



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.

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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 re-established in China in the early 1980s in the wake

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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; Treviño, 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 a 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),

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