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# Ethical climate in Chinese CPA firms

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**Abstract**
Much concern has been expressed in recent years regarding the state of business ethics in the People's Republic of China, and it has been suggested that unethical behavior is common both in the business community and in accounting firms. Despite such concerns, very little empirical research has been done on ethics in the Chinese public accounting profession, and no previous study has examined the ethical culture or climate in Chinese CPA firms. The current paper reports the results of a preliminary study of the ethical climate in local and international CPA firms operating in China, and the influence of ethical climate and personal ethical orientations on decision-making. Contrary to expectations, the perceived ethical climate in local firms was not more negative; however, auditors employed by local firms judged questionable actions as more ethical and indicated a higher likelihood of committing similar actions. Consistent with our hypotheses, perceptions of the ethical climate in one's organization had a significant effect on intentions to commit ethically questionable acts. In addition, high relativists (who tend to reject broad moral principles in favor of situational analysis) were significantly influenced by the perceived organizational ethical climate, but low relativists were not similarly influenced.

## Introduction

China's transition to a socialist market system and sustained economic growth have given it an increasingly prominent role in the global economy. The story of China's rapid economic development is a familiar one, but this transition has brought with it increasing concern over the state of business ethics and morality in the PRC. Indeed, it is often suggested that unethical and irresponsible business practices are widespread in China (e.g., Hanafin, 2002; Lu & Enderle, 2006; Snell & Tseng, 2002; Wang, 2003).

The CPA profession in China has developed along with the country's market economy, motivating chronicles of its progression and discussions of similarities and differences between the PRC profession and its Western counterparts (e.g., Cooper, Chow, &Wei, 2002; Hao, 1999; Tang, 1999, 2000). The public accounting profession was only reestablished in China in the early 1980s in the wake of market reforms that began in 1978 (Hao, 1999; Tang, 2000), and thus is still in its infancy relative to the profession in the West. Reflecting the more general concerns regarding the state of business ethics in China, concerns have also been voiced regarding ethical or moral standards in the accounting profession. For instance,

Cooper et al. (2002, p. 387, emphasis added) argue that ‘‘During China’s economic reform, pursuing personal interests has become acceptable and in this transitional period, moral standards are not well established, and the Chinese accounting profession has been developing during this period of moral vacuum.’’ Similar concerns were expressed by Tang (1999, 2000). A practice review by the Ministry of Finance in 1998 seemed to confirm suspicions of widespread unethical practices in Chinese public accounting firms. As a result of this review, 344 CPA firms and 1441 branch offices of firms were closed down, 352 CPAs lost their licenses to practice, and thousands of CPAs were issued warnings for ethical breaches (Tang, 1999). Despite such evidence of unethical practices, very few studies in the accounting or auditing literature have examined Chinese auditors’ ethical decision processes, and no previous study has examined the ethical climate or culture in Chinese CPA firms.

The few studies that have addressed ethical decision making in Chinese public accounting firms have focused primarily on auditors’ level of cognitive moral development (e.g., Tsui & Gul, 1996), reflecting a common concern of accounting ethics researchers over the last several years (e.g., Bernardi & Arnold, 1997, 2004; Sweeney & Roberts, 1997; Windsor & Ashkanasy, 1995; Ponemon, 1992a, 1992b). Although individual characteristics such as cognitive moral development undoubtedly affect ethical decision making, arguably more emphasis should be given to the study of organizational influences. Indeed, most models of ethical decision making in organizations explicitly recognize the influence of organizational characteristics such as the ethical climate or culture (e.g., Hunt & Vitell, 1986; Trevin˜ o, 1986), and discussions of the importance of ethical climate or culture often appear in the accounting practitioner literature (e.g., Castellano & Lightle, 2005; Gebler, 2006; Waring, 2004).

The current study is an initial attempt to investigate the ethical climate in Chinese CPA firms. Due to concerns regarding the state of business ethics in China, we sought to compare perceptions of the ethical climate and ethical decision processes in local and international auditing firms. To control for the effects of individual characteristics on ethical decision making and test their potential interaction with perceptions of the ethical climate, participants’ ethical orientations (idealism and relativism) were also assessed. The next section will briefly review relevant literature and develop the research hypotheses. We then discuss the research method and findings. The paper concludes with an discussion of the findings and suggestions for further research.

## Literature review and hypothesis development

*Ethical climate*

Victor and Cullen (1988, p. 101) define ethical climate as ‘‘the prevailing perceptions of typical organizational practices and procedures that have ethical content. ’’, and argue that the ethical climate in organizations will be an important source of information to employees regarding what actions are ‘‘right’’ or ethical in a work context. Underlying this argument is the assumption that organizations and organizational sub-groups develop institutionalized normative systems that are sufficiently known to organizational members to be perceived as a work climate (Victor & Cullen, 1988, p. 102). The concept of ethical climate is similar to broader constructs such as organizational climate (Schneider, 1975) and organizational culture (Smircich, 1983), but is more focused on ethical or moral issues. Victor and Cullen (1987, 1988) suggest that organizational ethical climates vary along two principal dimensions: the ethical criteria used for decision making (egoism, benevolence, or principle) and the locus of analysis (individual, local, cosmopolitan). The three ethical criteria were chosen based on the observation that most theories of ethical decision making recognize that choices may be made based on maximizing self-interest (egoism), maximizing mutual or joint interests (benevolence), or complying with deontological standards (principle).These three criteria also roughly correspond with Kohlberg’s (1981) stages of cognitive moral development in individuals (Victor & Cullen, 1987, 1988). The locus of analysis dimension refers to the referent sources that individuals use in making ethical decisions or the limits of consideration in ethical analyses. If the locus of analysis is the individual, the prevailing norms within the organization support reliance on employees’ personal norms or the pursuit of self-interested behavior. If the locus of analysis is local, the primary referent groups are within the organization, e.g., the employee’s department or workgroup. The cosmopolitan level of analysis relies on sources of ethical reasoning external to the organization, such as professional ethical codes or laws. The combination of these two dimensions results in the nine theoretical climate types illustrated in Fig. 1.

The ethical climate construct derives practical significance from its potential influence on employees’ ethical decision processes. Indeed, Victor and Cullen (1987, p. 68) argue that the most important research questions relating to ethical climate concern the influence of such climates on ethical behavior. They observe that ‘‘The ethics of employees result, to some extent, from their own moral characters developed prior to organizational entry. However, the ethics of employees also result partly from an adherence to the prevailing values of the organization. Once in an organization, employees learn ‘the right way’ of behaving through formal and informal socialization’’ (Victor & Cullen, 1987, p. 51). Thus, the perceived ethical climate both reflects and helps define the ethics or morality of an organization.

| | LOCUS OF ANALYSIS | | | |
|---|---|---|---|---|
| ETHICAL CRITERION | | **Individual** | **Local** | **Local Cosmopolitan** |
| | **Egoism** | Self-Interest | Company Profit | Efficiency |
| | **Benevolence** | Friendship | Team Interest | Social Responsibility |
| | **Principle** | Personal Morality | Company Rules and Procedures | Laws and Professional Codes |

**Fig. 1. Theoretical climate types. Source: Victor and Cullen (1988).**

Victor and Cullen (1987, 1988) and Cullen et al. (1993) developed and refined the ethical climate questionnaire (ECQ) to assess employee perceptions of climate in their work organization. This instrument includes 36 statements, four for each of the nine theoretical climate types. The ECQ has been used in dozens of studies in a variety of organizational contexts over the past two decades. Among the conclusions reached by Martin and Cullen (2006) based on their recent review of this research are: (1) in most organizations studied, not all distinct climate types emerge – the most common pattern has been to find one ‘‘instrumental’’ climate that combines the egoistic/individual and egoistic/local climate types, one ‘‘caring’’ climate that combines the benevolent/individual and benevolent/local types, and three distinct climates at the principle level;[1] (2) research on the antecedents of ethical climates is relatively limited, but existing studies have found that the external organizational context (e.g., national culture), organizational form (e.g., profit vs. non-profit firms), and managerial orientations (e.g., entrepreneurial vs. non-entrepreneurial orientation) affect organizational ethical climate; (3) a large number of studies have focused on the consequences of ethical climate perceptions, including dysfunctional or unethical behavior, organizational commitment and job satisfaction; in general, these studies have found that instrumental (egoistic) climates increase the likelihood of unethical behavior and reduce commitment and satisfaction, while caring (benevolent) and principled climates decrease the likelihood of unethical behavior and increase commitment and satisfaction. Professional Codes Fig. 1. Theoretical climate types. Source: Victor and Cullen (1988).

Consideration of the consequences of the perceived ethical climate in public accounting firms leads to similar conclusions. It seems apparent that climates characterized by self-interest (egoistic/individual) and firm interest (egoistic/local) are more likely to be associated with questionable or unethical behavior. Many of the common ethical dilemmas faced by public accountants involve pressure to compromise moral or ethical principles to obtain or retain clients, actions that primarily serve the CPA’s personal interest and/or the firm’s short term financial interest. In contrast, climates that emphasize following the ethical standards of the profession (principle/cosmopolitan) should in general be associated with more ethical

decisions. Climates that emphasize social responsibility or serving the public interest (benevolent/cosmopolitan) should also be associated with more ethical decisions in auditing due to the traditional emphasis on the public interest role of the auditing function. This discussion leads to the following hypotheses.[2]

**Hypothesis 1.** As the perceived emphasis on self-interest (egoistic/individual) and firm interest (egoistic/local) in an auditor's firm increases, the auditor will be more likely to judge questionable actions as ethical and more likely to express an intention to engage in similar actions.

**Hypothesis 2.** As the perceived emphasis on the public interest (benevolent/cosmopolitan) and the ethical standards of the profession (principle/cosmopolitan) in an auditor's firm increases, the auditor will be more likely to judge questionable actions as unethical and less likely express an intention to engage in similar actions. We also sought to examine the relationship between type of CPA firm (PRC vs. international)and ethical climate. Previous studies have examined the relationship between accounting firm size and issues relating to ethics or professionalism, but the results appear to be mixed. Loeb (1971) found that auditors working in larger firms were more likely to disapprove of questionable ethical practices.
However, later findings appear inconsistent with the assertion that larger accounting firms foster more ethical or professional climates. For instance, Schroeder and Imdieke (1977) failed to find a significant relationship between accounting firm size and local-cosmopolitan orientation, and Goetz, Morrow, and McElroy (1991) found a negative association between CPA firm size and a composite measure of professionalism based on Hall's (1968) instrument. Consideration of the current state of business and accounting ethics in the PRC, however, suggests that local accounting firms may have more negative ethical climates than international firms. Victor and Cullen (1988) suggest that ethical climates in organizations will reflect institutionalized social norms. Thus, it seems likely that the prevailing social norms in the local business community will have some negative impact on the ethical climate in local PRC firms, which in turn will negatively impact ethical decision processes. In contrast, international accounting firms operating in China are likely to attempt to maintain relatively uniform professional and ethical standards across all their markets or areas of operation. This reasoning leads to the following hypotheses.

**Hypothesis 3.** The perceived emphasis on self-interest (egoistic/individual) and firm interest (egoistic/local) in local Chinese CPA firms will be greater than in international CPA firms operating in China. The perceived emphasis on the public interest (benevolent/cosmopolitan) and the ethical standards of the profession (principle/cosmopolitan) will be greater in international firms than in local firms.

**Hypothesis 4.** Auditors employed by local Chinese CPA firms will be more likely to judge questionable actions as ethical and more likely to express an intention to engage in similar actions relative to auditors employed by international CPA firms operating in China. Ethical orientation Forsyth (1980) asserts that individual differences in moral judgment may be described most parsimoniously by reference to two basic factors: idealism, the extent to which a person assumes that favorable consequences can always be achieved by taking the ''right'' or most ethical course of action; and relativism, the extent to which a person rejects universal moral principles in favor of individualistic analysis. Forsyth (1980) developed the ethics position questionnaire (EPQ) to assess individual attitudes toward these two dimensions of ethical decision making, which are often referred to as a person's ethical orientation. Accounting researchers have investigated the impact of ethical orientation on judgments and attitudes, generally examining the propositions that high levels of idealism (relativism) will be associated with more (less) ethical decisions. However, the results of these studies have been mixed. For example, Arrington and Reckers (1985) found that more idealistic (relativistic) subjects judged tax evasion as more (less) serious, and were more (less) likely to view tax compliance as a social norm. Shaub, Finn, and Munter (1993) found that relativism had a significant negative effect on auditors' ethical sensitivity; however, idealism was also found to be negatively associated with ethical sensitivity. Douglas, Davidson, and Schwartz (2001) found that more idealistic auditors rated questionable actions more negatively, as anticipated. However, relativism did not have a significant effect on judgments. In the current study we were primarily interested in the potential interactive effects of relativism and the perceived organizational ethical climate. Due to their lack of strong commitment to moral principles and rules, relativistic auditors should be more strongly influenced by the perceived ethical climate in their firm. Relativists are fundamentally skeptical of moral rules, and advocate individualistic or personal analysis of moral dilemmas (Forsyth, 1980). Consequently, they are more likely to be influenced by situation-specific factors such as perceptions of what is considered acceptable behavior in their organization. This reasoning suggests the following hypothesis.

**Hypothesis 5.** Relativistic auditors will be more likely to be influenced by the perceived ethical climate in their firm.

## Research method

*Instrument*

Participants completed: (1) a series of three auditing vignettes that elicited ethical judgments and behavioral intentions; (2) the ethical climate questionnaire[3] (Cullen et al., 1993); (3) the Ethics Position Questionnaire (Forsyth, 1980); (4) the impression management scale (Paulhus, 1989); and (5) a demographic questionnaire. The auditing vignettes address a

variety of issues encountered in auditing practice, including ‘‘lowballing’’ or setting an initial audit fee low in the expectation of earning higher fees from the client in the future, disclosure of an audit client’s impending bankruptcy to another audit client who is a creditor of the faltering company, and offering an auditing position to the under-qualified son of a potential audit client. The vignettes have been used in several previous auditing studies, most recently by Douglas et al. (2001). Overall ethical judgments were provided on a seven-point scale anchored on ‘‘ethical’’ (1) and ‘‘unethical’’ (7). To provide more refined measures of ethical judgments, participants also responded to eight items from the Multidimensional Ethics Scale recently used by Henderson and Kaplan (2005) to elicit tax professionals’ ethical judgments. Behavioral intentions were elicited by asking participants to estimate the likelihood they would act as the hypothetical CPA did, on a seven-point scale anchored on ‘‘unlikely’’ (1) and ‘‘very likely’’ (7). The impression management scale was included to control for the effects of social desirability response bias, which is likely to be present in studies of ethical decision making (Paulhus, 1984).

The research instrument was translated from English to Chinese (Mandarin) and refined based on an independent back-translation. The questionnaire was pre-tested with a sample of approximately 30 staff members of public accounting firms in the PRC, and minor changes to improve clarity were made based on the feedback received. The instrument was also reviewed by three partners in PRC CPA firms for relevance and clarity.

*Participants*

The instrument was distributed through contacts at local and international public accounting firms with offices in the PRC,[4] to employees at the senior and manager levels. A cover letter accompanying the instrument briefly described the project and assured participants of confidentiality. Participants were instructed to complete the questionnaire without assistance, and to seal the completed instrument in an envelope provided and return it to the researchers. A total of approximately 200 instruments were distributed, and 128 usable responses were received, providing a response rate of approximately 64%. Although this response rate is relatively high, it should be acknowledged that there is a possibility that the responses were affected by non-response bias.[5] The sample was comprised of 28 local firm seniors, 32 local firm managers, 32 international firm seniors, and 36 international firm managers.

Approximately 54% of participants were male. Over 90% held a bachelors or masters degree, and over 80% were CPAs. The mean age was approximately 34, and the mean level of professional experience was approximately 8 years. The average participant devoted approximately 80% of their time to auditing, with the remaining 20% being split between taxation, consulting, and other (e.g., administrative work).

## Findings[6]

Hypothesis tests were performed using multiple regression models. The models for ethical judgments and behavioral intentions are reported in Table 1. The independent variables in the model for ethical judgments include ethical climate,[7] idealism, relativism,[8] CPA firm type (local vs. international), position (senior vs. manager), gender, and impression management.[9],[10] Three alternative models are reported for ethical judgments, based on overall, moral equity, and relativism judgments. [11] The results for both overall and moral

**Table 1**

**Regression models for ethical judgments and behavioral intentions**

| | | **Std. Beta** | **t-Statistic** | **p-Value** |
|---|---|---|---|---|
| ***Panel A: dependent variable = overall ethical judgments*** | | | | |
| Independent variables | | | | |
| Egoistic/local climate | | -.116 | -1.19 | .235 |
| Benevolent/cosmopolitan climate | | .092 | .76 | .446 |
| Principle/individual climate | | -0.28 | -2.8 | .779 |
| Principle/cosmopolitan climate | | .178 | 1.57 | .118 |
| Idealism | | -0.54 | -5.5 | .586 |
| Relativism | | -0.42 | -4.5 | .655 |
| CPA firm type | | .218 | 2.32 | 0.22 |
| Position | | .089 | .96 | .342 |
| Gender | | -0.04 | -0.4 | .969 |
| Impression management | | .105 | .94 | .348 |
| Model F-value | 1.87 | | | |
| Model significance | .055 | | | |
| Model R2 | .138 | | | |
| ***Panel B: dependent variable = moral equity judgments*** | | | | |
| Independent variables | | | | |
| Egoistic/local climate | | -.152 | -1.57 | .117 |
| Benevolent/cosmopolitan climate | | .152 | 1.27 | .206 |
| Principle/individual climate | | -0.62 | -.64 | .524 |
| Principle/cosmopolitan climate | | .129 | 1.16 | .250 |
| Idealism | | .026 | .26 | .791 |
| Relativism | | -0.95 | -1.03 | .303 |
| CPA firm type | | .234 | 2.51 | .013 |
| Position | | .114 | 1.23 | .221 |

| | | | | |
|---|---|---|---|---|
| Gender | | -.012 | -1.3 | .899 |
| Impression management | | .019 | .17 | .862 |
| Model F-value | 2.07 | | | |
| Model significance | .032 | | | |
| Model R2 | .150 | | | |
| ***Panel C: dependent variable = relativism judgments*** | | | | |
| | | **Std. Beta** | **t-Statistic** | **p-Value** |
| Independent variables | | | | |
| Egoistic/local climate | | -352 | -3.79 | .000 |
| Benevolent/cosmopolitan climate | | 0.37 | .32 | .750 |
| Principle/individual climate | | .161 | 1.71 | .090 |
| Principle/cosmopolitan climate | | .109 | 1.02 | .312 |
| Idealism | | .105 | 1.06 | .301 |
| Relativism | | -1.37 | -1.54 | .126 |
| CPA firm type | | .032 | .36 | .722 |
| Position | | .022 | .25 | .803 |
| Gender | | -0.74 | -8.3 | .406 |
| Impression management | | .045 | .42 | .676 |
| Model F-value | 3.15 | | | |
| Model significance | .001 | | | |
| Model R2 | .213 | | | |
| ***Panel D: dependent variable = behavioral intentions*** | | | | |
| Independent variables | | | | |
| Egoistic/local climate | | .284 | .42 | .676 |
| Benevolent/cosmopolitan climate | | -.225 | -2.39 | -0.19 |
| Principle/individual climate | | -0.13 | -1.7 | .867 |
| Principle/cosmopolitan climate | | -1.77 | -2.00 | .048 |
| Idealism | | .047 | .61 | .543 |
| Relativism | | .078 | 1.07 | .287 |
| CPA firm type | | -1.65 | -2.15 | .033 |
| Position | | -1.50 | -2.06 | .042 |
| Gender | | -0.36 | -.50 | .619 |
| Impression management | | -1.32 | -1.50 | .137 |
| Ethical judgments (overall) | | -3.26 | -4.44 | .000 |
| Model F-value | 9.67 | | | |

| | | | | |
|---|---|---|---|---|
| Model significance | .000 | | | |
| Model $R^2$ | .478 | | | |

equity judgments indicate that only CPA firm type significantly affected ethical judgments. Auditors employed by international firms judged the actions as more unethical relative to auditors employed by local firms, which is consistent with Hypothesis 4. The results for overall and moral equity judgments do not support Hypotheses 1 and 2, i.e., ethical climate did not significantly affect ethical judgments. The model for relativism judgments indicates that the egoistic/local climate had a highly significant effect on judgments, suggesting that perceptions of a climate that emphasizes firm interest increases the perceived acceptability of questionable actions. This result provides limited support for Hypothesis1. Neither idealism nor relativism was significant in any of the models for ethical judgments.

The model for behavioral intentions includes the same independent variables plus participants' ethical judgments.[12] The results indicate that three of the four ethical climate variables (egoistic/local, benevolent/cosmopolitan, and principle/cosmopolitan) had a significant impact on behavioral intentions. All coefficients for these variables were in the predicted directions. These results are consistent with Hypotheses 1 and 2. CPA firm type also had a significant effect. Again consistent with Hypothesis 4, auditors employed by international CPA firms were less likely to express an intention to engage in ethically questionable actions. The position variable was also significant, with managers being less likely to express an intention to engage in questionable actions. The ethical judgment variable was significant and in the predicted direction. As in the case of the models for ethical judgments, neither idealism nor relativism was significant. The overall model was highly significant and explained approximately 48% of the variation in behavioral intentions.

Regression models were also used to assess the effects of CPA firm type on ethical climate perceptions. These models revealed that only the benevolent/ cosmopolitan climate was significantly associated with CPA firm type, with local firm auditors perceiving more emphasis on benevolent/ cosmopolitan concerns in their firms. Thus, Hypothesis 3 was not supported.

To test Hypothesis 5, the sample was partitioned into high and low relativists based on a median split, and the regression models for ethical judgments and behavioral intentions were run separately for each group. The results indicate that the previously observed effect of the egoistic/local climate on relativism judgments was significant only for high relativists. Similarly, the previously observed effects of the egoistic/local, benevolent/ cosmopolitan, and principle/cosmopolitan climates on behavioral intentions were significant for high relativists,

but not for low relativists. These findings support the hypothesized interaction between ethical climate and relativism.

**Discussion and conclusions**

This study provides a number of interesting findings relating to Chinese auditors' ethical decision processes and raises a number of questions for future research. We found significant differences between local and international auditing firms in ethical judgments (overall and moral equity judgments) and behavioral intentions, with local firm auditors being more likely to judge aggressive actions as ethical and express intentions to commit similar actions. However, contrary to our hypothesis, the ethical climate in local PRC firms was not perceived as more negative. In fact, local firm auditors perceived a stronger benevolent/ cosmopolitan climate in their firms. Given that the benevolent/cosmopolitan climate was associated with a lower likelihood of committing aggressive actions across both firm types, these results suggest that other factors associated with local firms more than offset the positive effect of the stronger benevolent/cosmopolitan climate.

Our regression results indicate that ethical climate did not significantly affect overall or moral equity judgments. However, perceptions of an egoistic/ local climate (one that places primary emphasis on the interests of the firm) had a highly significant effect on relativism judgments (judgments of what is traditionally or culturally acceptable). Not surprisingly, auditors who perceived a stronger egoistic/local climate in their firm were more likely to feel that questionable actions were acceptable. We also found that three of the four ethical climate factors had a significant effect on behavioral intentions. Auditors who perceived a stronger egoistic/local climate were more likely to express an intention to engage in ethically questionable actions, while perceptions of stronger benevolent / cosmopolitan and principle /cosmopolitan climates reduced the likelihood of such actions.

Our findings also indicate that auditors' personal ethical orientations (idealism and relativism) did not have significant main effects on ethical judgments or intentions. As hypothesized, however, ethical climate and relativism appear to have significant interactive effects on certain types of ethical judgments and on behavioral intentions. Specifically, the significant effect of the egoistic/ local climate on relativism judgments was present only for high relativists. Similarly, the significant effects of the three ethical climate factors (egoistic/ local, benevolent/cosmopolitan, principle/cosmopolitan) on behavioral intentions were present only for high relativists. These findings suggest that high relativists are more susceptible to influence from the perceived ethical climate in their organization.

This study was a preliminary attempt to investigate the ethical climate in Chinese CPA firms, and the influence of the perceived ethical climate on auditors' decision processes. Like all studies of this type, practical limitations forced us to concentrate on a limited number of factors. Due to the documented significance of ethical climate on auditors' ethical decisions, future studies should expand on the current research. Studies could develop and test models of the antecedents and consequences of the perceived ethical climate in CPA firms. For instance, future studies could examine the effects of individual differences such as cognitive moral development, as well as the effects of broader considerations such as national culture on the perceived ethical climate in CPA firms.

Future studies could also examine other behavioral consequences of climate perceptions. As previously mentioned, studies have found that perceptions of a negative ethical climate in one's organization appear to reduce organizational commitment and job satisfaction (Martin & Cullen, 2006). This work could be extended to the context of public accounting firms. The interactive effects of other individual difference variables and ethical climate could also be examined. For instance, auditors with higher (lower) levels of cognitive moral development may be less (more) susceptible to the influence of the perceived ethical climate in their organization. Investigations such as these could provide a more comprehensive understanding of the role and influence of the organizational ethical climate in CPA firms.

The issue of ethical climate in CPA firms also has practical implications. Our findings suggest that the perceived climate has a strong influence on professional auditors' intentions to commit questionable or aggressive actions. To minimize the occurrence of such behaviors, public accounting firms could attempt to enhance the ethical climate or culture in the firm. Such efforts could start with internal research programs designed to assess the climate in the firm and identify areas for potential improvement. The climate or culture in a firm should be influenced by the ''tone at the top'', so communicating and emphasizing the importance of adhering to professional ideals is likely to enhance the perceived organizational ethical climate. Because of the interest of international CPA firms in maintaining uniform standards of quality worldwide, the ethical climate in practice offices in various countries could also be assessed and compared for consistency.

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**Notes**

1. There has been variation among studies in the climate types identified. For example, in addition to these five commonly identified climate types, Cullen, Victor, and Bronson (1993) identified a distinct social responsibility (benevolent/cosmopolitan) climate in their study of public accounting firms.
2. As observed by Trevin˜ o, Butterfield, and McCabe (1998), it is sometimes difficult to generalize regarding the effects of certain ethical climate types on decision processes. For example, the effects of an independent (principle/individual) climate on decisions will depend on the ethical principles of the decision maker. Accordingly, we are only proposing hypotheses for climate types that appear to have clear implications for ethical decisions in public accounting.
3. The wording of several of the items in the ECQ was changed to make them more appropriate for the public accounting context. Specifically, several of the statements that measure the social responsibility (benevolent/cosmopolitan) climate in the original questionnaire referred to ''the customer's and the public interest'' together. Due to the well-known conflict in auditing between the client's interest and the public interest, this wording was changed to simply refer to the ''public interest.''
4. The instruments were distributed to firms with offices in Shenzhen, Shanghai, and Beijing, each of which is among the largest urban areas in the PRC.
5. Like most studies of this type, we did not explicitly test for non-response bias, because we did not have demographic data on all recipients of the instrument.
6. A more detailed version of the data analysis and findings may be obtained from the author upon request.
7. Exploratory principle components factor analysis revealed four ethical climate factors with eigenvalues in excess of one, corresponding with the egoistic/local, benevolent/cosmopolitan, principle/individual, and principle/cosmopolitan climates. The reliabilities of these four factors, based on coefficient alpha, ranged from .71 to .79, and thus were acceptable.
8. Confirmatory factor analysis of the EPQ items revealed that the items all loaded significantly on the appropriate factors (idealism vs. relativism). The internal reliability of the idealism (relativism) scale was .84 (.82) based on Cronbach's alpha, indicating an acceptable reliability level.
9. Both position and gender have been found to influence ethical decision making and thus were included as control variables. Univariate tests of the effects of other demographic variables, including professional experience, degree type, and professional certification status, found that these variables were consistently unrelated to the dependent measures and thus they were excluded from further analysis.
10. Although several of the independent variables included in the regression models

reported in this section were significantly correlated, none of the variance inflation factors in any of the models exceeded 1.9, suggesting that the results were not significantly biased by multicollinearity.

11. An exploratory factor analysis revealed two reliable factors for the Multidimensional Ethics Scale. The first factor was comprised of three moral equity items (‘‘just’’, ‘‘fair’’, and ‘‘morally right’’), and had an internal reliability of .93. The second factor was comprised of one moral equity item (‘‘acceptable to my family’’) and two relativism items (‘‘traditionally acceptable’’ and ‘‘culturally acceptable’’). The internal reliability of this factor was .92. The ethical judgment and behavioral intention measures were based on the means across the three auditing vignettes.
12. This variable was included due to a strong correlation between judgments and intentions and a general lack of strong correlations between the ethical climate variables and overall ethical judgments, i.e., correlation analysis suggested that ethical climate and ethical judgments exerted independent influences on behavioral intentions. All substantive conclusions regarding the hypothesis tests are the same regardless of whether the ethical judgment variable is included in the model.

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