavioural intentions in business contexts, as reflected in the following hypothesis:

*Hypothesis 1:* PRC professional auditors perceiving a more positive organizational ethical culture will judge questionable behaviours to be less ethical and will be less likely to develop unethical behavioural intentions.

Following prior studies, this study will attempt to document a relationship between professional auditors' ethical orientation (idealism and relativism), and their ethical judgments and behavioural intentions in audit conflict situations. Prior studies have found that professional auditors' ethical orientation is correlated with diverse ethical judgments and behavioural intentions in professional contexts. Based on this literature, the following hypothesis is suggested:

*Hypothesis 2:* PRC professional auditors possessing higher (lower) degrees of idealism will judge questionable behaviours to be less (more) ethical and will be less (more) likely to develop unethical behavioural intentions. PRC professional auditors possessing higher (lower) degrees of relativism will judge questionable behaviours to be more (less) ethical and will be more (less) likely to develop unethical behavioural intentions.



A significant limitation of previous research on auditing ethics in the PRC is that, in general, it has not addressed certain aspects of ethical decision-making processes that appear to be unique to traditional Chinese culture. For example, the influence of guanxi has perhaps been the most widely discussed issue in the literature on business ethics in the PRC. Guanxi orientation certainly appears to have implications for the PRC professional auditors' ethical judgments and behavioural intentions in audit conflict situations. The only empirical study of the effects of guanxi orientation<sup>4</sup> on auditors' ethical decision-making processes was conducted in Hong Kong<sup>5</sup>, but not in the PRC context. The previous literature relating to the effects of guanxi on ethical decision processes leads to the following hypothesis:

*Hypothesis 3: PRC professional auditors possessing higher (lower) degrees of guanxi orientation will judge questionable behaviours to be more (less) ethical and will be more (less) likely to develop unethical behavioural intentions.*

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<sup>4</sup> Au and Wong's (2000) study was somewhat weak in methodology. Guanxi orientation in that study was not measured by a guanxi scale; instead, that study just correlated responses to two different audit scenarios, one that involved guanxi issues and one that did not.

<sup>5</sup> The business literature indicates that significant differences exist between PRC and Hong Kong (Cheung and Chow, 1999; Ebrahimi et al., 2001; Siu, 2001). Chung and Chow (1999) find that managers in the PRC demonstrate higher power distance, and less concern about deadlines and plans than managers in Hong Kong. In addition, the result showed that PRC managers demonstrate greater materialism than Hong Kong managers. Ebrahimi et al. (2001) document that PRC managers have significantly lower levels of motivation to manage than their Hong Kong counterparts. Siu (2001) concludes that the marketing activities and behaviors of small firms in PRC and Hong Kong are different because of their distinct business approaches, production systems, and government intervention.

In addition to the research hypotheses, several other issues should also be addressed. One contentious issue is the effect of CPA firm socialization processes or auditor hierarchical position on professional auditors' ethical decision-making processes (e.g., Ponemon, 1992a; Shaub, 1994; Bernardi and Arnold, 2004). Ponemon (1992a) finds that the higher the hierarchical position, the lower the level of cognitive moral development, and suggests that auditors who possess lower levels of cognitive moral development are more likely to be promoted to higher positions in CPA firms. Similarly, Shaub (1994) reports that auditors' cognitive moral development levels increased through junior staff level, and decreased from the senior through the partner levels. However, Bernardi and Arnold (2004) document essentially the opposite result, finding that recently promoted senior managers and partners in international CPA firms possessed higher levels of cognitive moral development than their peers who left the firms. These conflicting results, coupled with the lack of studies of the effect of CPA firm socialization processes or auditor hierarchical position on professional auditors' ethical judgments and behavioural intentions in the PRC raises the following research question:

*Research Question 1:* What is the impact of CPA firm socialization processes or auditor hierarchical position on PRC professional auditors' ethical orientations, guanxi

orientations, perceptions of organizational ethical culture, and ethical decision-making processes?

Furthermore, the effect of CPA firm type on individuals' ethical decision-making processes is an important issue. Though lacking previous empirical evidence, with the widely recognized fact that there exists a significant difference between local/regional CPA firms and international CPA firms<sup>6</sup>, the effect of CPA firm type seems to be particularly significant in the PRC context. The potential difference between local/regional and international CPA firms coupled with the lack of empirical studies of the effect of firm type on professional auditors' ethical decision-making processes in the PRC led to the following research question:

*Research Question 2:* What is the effect of CPA firm type (local/regional vs. international) on PRC professional auditors' ethical orientations, guanxi orientations, perceptions of organizational ethical culture, and ethical decision-making processes?

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<sup>6</sup> According to Ye (2003), there exist differences between local firms and international firms on the aspects of brand effects, management structure, cultural concepts, staff training, and research and development. Xia and Lin (2003) state that local firms' average labor productivity is only one fourth of international firms'. Here the average labor productivity is defined as the average income created by the professional auditors. Thus, in the PRC context, it seems more reasonable to divide the CPA firms into local and international type.

## **IV Research Methodology**

To address the hypotheses and research questions, a survey of PRC professional auditors was conducted. This section will describe the sample, discuss the research instrument, and explain the measurement of the variables.

### **Sample Description**

Empirical data were obtained through a research firm, Investoday Financial Information Corporation<sup>7</sup> (Investoday). Investoday agreed to collect questionnaires from PRC professional auditors at the senior, manager and partner levels in both local/regional and international firms. Participants were instructed to complete the questionnaire and seal it in a return envelope that would be delivered to the researchers via Investoday. To encourage honest and unbiased responses, participants were also informed that individuals' responses would be treated confidentially, and that only the aggregate responses would be reported for research purposes. The reliability of the questionnaire collection process was checked by asking participants to voluntarily enclose their business card or contact information (e.g., family name, phone number, email) in a separate small envelope provided. A random sample of the participants who provided their contact information was contacted to verify whether they had in fact participated in the survey. All the

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<sup>7</sup> For more detailed information about the research firm, please visit the following website: <http://www.investoday.com.cn>

participants who were randomly contacted replied that they had completed the research questionnaire.

A total of 386 questionnaires were sent out during the collection period and 220 questionnaires were collected. After discarding 14 uncompleted questionnaires, 206 questionnaires were used for data analysis. The response rate, 0.57, is quite high. Investoday distributed the questionnaires primarily through contacts at local institutes of certified public accountants and CPA firms. According to the estimation of the Investoday, the 206 questionnaires used for data analysis come from 11 international firms and 21 local/regional firms. Participation by a variety of firms should enhance the external validity of the empirical results.

The sample was partitioned by auditor hierarchical position (senior, manager, and partner) and CPA firm type (local/regional, international), resulting in six subgroups. To enhance the reliability of the statistical analysis, an attempt was made to obtain a minimum of 30 valid responses in each group, after eliminations for incomplete responses. However, according to the feedback of the Investoday, it was quite difficult to collect questionnaires from the partners employed by international firms. Please find the breakdown table of CPA firm type and auditor hierarchical position in the Table 1 for the exact number of the participants in each subgroup.

## **Research Instrument**

Participants completed a survey instrument comprised of (1) a cover letter; (2)

six brief audit conflict vignettes that elicit ethical judgments and behavioral intentions adapted from previous studies (see Appendix A); (3) a fifteen-item ECQ (see Appendix B); (4) a twenty-item EPQ (see Appendix C); (5) a nine-item guanxi scale (see Appendix D); (6) a twenty-item impression management scale (see Appendix E); and (7) a brief set of demographic questions (see Appendix F), including questions on age, gender, experience level, CPA firm type, auditor hierarchical position, degree held, certifications held, firm size, and percentage of time spent in various practice areas.

Participants completed a simplified Chinese (Mandarin) version of the research instrument, which was developed using a back-translation procedure. The original English version was first translated by two independent translators: a professional translation service firm located in Hong Kong and a graduate student majoring in accounting from the PRC whose native language is Mandarin. The two Chinese versions were compared and integrated into one simplified Chinese version by the author, whose native language is also Mandarin. Another independent translator, a graduate student majoring in translation, then back-translated the simplified Chinese version into English. All differences between the original and back-translated English versions, which were relatively minor, were then resolved to the mutual agreement of the translators.

The simplified Chinese version of the instrument was pre-tested with a sample of approximately 35 senior auditors employed by CPA firms in the PRC. Several of

the pre-test participants were interviewed to obtain information regarding the perceived applicability of the research instrument, and to solicit suggestions for improvement. Slight revisions to the instrument were made based on the interviews and feedback from the pre-test. For example, the original item 10 of the impression management scale “I always declare everything at customs” was changed to “I always declare all my income for income tax purposes” because some of the participants had no experience of passing through customs.

## **Measurement of Variables**

### **Ethical Judgments and Behavioral Intentions**

Six brief audit conflict vignettes that elicit participants’ ethical judgments and behavioral intentions adapted from previous studies (Douglas et al., 2001) were used in this study (see Appendix A). These vignettes were originally developed by Loeb (1971) and Cohen et al. (1994). The vignettes dealt with a number of ethical issues that may be encountered in auditing or public accounting practice. Vignettes 1 and 4 dealt with issues relating to improper disclosure of confidential client information. Vignette 2 dealt with the issue of paying compensation to an existing client for the referral of a new client. Vignette 3 involved the widely discussed issue of “lowballing”, or intentionally setting an initial bid for an audit below cost with the expectation of making profits in the future. Vignette 5 described an independence issue involving a CPA serving as the auditor for a nonprofit organization with which

he has been involved in management-related activities (fund-raising). The last Vignette, number 6, involved a CPA arranging a job for the son of a potential client in an effort to secure the relationship, even though the son was under qualified. This study uses the mean response to the six vignettes to mitigate the effects of extreme response that might be caused by the variation of moral intensity among the vignettes.

Participants completed the Multidimensional Ethics Scale (MES) developed by Reidenbach and Robin (1988, 1990). The MES was developed to measure more detailed aspects of individual ethical judgments; consequently MES was used as a more refined measure of ethical judgments in this study. The MES asks respondents to rate the questionable actions of a hypothetical auditor on several seven-point Likert scales, anchored on “just” and “unjust”, “fair” and “unfair”, “morally right” and “not morally right”, “acceptable to my family” and “not acceptable to my family”, “culturally acceptable” and “culturally unacceptable”, “traditionally acceptable” and “traditionally unacceptable”, “does not violate an unspoken promise” and “violates an unspoken promise”, and “does not violate an unwritten contract” and “violates an unwritten contract” (see Appendix A). To provide single-item measures of ethical judgments and behavioral intentions, participants were asked to rate the questionable actions of the hypothetical auditor and to estimate the likelihood they would act as the hypothetical auditor did also using a seven-point Likert scale anchored on “ethical” and “unethical”, and “unlikely” and



“very likely” respectively (see Appendix A).

### **Organizational Ethical Culture**

Participants responded to the ECQ<sup>8</sup> developed by Trevino et al. (1995, 1998) (see Appendix B). This questionnaire has been widely used in the behavioural business ethics literature (e.g., Key, 1997; Shih and Tsai, 2005; Shih and Chen, 2006). Two items were excluded from the original questionnaire because they referred to organizational ethical codes, which could not be assumed to be applicable to the PRC CPA firms since these firms follow professional codes of conduct rather than organization-specific codes. This instrument requires participants to indicate the extent of their agreement with each of the fifteen statements about the ethical culture in their CPA firms on a six-point Likert scale with the following labels: 1 = “completely false”, 2 = “mostly false”, 3 = “somewhat false”, 4 = “somewhat true”, 5 = “mostly true”, and 6 = “completely true”.

### **Ethical Orientation**

Ethical orientation was measured using the EPQ developed by Forsyth (1980) to measure the extent of individuals’ relativism and idealism (see Appendix C). The

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<sup>8</sup> The Ethical Climate Questionnaire developed by Victor and Cullen (1987, 1988) is another widely cited instrument to capture ethical context within organizations. Trevino et al. (1995, 1998) compare the ethical climate questionnaire and ECQ, and conclude that ECQ is more likely to capture an organization’s attempt to influence members’ judgments and behaviour. Accordingly, this study adopted the ECQ as the measure of the ethical culture within organization.

EPQ has been widely used in previous research both in business and accounting contexts (e.g., Shaub et al., 1993; Douglas and Schwartz, 1999; Douglas and Wier 2000; Douglas et al., 2001; Swaidan et al., 2003), and generally been found to have acceptable reliability and validity. The EPQ asks participants to indicate their agreement with each of the twenty statements on a nine-point Likert scale with the following labels: 1 = “completely disagree”, 2 = “largely disagree”, 3 = “moderately disagree”, 4 = “slightly disagree”, 5 = “neither agree nor disagree”, 6 = “slightly agree”, 7 = “moderately agree”, 8 = “largely agree”, and 9 = “completely agree”. Consistent with most of the accounting research (e.g., Shaub et al., 1993; Douglas and Schwartz, 1999; Douglas and Wier 2000; Douglas et al., 2001; Swaidan et al., 2003) using the EPQ, this study categorized individual ethical philosophy into two groups: idealism and relativism, rather than four categories as mentioned in Figure 2. According to Forsyth (1980), the first ten statements are designed to measure the degree of idealism and the last ten statements are used to measure the degree of relativism. The degree of idealism was measured by taking the mean of the first ten items and the degree of relativism was obtained by taking the mean of last ten items. Higher scores indicate higher degrees of idealism and relativism.

### **Guanxi Orientation**

Ang and Leong (2000) recently developed a nine-item scale for the measurement of individuals' attitudes toward guanxi, which was also used in this

study (see appendix D). The guanxi scale has only been used in two previous studies (Ang and Leong, 2000; Su et al., 2003). However, in both of these studies the reliability coefficient (Cronbach's alpha) was quite high (above 0.8). Participants were asked to rate their agreement with each of the nine items using the same nine-point Likert scale used in the EPQ. Guanxi orientation was measured by the mean response to the nine items. Higher scores indicate higher degrees of guanxi orientation.

### **Impression Management**

Based on the assumption that some participants systematically over report their performance of a wide variety of desirable behaviours and underreport undesirable behaviours, the balanced inventory of desirable responding (BIDR) was first developed by Paulhus (1984) to measure the propensity for socially desirable response bias. The BIDR measures two distinct constructs: self-deception and impression management. The impression management sub-scale of the BIDR has been used to control for socially desirable response bias in many survey studies (e.g., Randall and Fernandes, 1991; Trevino et al., 1998). This study used Paulhus's (1989) modified version of the impression management (IM) scale to control for socially desirable response bias (see Appendix E). This scale requires participants to rate their agreement with each of the twenty statements on a seven-point scale anchored on "not true" and "very true". After reversing the negatively keyed items, one point

is added for each extreme response (6 or 7). Hence, total scores on IM can range from 0 to 20. This scoring ensures that high scores are attained only by participants who are prone to exaggerate desirable responses.

## **V Empirical Finding**

### **Summary of Demographics**

A summary of demographic information for the participants is provided in Table 1. Of the 204 participants who indicated their gender, 110 (54 percent) were male and 94 (46 percent) were female. The average age of participants and their average professional experience in public accounting was approximately 36 years and 10 years respectively. The breakdown of participants by CPA firm type and auditor hierarchical position indicates that there were 116 participants from local/regional CPA firms. This group includes a total of 38, 42, and 36 seniors, managers, and partners respectively. Also there were 90 participants employed by international CPA firms. This group comprises of 54, 33, and 3 seniors, managers, and partners respectively. Over half of the participants (60 percent) possessed a bachelor's degree, 25 percent possessed a master's degree, and the remaining 15 percent possessed an associate degree or no degree. Most of the participants (86 percent) were CPAs. A total of 90 participants, who were all from international CPA firms, were also from CPA firms with over 400 professionals in the PRC, a total of

15 participants were employed by CPA firms with 100-399 professionals, a total of 24 participants were from CPA firms with 50-99 professionals, and the remaining 74 participants were employed by CPA firms with less than 50 professionals. The average percentage of time participants spend in auditing, taxation, consulting/advisory, and other areas was 71 percent, 11 percent, 10 percent, and 8 percent respectively.

[Insert Table 1 here]

### **Factor Analyses**

According to Reidenbach and Robin (1990), the eight MES items can be grouped into three factors: moral equity, relativism, and contractualism. Flory et al. (1992) confirmed these three MES factors and found that these three factors captured a substantial amount of the variance in the single measure of ethical judgments and behavioral intentions. However, the results of the factor analysis did not quite match the expectation and the factor structures were quite different among the six vignettes. This study disregarded the results of the factor analysis, separated the MES into three factors (moral equity, relativism, and contractualism) by the logical structure, and averaged the items within each of the three factors as alternative measures of ethical judgments. The scales “just” and “unjust”, “fair” and “unfair”, “morally right” and “not morally right” measure the factor of moral equity; the scales “acceptable to my family” and “not acceptable to my family”, “culturally

acceptable” and “culturally unacceptable”, “traditionally acceptable” and “traditionally unacceptable” measure the factor of relativism<sup>9</sup>; and the scales “does not violate an unspoken promise” and “violates an unspoken promise”, and “does not violate an unwritten contract” and “violates an unwritten contract” measure the factor of contractualism. The results of internal consistency tests indicate that the reliability coefficient (Cronbach’s Alpha) for moral equity, relativism, and contractualism was 0.94, 0.83, and 0.97. If the MES factors are grouped based on the previous literature<sup>10</sup>, the reliability coefficient for moral equity, relativism, and contractualism was 0.87, 0.69, and 0.97. Obviously, the former categorization method generates the better results of the internal consistency. So this study separated the MES items by the logical structure and used the three factors calculated by the former method for the further data analysis.

An exploratory principal components factor analysis was conducted to investigate the dimensionality of the ECQ. Four factors emerged with eigenvalues in excess of 1, which collectively explained approximately 62 percent of the variance.

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<sup>9</sup> It might be argued that this relativism dimension in MES and the relativism measured by EPQ are the same construct. However, the relativism items in the MES measure individuals’ ethical judgments on the relativism dimension, for context-specific cases; in contrast, relativism items in the EPQ measure an individual’s general propensity to reject universal moral principles. Since the former is a measure of context-specific responses to particular cases, and the latter is a measure of a general personality trait, they are obviously different constructs and it is acceptable for them to serve as dependent and independent variables respectively in the same model.

<sup>10</sup> According to Reidenbach and Robin 1990, the scale “just”, “fair”, “morally right”, and “acceptable to my family” measure the factor of moral equity; the scale “culturally acceptable”, and “traditionally acceptable” measure the factor of relativism; and the scale “does not violate an unspoken promise”, and “does not violate an unwritten contract” measure the factor of contractualism.

Following the rule that to be included in a factor, an item must have a factor loading above .5 on that factor and must not have a loading above .4 on any other factors, two items were excluded. The first factor (rewards for ethical behaviour) was comprised of six ECQ items and the internal reliability of these five items was relatively high at .84. The internal reliability of the second factor (penalties for unethical behaviour), comprising two ECQ items, was 0.84. The third factor (obedience to authority)<sup>11</sup> was comprised of three ECQ items, and the internal reliability of these three items was .64. The internal reliability of the fourth factor (unethical model), comprising two ECQ items, was .70. More details of the organizational ethical culture factors were shown in Table 2.

[Insert Table 2 here]

### **Preliminary Tests**

The internal consistency tests were conducted to check the internal reliability of idealism, relativism, and guanxi orientation. The results reveal that the reliability coefficient (Cronbach's Alpha) for idealism, relativism, and guanxi orientation was 0.78, 0.77, and 0.80, which is quite acceptable for further data analysis.

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<sup>11</sup> It might be argued that items 9, 10, and 11 (see Table 2) under this factor have negative effects on the organizational ethical culture. Because, strictly obedient to the authority might lead to the decrease of employees' creativity and activity during the work, which will might create the negative organizational ethical culture. However, the original purpose of Trevino et al.(1995, 1998) to develop these three items is to capture the discipline of the members in the organization, accordingly, the more obedience to authority, the more positive the organizational ethical culture.

Univariate ANOVA and regression models are used to check the potential effects of demographic variables (age, gender, experience level, CPA firm type, auditor hierarchical position, degree held, certifications held, and firm size) on the dependent variables (ethical judgments, behavioural intentions, and MES factors) and independent variables (organizational ethical culture factors, idealism, relativism and guanxi orientation). Descriptive statistics of all the dependent and independent variables are listed in Table 3. This study used the averaged single-item ethical judgments and behavioural intentions in the six vignettes as the measure of ethical judgments and behavioural intentions.

[Insert Table 3 here]

To test Research Question 1, a one-way ANOVA model was used to test the effect of auditor hierarchical position on ethical judgements, behavioural intentions, MES factors, organizational ethical culture factors, idealism, relativism, and guanxi orientation. Panel A of Table 4 reports the results of the effect of auditor hierarchical position on dependent and independent variables. The results show that auditor hierarchical position has a significant impact on perceptions of organizational ethical culture, idealism, and relativism. More specifically, partners perceived the highest likelihood of rewards for ethical behaviour within their organizations, managers perceived the lowest likelihood of such rewards, and seniors' perceptions were in the middle; managers perceived the highest likelihood of obedience to authority within their firms, seniors perceived the lowest likelihood,



and partners' perceptions were in the middle; and partners perceived the highest likelihood that unethical behaviours were not the model within their organizations, managers perceived the lowest likelihood, and seniors' perceptions were in the middle. Partners in the firm possessed the highest degrees of idealism and lowest degrees of relativism. This result is similar to Bernardi and Arnold's (2004) finding that more experienced auditors possess higher levels of cognitive moral development, since it implies that more experienced auditors are more likely to make ethical decisions.

[Insert Table 4 here]

To examine Research Question 2, a one-way ANOVA model was used to test the effect of CPA firm type on ethical judgements, behavioural intentions, MES factors, organizational ethical culture factors, idealism, relativism, and guanxi orientation. Panel B of Table 4 summarises the results of the effect of CPA firm type on dependent and independent variables. The results show that CPA firm type has a significant effect on behavioural intentions, perceptions of organizational ethical culture, idealism, and guanxi orientation. To be more specific, auditors employed by international (local/regional) firms were less (more) likely to develop unethical behavioural intentions. Auditors employed by international (local/regional) firms perceived a lower (higher) likelihood of rewards for ethical behaviour within their organizations, a higher (lower) likelihood of penalties for the unethical behaviours within their firms, and a higher (lower) likelihood of obedience to authority within

their organizations. Interestingly, auditors employed by international (local/regional) firms also possessed lower (higher) degrees of idealism and higher (lower) degrees of guanxi orientation. This apparent inconsistency<sup>12</sup> might be explained by the fact that there exist other factors contributing to the more ethical decisions on the part of auditors employed by international firms.

The results of the univariate ANOVA and regression models indicate that other demographic variables (age, gender, experience level, degree held, certifications held, and firm size) have no significant effects on the dependent variables; thus these variables were excluded from subsequent analyses.

Correlation analysis was also performed to analyse the relationships among the variables. Panel A of Table 5 reports the correlations between the three organizational ethical culture factors, and ethical judgments, behavioural intentions, and MES factors. The results indicate that organizational ethical culture factors 1, 2, and 4 were negatively correlated with behavioural intentions, and the correlations were highly significant. Only organizational ethical culture factor 4 (unethical model) was positively and significantly correlated with MES factor 3 (contractualism). However, no significant correlations were found between the four organizational ethical culture factors and the single-item measure of ethical judgments.

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<sup>12</sup> Logically, individuals with higher degrees of idealism and lower degrees of guanxi orientation will make more ethical decisions. However, the results of this study indicate that although professional auditors employed by international firms make more ethical decisions, they also possess lower degrees of idealism and higher degrees of guanxi orientation.

[Insert Table 5 here]

Panel B of Table 5 reports the correlations between idealism and relativism, and ethical judgments, behavioural intentions, and the MES factors. The significant results show that idealism was negatively correlated with behavioural intentions and relativism was positively correlated with behavioural intentions; and that idealism was positively correlated with MES factor 2 (relativism judgments) and relativism was negatively correlated with MES factor 2 (relativism judgments) and factor 3 (contractualism). However, no significant correlations were found between idealism and relativism, and the single-item measure of ethical judgments.

Panel C of Table 5 reports the correlations between guanxi orientation, and ethical judgments, behavioural intentions and MES factors. The results indicate that guanxi orientation was positively and significantly correlated with behavioural intentions; and guanxi orientation was negatively correlated with MES factor 2 (relativism judgments) and factor 3 (contractualism). Also, no significant correlation was found between guanxi orientation and the single-item measure of ethical judgments.

### **Hypothesis Tests**

ANCOVA tests were first used to examine the interaction effects among independent variables (organizational ethical culture factors, idealism, relativism, and guanxi orientation) on dependent variables (ethical judgments, behavioural

intentions, and MES factors). However, no significant interaction effect was found among the independent variables.

Regression analysis was used to further analyse the hypothesized relationships among the variables. At the first stage of the regression analysis, the single-item measures of ethical judgments and behavioural intentions were regressed on the three organizational ethical culture factors, idealism, relativism, guanxi orientation, impression management scores, CPA firm type, and auditor hierarchical position. The results of the regression with ethical judgments as dependent variable are reported in Panel A of Table 6. Contrary to the hypotheses, no significant effects were found for the independent variables on ethical judgments. As indicated, the model was not significant and it only explained approximately 2% of the variation in ethical judgments. None of the variance inflation factors for the independent variables exceeded 1.5. That is to say, inter-correlation among the independent variables was not a problem<sup>13</sup>.

[Insert Table 6 here]

The results of the regression with behavioural intentions as the dependent variable are reported in Panel B of Table 6. Organizational ethical culture factor 4 (unethical model) had a significant (0.05) negative impact on behavioural intentions,

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<sup>13</sup> Originally, the variance inflation factors for organizational ethical culture factor 4 (unethical model) and impression management scores exceeded 1.5, which means these two independent variables are significantly correlated. To solve the multicollinearity problem, impression management scores were regressed on organizational ethical culture factor 4 (unethical model). The estimation error of this univariate regression was used as the substitute for the impression management scores in the multiple regressions in this study.

which means auditors perceiving a more positive organizational ethical culture would be less likely to develop unethical behavioural intentions. Idealism had a marginally significant (0.1) negative impact on behavioural intentions, while relativism had no significant impact. Guanxi orientation had a significant (0.01) positive impact on behavioural intentions, which suggests that auditors possessing lower degrees of guanxi orientation would be less likely to develop unethical behavioural intentions. Also, CPA firm type had a significant (0.01) negative impact on behavioural intentions, indicating that auditors employed by international (local/regional) CPA firms would be less (more) likely to develop unethical behavioural intentions. As indicated, the model was highly significant (0.01) and explained approximately 19% of the variation in behavioural intentions.

Since organizational ethical culture, idealism, relativism, and guanxi orientation had no significant impact on ethical judgments as indicated by Panel A of Table 6, the MES factors were used as alternative measures of ethical judgments. At the second stage of the regression analysis, each MES factor was regressed on the three organizational ethical culture factors, idealism, relativism, guanxi orientation, impression management scores, CPA firm type, and auditor hierarchical position. The results of the regression with MES factor 1 (moral equity) as dependent variable are reported in Table 7. Again no significant effects were found for the independent variables. As indicated, the model was not significant and explained approximately 1% of the variation in MES factor 1 (moral equity).

[Insert Table 7 here]

The results of the regression with MES factor 2 (relativism judgments) as dependent variable are reported in Table 8. None of the organizational ethical culture factors had a significant impact on MES factor 2 (relativism judgments). Idealism had a significant (0.01) positive impact, indicating that more idealistic auditors judge questionable actions as less acceptable. However, participants' general propensity for relativism, based on the Ethics Position Questionnaire, had no significant impact. Guanxi orientation had a significant (0.01) negative impact on MES factor 2 (relativism judgments), which means auditors possessing higher degrees of guanxi orientation would judge questionable actions as more acceptable. The model was highly significant (0.01) and explained approximately 10% of the variation in MES factor 2 (relativism judgments).

[Insert Table 8 here]

The results of the regression with MES factor 3 (contractualism) as the dependent variable are reported in Table 9. The only significant result indicates that organizational ethical culture factor 4 (unethical model) had a significant (0.05) positive impact on MES factor 3 (contractualism), which means auditors perceiving a more positive organizational ethical culture judged questionable actions more harshly on this dimension. Again, the model was highly significant (0.01) and explained approximately 7% of the variation in MES factor 3 (contractualism).

[Insert Table 9 here]

In summary, the findings indicate that one of the four dimensions of organizational ethical culture affected behavioural intentions, which provides only limited support for Hypothesis 1. Auditors possessing higher degrees of idealism would be less likely to develop unethical behavioural intentions, which partially supports Hypothesis 2. Participants possessing lower guanxi orientation would be less likely to develop unethical behavioural intentions, so Hypothesis 3 was partly supported.

## **VI Conclusion**

The overall results of this study suggest that certain aspects of organizational ethical culture, idealism, guanxi orientation, and CPA firm type play a significant role in PRC professional auditors' ethical decision-making processes in audit conflict situations. However, the hypotheses were only partly supported. More specifically, auditors who had more positive perceptions on the unethical model dimension of the organizational ethical culture were less likely to develop unethical behavioural intentions; however, no effects of the other three organizational ethical culture dimensions on ethical judgments or behavioural intentions were found. Auditors possessing higher degrees of idealism were less likely to develop unethical behavioural intentions. However, the hypothesized effects of relativism on ethical judgements and behavioural intentions were not found. Auditors possessing lower

degrees of guanxi orientations were less likely to develop unethical behavioural intentions. Auditors employed by international (local/regional) firms were less (more) likely to develop unethical behavioural intentions. But the hypothesized effects of CPA firm type on auditor's ethical judgments were not found.

In addition, CPA firm socialization processes or auditor hierarchical position had a significant impact on auditors' perceptions of organizational ethical culture, idealism, and relativism; and CPA firm type had a significant effect on auditors' perceptions of organizational ethical culture, idealism and guanxi orientation. Specifically, auditors with higher positions in the firm perceived their organizational ethical culture to be more positive or ethical, and possessed higher degrees of idealism and lower degrees of relativism. Auditors employed by international (local/regional) firms perceived the rewards for ethical behaviour dimension of the organizational ethical culture to be less (more) positive or ethical and perceived the penalties for the unethical behaviours and obedience to authority dimensions of the organizational ethical culture to be more (less) positive or ethical, and auditors employed by international (local/regional) firms possessed lower (higher) degrees of idealism and higher degrees of guanxi orientation.

In addition to corroborating the findings of the previous studies in different contexts, this study contributes to the literature in the following aspects. First, it investigates the effects of organizational ethical culture on professional auditors' ethical decision-making processes. Second, it examines the effects of auditor

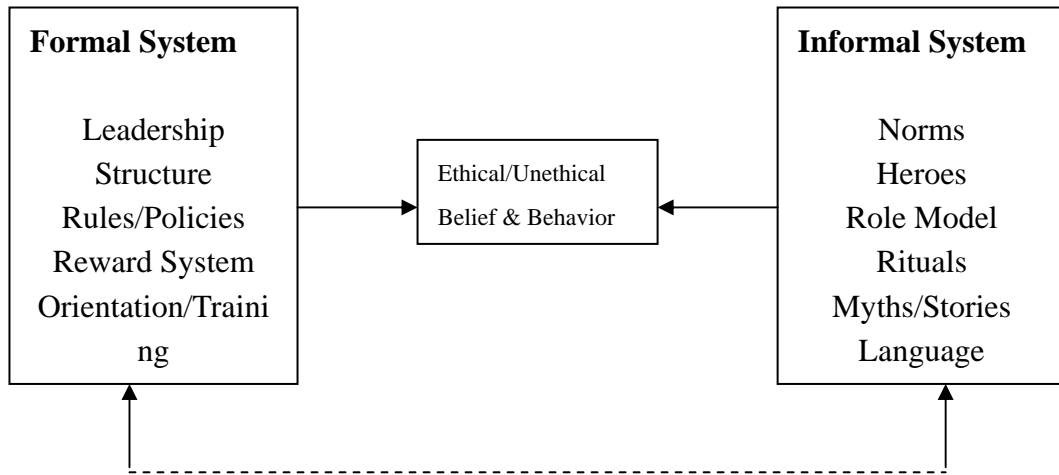


hierarchy position and CPA firm type on professional auditors' ethical decision-making processes in the PRC context. Third, it explores the potential influence of guanxi orientation on the PRC professional auditors' ethical decision-making processes. However, as the hypotheses were not fully supported, those contributions are limited to some extent. In general, it will usually be difficult to explain why hypotheses were not fully supported. This could be due to a multitude of factors, including inadequate theory development, measuring error in the instruments used, or obtaining an inadequate or non-representative sample. Consequently, future research should further investigate the relationships among ethical context (climate or culture), personality factors, and ethical decision-making in public accounting contexts.

The results of this study raise a number of specific questions for future research. First, the results of univariate ANOVA tests indicate that professional auditors employed by international (local/regional) CPA firms possess lower (higher) degrees of idealism and higher (lower) degrees of guanxi orientation; however, international firm auditors also made more ethical decisions, which would be consistent with higher degrees of idealism and lower degrees of guanxi orientation. This apparent inconsistency raises the issue of what other factors contribute to the more ethical decisions on the part of international firm auditors. Second, this study indicates that organizational ethical culture only had a marginal effect on auditors' behavioural intentions, and had no effect on their ethical judgments. Future research

should address this issue in greater details in order to more accurately specify the role of organizational ethical culture or other related organizational factors in auditors' ethical decision-making processes. Third, the findings suggest that idealism and guanxi orientation only had a significant effect on auditors' behavioural intention, but not on their ethical judgments. Future study should pay more attention on this issue so as to focus on the role of ethical philosophy and guanxi culture, or other related individual factors in auditors' ethical decision-making processes.

**Figure 1**  
**Developing and Changing Organizational Ethics:**  
**A Multi-system Cultural Framework**



Source: Adapted from Trevino (1990, pp. 218).

**Figure 2**  
**Taxonomy of Ethical Ideologies**

	<b>High Relativism</b>	<b>Low Relativism</b>
<b>High Idealism</b>	Situationist Reject moral rules; ask if the action yielded the best possible outcome in the given situation.	Absolutist Assumes that the best possible outcome can always be achieved by following universal moral rules.
<b>Low Idealism</b>	Subjectivist Appraisals based on personal values and perspective rather than universal moral principles; relativistic.	Exceptionist Moral absolutes guide judgments but pragmatically open to exceptions to these standards; utilitarian.

Source: Adapted from Forsyth (1980, pp. 176).

**Table 1**  
**Summary of Demographics**

**Age**

Mean	36.00
Standard Deviation	9.99

**Gender**

Male	110 (54%)
Female	94 (46%)

**Professional experience in public accounting firm (years)**

Mean	9.63
Standard Deviation	7.05

**CPA firm type and auditor hierarchical position**

	Local/Regional	International
Senior	38	54
Manager	42	33
Partner	36	3
Total	116	90

**Educational background (degree held)**

Associate/none	31 (15%)
Bachelors	124 (60%)
Masters	51 (25%)

**Professional certifications held**

CPA	177 (86%)
CA	2 (1%)
ACCA	13 (6%)
Others	11 (5%)

**Size of firm (numbers of professionals in the PRC)**

Over 400 professionals	90(44%)
100-399 professionals	15(7%)
50-99 professionals	24(12%)
Below 50 professionals	74(37%)

**Percentage of time spending in each area of practice**

Auditing	Mean: 71.18% / St. D.: 26.79%
Taxation	Mean: 10.68% / St. D.: 16.61%
Consulting/Advisory	Mean: 10.17% / St. D.: 15.14%
Other	Mean: 7.99% / St. D.: 13.52%

**Table 2**  
**Ethical Culture Questionnaire Factor Analysis**

Items	Factor loadings			
	1	2	3	4
1. People of integrity are rewarded in this organization.	.759			
2. Top managers of this organization regularly show that they care about ethics.	.717			
3. Ethical behavior is the norm in this organization.	.780			
4. Top managers of this organization guide decision making in an ethical direction.	.792			
5. Ethical behavior is rewarded in this organization.	.795			
6. Professional ethics code requirements are consistent with informal organizational norms.	.502			
7. Penalties for unethical behavior are strictly enforced in this organization.		.879		
8. Unethical behavior is punished in this organization.		.883		
9. This organization demands obedience to authority figures, without question.			.737	
10. People in this organization are expected to do as they're told.			.768	
11. The boss is always right in this Organization.			.676	
12. Employees in this organization perceive that people who violate the professional code of ethics still get formal organizational rewards. <sup>a</sup>				.802
13. Top managers of this organization are models of unethical behavior. <sup>a</sup>				.848
Percentage of variance explained	23%	14%	13%	12%
Reliability Alpha	.84	.84	.64	.70

a - Items were reverse scored.

**Table 3**  
**Descriptive Statistics of the Dependent and Independent Measures**

Variables	Mean	Std. Dev.	Range	Min.	Max.
Ethical Judgments <sup>a</sup>	4.39	1.04	1~7	1.83	7.00
Behavioral Intentions <sup>a</sup>	3.93	1.05	1~7	1.00	6.83
MES Factor 1 <sup>b</sup>	4.22	0.98	1~7	1.56	6.83
MES Factor 2 <sup>b</sup>	3.53	0.94	1~7	1.11	6.17
MES Factor 3 <sup>b</sup>	3.91	1.13	1~7	1.08	7.00
OECF 1 <sup>c</sup>	4.15	0.88	1~6	1.33	6.00
OECF 2 <sup>c</sup>	4.12	1.29	1~6	1.00	6.00
OECF 3 <sup>c</sup>	3.66	1.08	1~6	1.00	6.00
OECF 4 <sup>c</sup>	4.41	1.23	1~6	1.00	6.00
Idealism <sup>d</sup>	6.56	1.19	1~9	1.30	9.00
Relativism <sup>d</sup>	5.27	1.30	1~9	1.50	9.00
Guanxi <sup>e</sup>	6.84	1.06	1~9	2.11	9.00
Impression Management <sup>f</sup>	8.36	4.56	0~20	0.00	18.00

a - ethical judgments was measured by the average of the single-item ethical judgments of the six vignettes, and behavioral intentions was measured by the average of the single-item behavioral intentions of the six vignettes. The higher score on ethical judgments indicates the more ethical judgments and the higher score on behavioral intentions means the less likely to behave ethically.

b - MES factor 1 measures the moral equity dimension, MES factor 2 measures the relativism judgments dimension, and MES factor 3 measures the contractulism dimension. The higher scores of MES factors indicate the more ethical judgments.

c - OECF 1 means organizational ethical culture factor 1, which measures rewards for ethical behaviour dimension. OECF 2 measures penalties for unethical behaviour dimension, OECF3 measures obedience to authority dimension, and OECF 4 measures unethical model dimension. The higher score of organizational ethical culture factors mean the culture within the organization is perceived to be more ethical or positive.

d - Idealism was measured by the average of the first ten items of the EPQ and relativism was measured by the average of the last ten items of the EPQ. The higher score indicates the higher degrees of idealism and relativism.

e - Guanxi was measured by the average of the nine guanxi items. The higher score means the higher degree of guanxi orientation.

f - After reversing the negatively keyed items, one point is added for each extreme response (6 or 7) to the twenty IM items. Hence, total scores on IM can range from 0 to 20. The high scores were attained only by participants who give exaggeratedly desirable responses.

**Table 4**  
**ANOVA Analysis**

**Panel A. Effects of Position on Dependent and Independent Variables**

	F-Value	Significance Level
Ethical Judgments	0.588	0.556
Behavioral Intentions	1.317	0.270
MES Factor 1	0.080	0.923
MES Factor 2	0.696	0.500
MES Factor 3	0.064	0.938
OECF 1	6.556	0.002***
OECF 2	1.502	0.225
OECF 3	3.776	0.025**
OECF 4	9.164	0.000***
Idealism	9.208	0.000***
Relativism	6.125	0.003***
Guanxi	0.233	0.792

**Panel B. Effects of Firm Type on Dependent and Independent Variables**

	F-Value	Significance Level
Ethical Judgments	0.967	0.327
Behavioral Intentions	3.132	0.078*
MES Factor 1	1.040	0.309
MES Factor 2	0.166	0.684
MES Factor 3	0.469	0.494
OECF 1	2.996	0.085*
OECF 2	3.264	0.072*
OECF 3	2.755	0.098*
OECF 4	1.491	0.223
Idealism	5.686	0.018**
Relativism	1.266	0.262
Guanxi	4.919	0.028**

\* Significant at the 0.1 level

\*\* Significant at the 0.05 level.

\*\*\* Significant at the 0.01 level.

MES Factor 1 – multidimensional ethics scale factor 1 (moral equity)

MES Factor 2 – multidimensional ethics scale factor 2 (relativism judgments)

MES Factor 3 – multidimensional ethics scale factor 3 (contractualism)

OECF 1 - organizational ethical culture factor 1 (rewards for ethical behavior)

OECF 2 - organizational ethical culture factor 2 (penalties for unethical behavior)

OECF 3 - organizational ethical culture factor 3 (obedience to authority)

OECF 4 - organizational ethical culture factor 4 (unethical model)



**Table 5**  
**Correlation Analysis**

**Panel A. Organizational Ethical Culture Factors, and Ethical Judgments and Behavioral Intentions**

	OECF 1	OECF 2	OECF 3	OECF 4
Ethical Judgments	-0.028	0.021	0.002	0.106
Behavioral Intentions	-0.151**	-0.162**	0.069	-0.217***
MES Factor 1	-0.028	0.043	0.025	0.070
MES Factor 2	0.096	0.070	-0.041	0.109
MES Factor 3	0.002	0.013	0.002	0.174**

**Panel B. EPQ, and Ethical Judgments and Behavioral Intentions**

	Idealism	Relativism
Ethical Judgments	0.024	-0.077
Behavioral Intentions	-0.138**	0.183***
MES Factor 1	0.047	-0.078
MES Factor 2	0.214***	-0.118*
MES Factor 3	-0.002	-0.160**

**Panel C. Guanxi Orientation, and Ethical Judgments and Behavioral Intentions**

	Guanxi Orientation
Ethical Judgments	-0.032
Behavioral Intentions	0.167**
MES Factor 1	-0.061
MES Factor 2	-0.193***
MES Factor 3	-0.119*

\* Significant at the 0.1 level

\*\* Significant at the 0.05 level.

\*\*\* Significant at the 0.01 level.

MES Factor 1 – multidimensional ethics scale factor 1 (moral equity)

MES Factor 2 – multidimensional ethics scale factor 2 (relativism judgments)

MES Factor 3 – multidimensional ethics scale factor 3 (contractualism)

OECF 1 - organizational ethical culture factor 1 (rewards for ethical behavior)

OECF 2 - organizational ethical culture factor 2 (penalties for unethical behavior)

OECF 3 - organizational ethical culture factor 3 (obedience to authority)

OECF 4 - organizational ethical culture factor 4 (unethical model)

**Table 6****Regression Analysis on Ethical Judgments and Behavioral Intentions****Panel A. Effects of Independent Variables on Ethical Judgments**

Dependent variable - Ethical judgments

Independent variables	Beta	T-value	Sig. level
OECF 1	-0.089	-1.101	0.272
OECF 2	0.013	0.161	0.872
OECF 3	0.064	0.818	0.415
OECF 4	0.128	1.562	0.120
Idealism	0.045	0.579	0.563
Relativism	-0.059	-0.745	0.457
Guanxi orientation	-0.041	-0.525	0.600
Impression management	0.191	2.541	0.012**
CPA firm type	0.108	1.334	0.184
Hierarchical position	-0.085	-1.093	0.276
Model F-value	1.329		
Significance of F-value	0.217		
Adjusted R <sup>2</sup>	0.016		

**Panel B. Effects of Independent Variables on Behavioral Intentions**

Dependent variable – Behavioral intentions

Independent variables	Beta	T-value	Sig. level
OECF 1	-0.013	-0.173	0.863
OECF 2	-0.078	-1.067	0.287
OECF 3	-0.035	-0.489	0.635
OECF 4	-0.167	-2.239	0.026**
Idealism	-0.129	-1.815	0.071*
Relativism	0.069	0.966	0.335
Guanxi orientation	0.199	2.820	0.005***
Impression management	-0.288	-4.228	0.000***
CPA firm type	-0.301	-4.104	0.000***
Hierarchical position	-0.077	-1.093	0.276
Model F-value	5.710		
Significance of F-value	0.000***		
Adjusted R <sup>2</sup>	0.187		

\* Significant at the 0.1 level.

\*\* Significant at the 0.05 level.

\*\*\* Significant at the 0.01 level.

OECF 1 - organizational ethical culture factor 1 (rewards for ethical behavior)

OECF 2 - organizational ethical culture factor 2 (penalties for unethical behavior)

OECF 3 - organizational ethical culture factor 3 (obedience to authority)

OECF 4 - organizational ethical culture factor 4 (unethical model)

**Table 7**  
**Regression Analysis on MES factor 1**

Dependent variable - MES factor 1				
Independent variables		Beta	T-value	Sig. level
OECF 1		-0.104	-1.281	0.202
OECF 2		0.054	0.669	0.504
OECF 3		0.083	1.066	0.288
OECF 4		0.080	0.978	0.329
Idealism		0.078	1.003	0.317
Relativism		-0.061	-0.771	0.442
Guanxi orientation		-0.095	-1.222	0.223
Impression management		0.176	2.341	0.020**
CPA firm type		0.121	1.496	0.136
Hierarchical position		-0.045	-0.571	0.569
Model F-value	1.264			
Significance of F-value	0.253			
Adjusted R <sup>2</sup>	0.013			

\* Significant at the 0.1 level.

\*\* Significant at the 0.05 level.

\*\*\* Significant at the 0.01 level.

MES Factor 1 – multidimensional ethics scale factor 1 (moral equity)

OECF 1 - organizational ethical culture factor 1 (rewards for ethical behavior)

OECF 2 - organizational ethical culture factor 2 (penalties for unethical behavior)

OECF 3 - organizational ethical culture factor 3 (obedience to authority)

OECF 4 - organizational ethical culture factor 4 (unethical model)

**Table 8**  
**Regression Analysis on MES factor 2**

Dependent variable - MES factor 2			
Independent variables	Beta	T-value	Sig. level
OECF 1	-0.045	-0.577	0.565
OECF 2	0.068	0.888	0.376
OECF 3	0.060	0.798	0.426
OECF 4	0.067	0.854	0.394
Idealism	0.246	3.290	0.001***
Relativism	-0.051	-0.682	0.496
Guanxi orientation	-0.252	-3.391	0.001***
Impression management	0.162	2.251	0.026**
CPA firm type	0.091	1.181	0.239
Hierarchical position	0.002	0.023	0.982
Model F-value	3.231		
Significance of F-value	0.001***		
Adjusted R <sup>2</sup>	0.098		

\* Significant at the 0.1 level.

\*\* Significant at the 0.05 level.

\*\*\* Significant at the 0.01 level.

MES Factor 2 – multidimensional ethics scale factor 2 (relativism judgments)

OECF 1 - organizational ethical culture factor 1 (rewards for ethical behavior)

OECF 2 - organizational ethical culture factor 2 (penalties for unethical behavior)

OECF 3 - organizational ethical culture factor 3 (obedience to authority)

OECF 4 - organizational ethical culture factor 4 (unethical model)

**Table 9**  
**Regression Analysis on MES factor 3**

Dependent variable - MES factor 3			
Independent variables	Beta	T-value	Sig. level
OECF 1	-0.077	-0.980	0.329
OECF 2	0.005	0.060	0.952
OECF 3	0.112	1.475	0.142
OECF 4	0.178	2.231	0.027**
Idealism	-0.009	-0.123	0.902
Relativism	-0.101	-1.315	0.190
Guanxi orientation	-0.097	-1.289	0.199
Impression management	0.252	3.457	0.001***
CPA firm type	0.028	0.356	0.722
Hierarchical position	-0.049	-0.648	0.518
Model F-value	2.497		
Significance of F-value	0.008***		
Adjusted R <sup>2</sup>	0.068		

\* Significant at the 0.1 level.

\*\* Significant at the 0.05 level.

\*\*\* Significant at the 0.01 level.

MES Factor 3 – multidimensional ethics scale factor 3 (contractualism)

OECF 1 - organizational ethical culture factor 1 (rewards for ethical behavior)

OECF 2 - organizational ethical culture factor 2 (penalties for unethical behavior)

OECF 3 - organizational ethical culture factor 3 (obedience to authority)

OECF 4 - organizational ethical culture factor 4 (unethical model)

## Appendix A Audit Conflict Vignettes

Please respond to each of the following brief auditing cases. We appreciate that normally you would require more information than is provided here before you make such decisions. However, for purposes of this study, we ask you to make your decisions based on the limited information provided.

**Case 1:** CPA X is approached by a prospective client, a current employee of a large existing client corporation. The employee discloses that personnel of the client organization are considering forming their own corporation which could eventually provide competition for their employer.

Action: CPA X does not reveal the scheme to his client.

Please give your beliefs about X's action by placing a mark (✓) between each of the opposites that follow:

Ethical \_\_\_\_\_ Unethical  
Just \_\_\_\_\_ Unjust  
Fair \_\_\_\_\_ Unfair  
Morally Right \_\_\_\_\_ Not Morally Right  
Acceptable to my family \_\_\_\_\_ Not acceptable to my family  
Culturally Acceptable \_\_\_\_\_ Culturally Unacceptable  
Traditionally Acceptable \_\_\_\_\_ Traditionally Unacceptable  
Does not violate an Unspoken Promise \_\_\_\_\_ Violates an Unspoken Promise  
Does not violate an Unwritten Contract \_\_\_\_\_ Violates an Unwritten Contract

What is likelihood you would act as CPA X did?

Unlikely \_\_\_\_\_ Very Likely

**Case 2:** A client of CPA X refers another client to X and indicates that he expects some small compensation from X in exchange for the referral.

Action: X takes the client out to dinner.

What is likelihood you would act as CPA X did?

**Case 3:** CPA X is developing a bid for a major new client. The client has already expressed to X what he expects the bid to be. X knows that the fee the client demands is significantly below the cost of rendering the services and that the audit will lose money on the first few years. However, the expectation is that the firm will be able to raise the audit fee a few years down the road to generate a profit.

Action: X deliberately sets the bid significantly below cost.

What is likelihood you would act as CPA X did?

**Case 4:** CPA X serves as the auditor for Widget & Co., a privately held firm.

Widget's market share has declined drastically, and X knows that Widget will soon be bankrupt. Another of X's audit clients is Solid Company. While auditing Solid's accounts receivable, X finds that Widget & Co. owes Solid ¥1,620,000. This represents 10 percent of Solid's receivables.

Action: CPA X warns the client, Solid Company, about Widget's impending bankruptcy.

What is likelihood you would act as CPA X did?

**Case 5:** CPA X, in addition to practicing public accounting, is heavily involved in community activities. X has been involved in the past with fund-raising efforts for the local symphony orchestra. In preparation for a proposal to an international funding organization, the president of the symphony has asked X to perform the initial audit.

Action: CPA X accepts the audit engagement.

What is likelihood you would act as CPA X did?

**Case 6:** CPA X has had several meetings with a potential client, the CEO of a very large and profitable company. The potential client asks X to arrange a position for his son as a staff auditor in another office of the firm. Although the son is bright, he probably would not have otherwise been given an offer.

Action: CPA X recommends making the potential client's son an offer.

What is likelihood you would act as CPA X did?

Note:

## Appendix B Ethical Culture Questionnaire

We would like to ask you some questions about the general climate in your organization. Please answer the following in terms of how it really is in your organization, *not* how you would prefer it to be. Please be as candid as possible; remember, all your responses will remain strictly anonymous. Please indicate whether you agree with each of the following statements about your organization. Please use the scale below and write the number which best represents your answer in the space next to each item.

To what extent are the following statements true about your organization?

- |  | Completely<br>false | Mostly<br>false | Somewhat<br>false | Somewhat<br>true | Mostly<br>true | Completely<br>true |
|--|---------------------|-----------------|-------------------|------------------|----------------|--------------------|
|  | 1                   | 2               | 3                 | 4                | 5              | 6                  |
- \_\_\_ 1. Management in this organization disciplines unethical behavior when it occurs.
  - \_\_\_ 2. Employees in this organization perceive that people who violate the professional code of ethics still get formal organizational rewards.
  - \_\_\_ 3. Penalties for unethical behavior are strictly enforced in this organization.
  - \_\_\_ 4. Unethical behavior is punished in this organization.
  - \_\_\_ 5. The top managers of this organization represent high ethical standards.
  - \_\_\_ 6. People of integrity are rewarded in this organization.
  - \_\_\_ 7. Top managers of this organization regularly show that they care about ethics.
  - \_\_\_ 8. Top managers of this organization are models of unethical behavior.
  - \_\_\_ 9. Ethical behavior is the norm in this organization.
  - \_\_\_ 10. Top managers of this organization guide decision making in an ethical direction.
  - \_\_\_ 11. Ethical behavior is rewarded in this organization.
  - \_\_\_ 12. Professional ethics code requirements are consistent with informal organizational norms.
  - \_\_\_ 13. This organization demands obedience to authority figures, without question.
  - \_\_\_ 14. People in this organization are expected to do as they're told.
  - \_\_\_ 15. The boss is always right in this organization.



## Appendix C Ethics Position Questionnaire

You will find a series of general statements listed below. Each represents a commonly held opinion and there are no right or wrong answers. You will probably disagree with some items and agree with others. We are interested in the extent to which you agree or disagree with such matters of opinion. Please read each statement carefully. Then indicate the extent to which you agree or disagree by placing in front of the statement the number corresponding to your feelings, where:

1 = Completely disagree	4 = Slightly disagree	7 = Moderately agree
2 = Largely disagree	5 = Neither agree nor disagree	8 = Largely agree
3 = Moderately disagree	6 = Slightly agree	9 = Completely agree

- \_\_\_ 1. A person should make certain that their actions never intentionally harm another even to a small degree.
- \_\_\_ 2. Risks to another should never be tolerated, irrespective of how small the risks might be.
- \_\_\_ 3. The existence of potential harm to others is always wrong, irrespective of the benefits to be gained.
- \_\_\_ 4. One should never psychologically or physically harm another person.
- \_\_\_ 5. One should not perform an action which might in any way threaten the dignity and welfare of another individual.
- \_\_\_ 6. If an action could harm an innocent other, then it should not be done.
- \_\_\_ 7. Deciding whether or not to perform an act by balancing the positive consequences of the act against the negative consequences of the act is immoral.
- \_\_\_ 8. The dignity and welfare of people should be the most important concern in any society.
- \_\_\_ 9. It is never necessary to sacrifice the welfare of others.
- \_\_\_ 10. Moral actions are those which closely match ideals of the most 'perfect' action.
- \_\_\_ 11. There are no ethical principles that are so important that they should be a part of any code of ethics.
- \_\_\_ 12. What is ethical varies from one situation and society to another.
- \_\_\_ 13. Moral standards should be seen as being individualistic; what one person considers to be moral may be judged to be immoral by another person.
- \_\_\_ 14. Different types of moralities cannot be compared as to 'rightness'.
- \_\_\_ 15. Questions as to what is ethical for everyone can never be resolved since what is moral or immoral is up to the individual.
- \_\_\_ 16. Moral standards are simply personal rules which indicate how a person should behave, and are not to be applied in making judgments of others.
- \_\_\_ 17. Ethical considerations in interpersonal relations are so complex that

individuals should be allowed to formulate their own individual codes.

- \_\_\_ 18. Rigidly codifying an ethical position that prevents certain types of actions could stand in the way of better human relations and adjustment.
- \_\_\_ 19. No rule concerning lying can be formulated; whether a lie is permissible or not permissible totally depends upon the situation.
- \_\_\_ 20. Whether a lie is judged to be moral or immoral depends upon the circumstances surrounding the action.

## Appendix D Guanxi Scale

You will find a series of general statements listed below. Each represents a commonly held opinion and there are no right or wrong answers. You will probably disagree with some items and agree with others. We are interested in the extent to which you agree or disagree with such matters of opinion. Please read each statement carefully. Then indicate the extent to which you agree or disagree by placing in front of the statement the number corresponding to your feelings, where:

1 = Completely disagree	4 = Slightly disagree	7 = Moderately agree
2 = Largely disagree	5 = Neither agree nor disagree	8 = Largely agree
3 = Moderately disagree	6 = Slightly agree	9 = Completely agree

- \_\_\_ 1. In business, it is important to maintain a good network of relationships.
- \_\_\_ 2. Doing business involves knowing the right people.
- \_\_\_ 3. Developing the right contacts helps in the smooth running of a business.
- \_\_\_ 4. One must always build and maintain social relationships with others in case their services are needed in the future.
- \_\_\_ 5. Being in the “inside” circle helps in obtaining preferential treatments.
- \_\_\_ 6. Returning favor for favor is part of doing business.
- \_\_\_ 7. Gift giving is an important feature when we want business to succeed.
- \_\_\_ 8. Maintaining a good relationship is the best way to enhance business.
- \_\_\_ 9. Frequent cooperation reduces problems in business relationships.



## Appendix F Demographic Question

Please provide the following information regarding yourself. Your careful participation is greatly appreciated.

1. Year of birth \_\_\_\_\_
2. Gender   \_\_\_ Male   \_\_\_ Female
  
3. Public accounting experience in years  
   \_\_\_ in PRC  
   \_\_\_ in Hong Kong  
   \_\_\_ in other countries/regions (please specify)\_\_\_\_\_.
  
4. Type of current employment: \_\_\_\_\_ Local public accounting firm  
  \_\_\_\_\_ International public accounting firm  
  \_\_\_\_\_ Other (please specify)\_\_\_\_\_.
  
5. Position in the firm:   \_\_\_ Senior  
                                  \_\_\_ Manager  
                                  \_\_\_ Partner  
                                  \_\_\_ Other (please specify)\_\_\_\_\_.
  
6. Educational background: Degrees held (check): Country where earned:  
                                  \_\_\_ Bachelors   \_\_\_\_\_.  
                                  \_\_\_ Masters     \_\_\_\_\_.  
                                  \_\_\_ Other (please specify) \_\_\_\_\_.
  
7. Professional certifications held: Qualification                   Country where earned:  
  \_\_\_ CPA                            \_\_\_\_\_.  
  \_\_\_ Chartered Accountant \_\_\_\_\_.  
  \_\_\_ ACCA                            \_\_\_\_\_.  
  \_\_\_ Other (please specify) \_\_\_\_\_.
  
8. Which of the following categories best describes the size of your CPA firm in the PRC?  
  
                                  \_\_\_ over 400 professionals  
                                  \_\_\_ 100-399 professionals  
                                  \_\_\_ 50-99 professionals  
                                  \_\_\_ below 50 professionals
  
9. Please indicate the percentage of your time that you spend in each area of practice.  
                                  \_\_\_% Auditing

100% Total

\_\_\_\_ Taxation  
\_\_\_\_ Consulting/Advisory  
\_\_\_\_ Other\_\_\_\_\_.

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