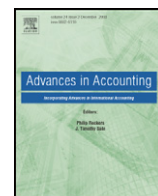




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## Ethical awareness of Chinese business managers and accountants and their views on the use of off-book accounts

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### ABSTRACT

This paper reports the survey results of ethical awareness of Chinese business managers and accountants on business ethical issues and their assessment of the nature of off-book accounts (OBAs) usage from the perspective of ethical viewpoints. We find that Chinese respondents can, overall, make appropriate ethical judgments on explicitly unethical business behaviors but they may still adopt a relatively tolerant view towards some business behaviors that are less explicit in deviation from the general business ethics. Regarding the ethical assessment of the use of OBAs in practice, Chinese respondents can generally recognize the illegitimacy and irrationality of the OBAs and they hold reservations on the so-called positive effects of OBAs. In addition, the paper has further analyzed the impacts of a series of influential factors (e.g., gender, age, education, job occupation, work experience, firm size/listing status, and business ownership) on the ethical judgments of general business ethical issues and the ethical assessment of the nature of OBAs made by the respondents respectively.

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### 1. Study backgrounds

Business ethics has become a hot topic in recent years and it has received an increasing attention by business communities and professional bodies around the world (Brown, Stocks, & Wilder, 2007; Emerson & Conroy, 2004; Robertson, 2008). This is because business ethics will not only determine whether the operating activities of a business organization are in conformity with the ethical standards prevailed in the society, but also reveal whether the business organization can make contribution to the generally-accepted ethical values in the society. Some empirical studies have revealed that various interested parties have placed a great emphasis on ethical behaviors of business organizations. Investors are willing to pay a premium for business entities that can uphold a high level of ethical standards while consumers and the general public are more willing to have business with the entities (Brass, Butterfield, & Skaggs, 1998; Ferrell, Fraedrich, & Ferrell, 2005; Hosmer, 1996; Shafer, Fukukawa, & Lee, 2007; Solomon, 1992).

Moral awareness is a necessary and integral part of ethical behaviors. It is the degree to which an individual recognizes the aspects of a situation that carry a reasonable likelihood of moral good or wrong to other people. Obviously, ethical decisions of a business organization are determined by the ethical awareness or moral

reasoning of its managers or employees. Some studies find that an individual's moral development or ethical awareness affects his/her ethical judgment or behaviors, thus further affects the ethical decisions made in operating activities of the business entity he or she belongs to (Fritzsche, 2000; Reynolds, 2006; Trevino, 1992; Walker, 2004; Weber & Wasieleski, 2001). Therefore study on people's moral values or ethical awareness under specific business environment should be helpful to understand and evaluate the ethical decisions in business operations. Although most studies on business ethics in the literature are, to date, focusing on the developed western countries, there is an increasing trend of addressing business ethics in the developing countries, especially in the transitional or emerging economies like China where ethical awareness is now an important concern in business operations in the course of economic transition towards marketization (Erdener, 1998; Fox, Donohue, & Wu, 2005; Priem, Love, & Shaffer, 2000; Redfern, 2005; Shafer et al., 2007).

Whitcomb, Erdener, & Li (1998) argue that the knowledge of business ethics relies primarily on the philosophical principles that are prevalent in the West, such as utilitarianism, universalism, right theories, or theory of justice. Therefore business ethics has long been emphasized in the western business world and a set of generally-accepted ethical standards has been derived mainly from the western civilizations, which provide a base for ethical decisions in business operations in the market economies (Snell & Tseng, 2002; Solomon, 1992; Weber & Wasieleski, 2001). Nonetheless, Wright, Szeto, & Lee (2003) contend that one critical issue in cross-nation business ethics studies is whether the same ethical standards can be held in different countries with varied institutional settings, or whether people from

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different countries will define the moral values such as right and wrong in the same way? Obviously such a topic will have profound impact and implications on people's moral development and ethical decisions.

Christie, Kwon, Stoeberl, & Baumhart (2003) further point out that ethical choices in business operations are normally affected by cultural and institutional environments. Obviously cultural factor has a direct influence on the formation of moral values or ethical standards that are prevailing in a given society. For instance, there is a long tradition of propagation of freedom, equality and universal fraternity in the western civilizations, which results in some basic ethical values emphasizing on fairness, justice, truthfulness and transparency in business operations in the western countries. In the contrast, the traditional oriental cultures expound to hierarchical status, worship to higher authorities, close power distance, and conservatism, thus personal connections or *guanxi*, reciprocal courtesy, or reservation and opaqueness are normally prevalent in business operations. Similarly the institutional settings in the East and the West are varied considerably. Thus the personality traits and values of Chinese people are "somewhat divergent from those expressed in western developed countries" (Woodbine, 2004), and they may make different decisions in ethical choices in contrast to their counterparts in the western countries (Huang & Snell, 2003; Wright et al., 2003). For instance, under the traditional cultural influences of Confucius, the interpersonal relations are very important in social and business activities in China (Erdener, 1998; Lovett, Simmons, & Kali, 1999; Yang, 1994), as people always care about *guanxi* and *mianzi* (face save) or mutual respect in doing business (Su & Littlefield, 2001). Consistent with such social values, Chinese people's moral or ethical judgments are more or less constrained by various relationships among different individuals. As a result, people are more conservative or more tolerant towards the behaviors of other colleagues or fellows (Hung, 2008; Redfern & Crawford, 2004).

However some researchers argue that people generally accept some basic moral values or ethical standards even under different cultural or institutional environments, as those basic moral values or ethical standards carry "universal" characteristics (Cullen, Parboteeah, & Hoegl, 2004; Rest, 1986; Shafer, Morris, & Ketchand, 2001). In particular, in pace with prompt progress of the economic globalization, there is an increasing need for, and the possibility of, pursuing or promoting similar business ethics to facilitate a smooth growth of business operations cross borders (Christie et al., 2003; Redfern, 2005; Reynolds, 2006; Shahabuddin, 2002). Nonetheless, whether there is a common set of business ethics that can be generally recognized or accepted by people under different cultural and institutional environments, or how to make international convergence of ethical business operations through moral value development remains an empirical issue that must be seriously explored.

Resulted from continuous progresses of economic reforms over the last three decades, China has gradually transformed from a centralized socialist country with the public (the state) ownership of production means and the planned economy into a market-oriented new emerging economy. The state ownership in business entities has dropped substantially, from the almost 100% before 1978 down to about one-third in 2006 (Brandt & Rawski, 2008). Diversification in business ownership, especially the rapid proliferation of non-state-owned economies such as foreign-affiliated enterprises, private businesses and stock companies, has contributed positively to the dramatic economic growth in China which has now become the 4th largest economy in the world. Since the Chinese economy has increasingly integrated with the global markets through international economic cooperations and foreign trades, the international investors and trading partners are paying more attention to the processes and the determinants of business decision-making by Chinese business managers, including how will they react to the ethical issues in business operations as well as the influential factors underlying their

ethical decisions (Fox et al., 2005; Redfern & Crawford, 2004; Woodbine, 2004).

In pace with far-growing economic development, there are substantial social and cultural changes in China, which generated serious challenges to the traditional moral values or ethical standards. On the one hand, the orthodox socialist doctrines emphasizing on public-ownership, and collectivism have gradually loss influences. On the other hand, the development of market economy has prompted Chinese people to seek for materialism and personal worth, and resulted in substantial changes in the social morals and individual ethical awareness (Chiu, Ting, Tso, & Cai, 1998; Manion, 1998; Redfern, 2005; Redfern & Crawford, 2004; Woodbine, 2004). As pointed out by some studies that the social morale or ethical standards have deteriorated in China during its progress towards modernization and marketization (Johnston & Hao, 1995; Priem et al., 2000; Shafer et al., 2007). Some Chinese business entities and individuals would have given up the orthodox socialist values and business ethics in order to maximize business profits or personal benefits in recent years (Gong, 1997; Hanafin, 2002; He, 1998; Huang & Snell, 2003; Hung, 2008; Manion, 1998). It is undeniable that people's moral values or business ethical standards have changed along with the rapid economic growth in China, although it remains an empirical issue whether such a change is a positive or negative development to the Chinese society and economy.

## 2. Hypotheses

Some scholars argue that there are obvious and substantial differences between the West and the East in social and cultural developments, so as in the prevalent personal morale and business ethics (Cullen et al., 2004; Premeaux & Mondy, 1993; Treisman, 2000). For instance, Kracher, Chatterjee, & Lundquist (2002) argue that individual heroism is prevailing in the western societies but the collectivism is preferred in most eastern countries including China. In addition, with respect to the acceptance of ethical behaviors on rules compliance, people in the West are emphasizing on idealism and seek for equality, justice, transparency and perfectness to a larger extent while Chinese and other oriental people may be inclined to relativeness and will be more restraint from criticism or blames against the behaviors of rules-violation or the wrongdoings that against the normal ethical standards (Ang & Leong, 2000; Brass et al., 1998; Su & Littlefield, 2001; Whitcomb et al., 1998). For instance, Priem et al. (2000) report that Chinese people have a lower degree of resistance towards unethical business behaviors, so they may be more tolerant towards corruptive behaviors in business operations such as bribery, embezzlement, or kike-back, in contrast to the western people. Nonetheless some studies disagreed with such a contention and they find no substantial difference in the perceptions and acceptance of the basic social morale or ethical values in China and other western countries (Shafer et al., 2007; Woodbine, 2004). Robertson (2008) further points out the formation and development of moral values will reflect changes in social and cultural environment. Certainly the controversial contention needs to be examined with empirical evidence. A key issue to be investigated is whether the Chinese business managers and accountants have a similar moral/ethical awareness of business ethical issues in contrast to the general ethical attitudes in the developed economies. So the first hypothesis is set as below:

**H1.** Chinese business managers and accountants have a low level of tolerance towards unethical business behaviors under current business environment in China.

Several studies on business ethics contend that dramatic social and economic changes will inevitably affect the general attitude towards moral values or ethical awareness in the society and would have induced some moral hazard problems or even corruptive or unethical

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