

# A Cross-Cultural Comparison of the Deliberative Reasoning of Canadian and Chinese Accounting Students

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**ABSTRACT.** Using Hofstede's culture theory (1980, 2001, *Culture's Consequences: Comparing Values, Behaviours, Institutions, and Organizations Across Nation*. Sage, NewYork), the current study incorporates the moral development (e.g. Thorne, 2000; Thorne and Magnan, 2000; Thorne et al., 2003) and multidimensional ethics scale (e.g. Cohen et al., 1993; Cohen et al., 1996b; Cohen et al., 2001; Flory et al., 1992) approaches to compare the ethical reasoning and decisions of Canadian and Mainland Chinese final year undergraduate accounting students. The results indicate that Canadian accounting students' formulation of an intention to act on a particular ethical dilemma (deliberative reasoning) as measured by the moral development approach (Thorne, 2000) was higher than Mainland Chinese accounting students. The current study proposes that the five factors identified by the multidimensional ethics scale (MES), as being relevant to ethical decision making can be placed into the three levels of ethical reasoning identified by Kohlberg's (1958, *The Development of Modes of Moral Thinking and Choice in the Years Ten to Sixteen*. University of Chicago, Doctoral dissertation) theory of cognitive

moral development. Canadian accounting students used post-conventional MES factors (moral equity, contractualism, and utilitarianism) more frequently and made more ethical audit decisions than Chinese accounting students.

**KEY WORDS:** cognitive moral development, deliberative reasoning, multidimensional ethics scale, ethical decisions

## Introduction

The current study compared the effect of culture on ethical decision making in an auditing context. The study compared the ethical decisions of Canadian and Mainland Chinese fourth year undergraduate accounting students using Hofstede's culture theory (1980, 2001) and incorporated the moral development (e.g., Thorne, 2000; Thorne and Magnan, 2000; Thorne et al., 2003) and multidimensional ethics scale (e.g., Cohen et al., 1993, 1996a, b, 2001; Flory et al., 1992) approaches. The results indicated that Canadian accounting students' formulation of an intention to act on a particular ethical dilemma (deliberative reasoning) as measured by the moral development approach (Thorne, 2000) was higher than Mainland Chinese accounting students. The current study proposed that the five factors identified by the multidimensional ethics scale (MES) as being relevant to ethical decision making can be placed into the three levels of ethical reasoning identified by Kohlberg's (1958) theory of cognitive moral development. Canadian accounting students used post-conventional MES factors (moral equity,

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contractualism and utilitarianism) more frequently and made more ethical audit decisions than Chinese accounting students.

In 2003, world trade increased by 4.5% and economists further predict that world trade will expand by 7.5% in 2004 (World Trade Organization, 2004). These numbers demonstrate that globalization is expanding at an increasing pace. The increasing globalization of trade has prompted the internationalization of the auditing profession (Tsui and Windsor, 2001). The Big Four accounting firms dominate auditing practice worldwide and have offices in approximately 150 countries (Deloitte and Touche, 2004; Ernst and Young, 2004; Klynveld, Peat, Marwick and Goerdeler, 2004; PricewaterhouseCoopers, 2004). Countries all over the world differ greatly in terms of economic development, legal systems, cultural standards, and individual's perception of ethics (Blodgett et al., 2001). The challenge to accounting firms operating internationally is, in essence, how to accommodate these differences. Among these differences, culture differences are the most fundamental (Cohen et al., 1995). Therefore, with the internationalization of accounting firms, the effect of culture is now an important factor in auditing research (Tsui and Windsor, 2001).

Societal concern for ethical behavior is also on the rise (Kohls and Buller, 1994). Cohen et al., (1996a) have pointed out that maintaining a high level of ethical standards among auditors is critical to ensure a high quality audit function. Recent accounting scandals have highlighted unethical acts such as bribery and falsifying information. For the purpose of this article, ethics will be defined as the "application of moral values to complex problems using a rational decision-making process" (Buller et al., 1997, p. 170). Ethical decision making is defined as "a decision that is both legal and morally acceptable to the larger community" (Jones, 1991, p. 367).

Different cultural backgrounds lead to various ways of perceiving the world, and therefore, individuals in different cultures may come to different conclusions when resolving ethical dilemmas (Singhapakdi et al., 2001). A systematic understanding of cultural differences could provide guidelines for accounting firms seeking to implement their firm's code of conduct internationally (Cohen et al., 1996b). Tsui (1996) and Tsui and Windsor (2001)

found that cultural differences existing across national boundaries affect auditors' decision making.

As China recently opened its auditing market to international firms, more business practitioners as well as academic researchers have begun to pay attention to the development of Chinese accounting firms and examine the affects of Chinese culture (Cooper, Chow and Wei, 2002). In order to increase understanding, the current study investigated ethical decision making in an auditing context across two countries: Mainland China and Canada. Canada is used because of its Western style of management and its increased business presence in China. By 2001, the Canadian business presence in China had more than doubled since 1994 to more than 400 firms with offices or operations established in China (Government of Canada, 2001). While Canada and the U.S. have similar cultures (Hofstede, 1980, 1990), auditors in the U.S. face a more litigious environment which may mask the effect of culture on ethical decisions (e.g., Ferrell and Gresham, 1985; Thorne et al., 2003).

The remainder of the article is organized into five sections. The next section develops the theory used in the study. The following section describes the hypotheses development. Next, the research methodology, including the sample design, questionnaire design, and translation procedure composes are described. The results of the study follow, then the discussion, limitations, implications for future study, and the conclusion.

## Theory development

### *Kohlberg's cognitive moral development theory*

Kohlberg's (1969) theory of cognitive moral development (CMD) has been widely accepted as an important theory which describes individuals' ethical reasoning levels. Ethical reasoning refers to the decision process, an individual uses to judge whether a course of action is ethically or morally appropriate. As individuals advance through Kohlberg's six stages they move toward a better understanding of moral obligations (Rest, 1979). Kohlberg groups the six stages of ethical cognition into three major levels of ethical development: pre-conventional, conventional, and post-conventional (Kohlberg, 1969; Lawrence and Shaub, 1997). A particular type of reasoning dominates at each stage. The pre-conventional stage is

dominated by the notion of rewards and punishments attached to various choices of outcomes (Fraedrich et al., 1994). One does not behave unethically, because one does not want to get punished. In the conventional stage, expectations of acceptable behavior of significant others dominate (Kohlberg, 1969; Thorne and Hartwick, 2001). One does not behave unethically because family and friends may feel ashamed of him/her. In the post-conventional stage, personally held principles, and rationality dominates (Kohlberg, 1969; Thorne and Hartwick, 2001). One does not behave unethically because the bad behavior is not consistent with his/her personally held principles and rationality. Individuals at higher levels (stage five and stage six) of ethical reasoning will be available to have more ethical forms of reasoning and consequently be able to make more ethical decisions (Thorne and Hartwick, 2001).

#### *Hofstede's cultural theory and moral development*

Hofstede (2001) described cultural differences as work-related values, which comprise shared norms and values that often operate unconsciously. He defined culture as "the collective programming of the mind that distinguishes the members of one group or category of people from another" (2001, p. 9). The programming manifests itself in the values and beliefs of a society. Values are the tendency of an individual to prefer certain states of affairs to others (Hofstede, 2001).

Hofstede's culture theory has been widely referenced and is frequently used as a conceptual framework for presuming, verifying, and explaining cultural differences in research (Blodgett et al., 2001). It captures the major components of culture, integrates the relevant cultural dimensions proposed by other authors, and also provides a common ground for comparison and a relevant framework for assessing cultural differences in perceptions, and decision making (Nakata and Sivakumar, 1996).

Hofstede's work is by no means universally accepted. Critics, for example, have questioned whether culture remains constant across time and countries (e.g., McSweeney, 2002; Ralston et al., 1999; Selmer and De Leon, 1996) and whether he used a representative sample (e.g., McSweeney, 2002). Barkema and Vermeulen (1997) used longitudinal data spanning almost three decades, to test the

validity of the five culture dimensions. The results provided evidence on a key assumption of Hofstede's work; cultural values are stable over time. Large-scale studies have also consistently supported the findings of Hofstede (e.g., Chinese Culture Connection, 1987; Schwartz, 1992, 1994; Smith et al., 1996) leading Smith and Bond (1999, p. 56) to conclude that these studies "have sustained and amplified [Hofstede's] conclusions rather than contradicted them." Smith (2002) has also concluded that whether "assumptions imperil a project or not is determined by the extent to which a pattern of coherent empirical results is obtained that can be explained by the theorist and not explained in other ways."

#### *Power distance*

The dimension of power distance measures the degree to which the members of a group or society accept the fact "that power in institutions and organizations is distributed unequally" (Hofstede, 1985, p. 347). High power distance reveals a culture's acceptance of inequality and respect for the bounds of social status or class (Weavers, 2001). In high power distance societies, less powerful people are apt to accept the inequality of power between superiors and subordinates, tend to follow formal codes of conduct, are reluctant to disagree with superiors, and believe that superiors are entitled to special privileges (Hofstede, 1980, 2001).

In low power distance societies, however, people expect power to be distributed more equally and resist a settled power relationship (Tsui and Windsor, 2001). Therefore, if we want to promote ethical behavior in an organization, low power distance suggests that a broad-based cultural approach is needed in managing ethics between superiors and subordinates, while in a higher power distance setting we might focus attention more narrowly on persons in formal positions of status and influence (Weaver, 2001).

The literature indicates that in high power distance countries, auditors have more difficulties resisting pressure from their superiors/managers in the accounting firm and are more likely to follow the decisions made by their superiors/managers due to their tolerance for hierarchies (Cohen et al., 1992, 1993). Some studies, further, found that auditors who score higher on power distance show lower ethical standards than their low power distance counterparts (Cohen et al., 1995; Tsui, 1996).

### *Individualism*

Individualism is perhaps the most important dimension in studying cultural differences (Triandis, 2004). In highly individualistic societies, people value personal independence, individual expression, and personal time (Cohen et al., 1993). The ties between individuals are loose. Personal goals and interests are more important than group goals and interests, and individual decisions are considered to be better than group decisions (Hofstede, 2001; Schwartz, 1992; Triandis, 1995). Everybody is expected to look after him/herself and his/her immediate family only.

In highly collectivistic societies, individuals are strongly integrated into cohesive in-groups (Tsui and Windsor, 2001). They adapt their opinions to those of the group, and stay loyal for status as a member of the group (Hofstede, 1980). In collectivistic cultures, ethical propriety is more likely to be judged in the context of personal relationships rather than by comparisons to abstract or formalized rules (Weaver, 2001).

The individualistic dimension is highly relevant to ethical values (Cohen et al., 1992). High individualism emphasizes personally held principles and personal values. According to Kohlberg's (1969) theory of CMD, high levels of ethical reasoning also focus on personally held principles. Therefore, high individualism is consistent with high levels of ethical reasoning. Using 198 managers and partners from accounting firms in 16 European countries, Arnold et al. (1999) found that auditors from countries with higher levels of individualism tended to rely more on their own judgment than their collectivistic counterparts (Arnold et al., 1999).

Teoh et al. (1999) compared the impact of the individualistic dimension of culture on the ethical perceptions of Australian (individualistic society) and Indonesian (collectivistic society) final year undergraduate accounting students. These findings indicated that the possible in-group benefits were considered as more important for Indonesian accounting students than for Australian accounting students. Comparatively, the possible negative effects of conducting questionable acts were considered of greater importance for Australian accounting students than for Indonesian accounting students. Research also indicates that auditors from Australia (individualistic society) have higher ethical reasoning scores than those

from China (collectivistic society), suggesting that a high ethical reasoning score is consistent with the individualism dimension (Tsui and Windsor, 2001)

### *Uncertainty avoidance*

Uncertainty avoidance is the extent to which a culture programs its members to feel either uncomfortable or comfortable in situations that are novel, unknown, surprising, or different (Hofstede, 2001). This dimension represents the collective willingness of a society to tolerate ambiguity of outcomes when going beyond formal rules (Cohen et al., 1995).

In high uncertainty avoidance societies, individuals are less secure and there is a higher level of anxiety (Tsui and Windsor, 2001). They are more concerned with security in life and resist changing (Singhapakdi et al., 2001). They prefer clear hierarchical structures in organizations, rely more on written rules and instructions, are less likely to take risks and are intolerant of deviations from organizational norms or company rules (Blodgett et al., 2001). In contrast, in low uncertainty avoidance societies, people are relatively more secure. They are less concerned with security, rely less on written rules, and are more risk tolerant (Hofstede, 1984).

Cohen et al. (1993) further pointed out that auditors with high uncertainty avoidance cultures are more likely to equate "legal" with "ethical" responsibilities and to concentrate more on the form of rules than the content of the rules. On the other hand, auditors from cultures with low uncertainty avoidance focus more on the content of the issue than on the form alone (Cohen et al., 1993). They would avoid conducting questionable actions even though they were legal. Based on the study of Cohen et al. (1993), Salter et al. (2001) developed a model that suggests that students in low uncertainty avoidance countries are less likely to cheat. They used accounting students in the U.S. as the high-uncertainty avoidance sample and the United Kingdom (U.K.) as a low-uncertainty avoidance sample. The results supported their proposed model (Salter et al., 2001).

According to Hofstede's (2001) culture dimension scores, Canada and China do not differ significantly in either uncertainty avoidance or masculinity. Therefore, the current study only examined the relationship between Canada and Mainland China on power distance, individualism, and long-term orientation.

### *The multidimensional ethics scale*

The multidimensional ethics scale (MES) has also been used in a number of studies (e.g., Cohen et al., 1993; Cohen et al., 1996a, b; Cohen et al., 2001; Flory et al., 1992). The MES assumes that individuals may use more than one rationale in making ethical decisions and that the importance of these rationales will vary depending on the decision context. Five rationales have been identified by the moral philosophy literature and included as factors in the MES (Reidenbach and Robin 1988). The Theory of Justice proposes that decisions should be based on "formal justice." Decisions are assessed based on their inherent fairness, justice, goodness, and rightness (Reidenbach and Robin, 1988). A second factor, contractualism, proposes that decisions should be based on the unwritten responsibilities that individuals should have toward each other. Relativism asserts that what is ethical is dependent on the culture or context in which they operate. They cannot be universally applied. Utilitarianism suggests that decisions are right or wrong based on their consequences. The objective is to maximize benefits for the majority while minimizing the costs. Like utilitarianism, the objective of egoism is to maximize the benefits and while minimizing the costs, but the focus is on the individual rather than society.

Research indicates that auditors and business students rely on equity, contractualism, and utilitarianism but not relativism when assessing the morality of most of the actions taken in the context of general business scenarios. The current study revisits the issue using auditing rather than general business scenarios, since research indicates that ethical decisions are context-specific (e.g., Arnold, 1997; Jones, 1991; Shaub, 1994; Trevino, 1986) and may even differ from one auditing context to another (Cohen and Martinov Bennie, 2006). Consequently, examining ethical decisions in contexts that auditors typically face is important and may result in factors that are different from those found in the earlier Cohen et al. (1996a, b, 2001) studies. Research also indicates that more ethical reasoning is used to resolve hypothetical moral dilemmas than to resolve accounting-specific moral dilemmas (Thorne, 2001). Therefore, previous studies examining the MES factors are important to the ethical

decision making of accountants in general business contexts might not be relevant to accounting decisions.

Previous MES accounting studies have omitted egoism after performing exploratory factor analysis to general business contexts (Cohen et al., 1996a, b, 2001). The current study posits that egoism is an important factor particularly with regard to auditors' ethical decision making, since they are expected to make decisions that are in the best interest of society and often to the forsaking of their self-interest. Auditors, for example, have identified client pressure to alter tax reports and conflict of interest/independence situations as posing some of the most difficult ethical situations they face (Finn et al., 1988).

### **Hypothesis development**

The dimension of power distance postulates that subordinates in countries with high power distance are more likely to accept inequality in power and authority (Hofstede, 1980, 2001). Therefore, they are more likely to behave according to their superiors' wishes (Hofstede, 2001). In contrast, subordinates from low power distance cultures are less tolerant of hierarchies and tend to behave more on the basis of their own judgments rather than their superiors' (Blodgett et al., 2001). The culture dimension of low power distance is consistent with Kohlberg's highest level of ethical reasoning, which focuses on personally held principles. This is consistent with the results of the Tsui (1996), and Tsui and Windsor's (2001) studies, which indicated that higher ethical reasoning scores were compatible with low power distance.

Individuals in countries that score low on individualism tend to be more influenced by groups and societies than individuals in countries that score high on this dimension (Hofstede, 1980, 2001). Highly individualistic cultures are characterized by self-reliance and self-consciousness, which is consistent with the personally held principles of Kohlberg's highest ethical reasoning level (Tsui, 1996; Tsui and Windsor, 2001). Tsui and Windsor (2001) found that Australian auditors (individualism) have higher ethical reasoning levels than Chinese auditors (collectivism) This indicated that individualism is

consistent with the higher level of ethical reasoning in Kohlberg's (1969) theory of CMD.

Long-term orientation is also an important determinant of ethical reasoning. Tsui (1996) and Tsui and Windsor (2001) found that Chinese auditors have lower levels of ethical reasoning than American and Australian auditors. They suggested that since short-term orientation exemplifies the characteristics of personal steadiness and stability, respect for tradition, as well as reciprocation of greetings, favors, and gifts, it is consistent higher levels of ethical reasoning, which focus on societal consensus and social cooperation. Since stage five of Kohlberg's (1969) theory of cognitive moral development (CMD) is characterized by societal consensus and stage six of CMD is characterized by social cooperation, short-term orientation is consistent with these two stages of ethical reasoning. China scores higher (80) than Canada (39) on Hofstede's power distance scale, lower (20) than Canada (80) on the individualism scale, and higher (118 versus 23) on the long-term orientation scale (Table I). Based on the discussion above, the following hypothesis is, therefore, proposed:

*H1:* Canadian accounting students have higher levels of deliberative reasoning than Chinese accounting students.

#### *Deliberative reasoning and ethical decision choices*

Empirical research has consistently found a "modest" relationship between moral capacity and ethical decision choices (Rest, 1979, p. 259–261; Rest,

1986, pp. 136–141). Accounting studies, for example, have been significant only at the  $p < .10$  level when examining the link between moral capacity and auditor independence (Tsui, 1996) and auditor objectivity (Ponemon, 1990). A possible reason for these results is that moral capacity may not represent the moral reasoning a decision maker uses to make a particular ethical decision. Instead, moral capacity is the highest level of ethical reasoning an individual is capable of. Research indicates, for example, that accountants' and accounting students' deliberative reasoning are lower than their moral capacity. They, therefore, do not resolve ethical dilemmas at their level of moral development (Thorne, 2001, 2000; Thorne and Magnan, 2000). Since deliberative reasoning involves the formulation of the intention to act on a particular dilemma, it is posited that it will have a significant relationship with ethical decisions.

Tsui and Windsor (2001) found that auditors from Australia had higher ethical reasoning than those from Hong Kong and Mainland China, consistent with Hofstede's Culture Theory predictions. They stated "It is expected that the highest ethical reasoning scores of Australian auditors would result in their ability to behave more ethically under conflict situations than the Chinese auditors. Future studies should explore this issue." Higher levels of deliberative reasoning should therefore lead to more ethical decisions. The second hypothesis is, therefore, as follows:

*H2:* Canadian accounting students make more ethical auditing decisions than Chinese accounting students.

TABLE I  
A comparison of Hofstede's culture scores between Canada and Mainland China

Country	PDI	UAI	IDV	MAS	LTO
Canada	39	48	80	52	23
China	80	30	20	66	118

*Note.* PDI – Power distance; UAI – Uncertainty avoidance; IDV – Individualism; MAS – Masculinity; LTO – Long-term orientation. All these scores are taken from "Culture's consequences: Comparing values, behaviors, institutions, and organizations across nation" by G. Hofstede, 2001, Sage Publishers. For PDI, UAI, IDV and MAS, the index values range from 0 for small to 100 for large. For LTO, the index value ranges from 0 for small to 118 for large.

*The multidimensional ethics scale and cognitive moral development theory*

Kohlberg's (1969, 1976) Cognitive Moral Development (CMD) Theory identifies three levels of moral development. The current study suggests that these levels may be used to classify the five rationales of ethical reasoning from the moral philosophy literature used in the MES. At the pre-conventional level, moral decisions are based on the rewards and punishments that will accrue to the decision maker as a result of the decision. This is consistent with the egoism approach identified by Reidenbach and Robin (1988) as one of the MES factors. Egoism focuses on the benefits that will accrue to the individual as a result of the decision. Individuals at the conventional stage of moral development focus on the expectations of significant others when making ethical decisions. This is consistent with the MES factor, relativism. Under a relativistic approach, ethical rules are context-dependent, they are not universal. At the post-conventional moral development level, individuals make ethical decisions based on universal ethical principles. This is consistent with the other three approaches identified by Reidenbach and Robin (1988). At this level, individuals consider universal fairness (the moral equity rationale), the good of society (the utilitarianism rationale) and personally held principles (the contractualism rationale) when making ethical decisions.

Under the cognitive development approach, the P-score is the percentage of principled considerations (the post-conventional stage, stages five and six) an individual uses to decide how to resolve a hypothetical ethical dilemma (Rest, 1979). A high P-score indicates that the individual tends to use post-conventional reasoning when making ethical decisions. A low P-score indicates that the individual tends not to use post-conventional reasoning. The third hypothesis is, therefore, as follows:

*H3:* Deliberative reasoning is positively related to post-conventional MES factors (moral equity, contractualism, and utilitarianism).

Linking the MES approach (Reidenbach and Robin, 1988) and the CMD Theory (Kohlberg, 1969, 1976) thus facilitates predictions about what modes of reasoning individuals will use when faced with

ethical dilemmas. Since Canadian accounting students are posited to have higher deliberative reasoning than Chinese (H1), they are expected to use more post-conventional modes of ethical reasoning than Chinese. The fourth hypothesis, is, therefore, as follows:

*H4:* Canadian accounting students use more post-conventional stage MES factors (moral equity, contractualism, and utilitarianism) than Chinese accounting students when making auditing decisions.

*Research methodology*

*Instrument*

The current study combined Thorne's (2000) accounting-specific DIT instrument and the MES approach (Appendix A). Thorne's (2000) instrument is based on Rest's (1979) defining issues test (DIT). The DIT is a widely used instrument to empirically test Kohlberg's theory of CMD. The DIT has measured ethical reasoning of various groups across diverse cultures (including non-western cultures). Thorne's (2000) instrument uses the same format as the DIT, but uses audit-specific scenarios instead of Rest's non-business scenarios. The importance of using context-specific instruments has been suggested by numerous applied cognitive-developmental researchers (e.g., Arnold, 1997; Jones, 1991; Shaub, 1994; Trevino, 1986).

In order to facilitate a higher response rate, the short version of Thorne's instrument was used. It includes four scenarios each involving an auditing ethical dilemma. Subjects were asked to respond to each situation as they perceived the individual described in the case would respond. Allowed responses were either that the unethical action would be taken, would not be taken, or that the subject could not decide. In the process of decision making, many different issues needed to be considered. Subjects ranked the importance of each issue, ranging from 1 (Great) to 4 (No). Then they were required to rank the four issues of greatest importance for making the decision. According to their rankings, the individual's level of moral development was determined by calculating a P-score

(ethical reasoning score). The P-score, ranging from 0 to 95, was determined from the ranking that the individual assigned to post-conventional items of consideration in resolving an ethical dilemma (Thorne, 2000). The instrument has been pre-tested by Thorne (2000) using 109 graduate accounting students and 286 accountants. Based on the pre-test, Thorne (2000) reported that the reliability of the accounting-specific four-items instrument was comparable to that of the Rest's six-items DIT for the same sample of subjects. Several other studies have also employed Thorne's (2000) instrument to test the ethical reasoning of both accounting professionals (e.g., Thorne and Magnan, 2000) and accounting students (e.g., Bernardi et al., 2001).

The MES scale was the one used in previous accounting studies (e.g., Cohen et al., 1998, 2001). For each scenario, subjects were asked to give their beliefs about how the person described in the scenario would respond. Subjects were also asked to assess the action according to the five MES factors comprised of 12 items, three for moral equity utilitarianism, and relativism, and two each for contractualism and egoism. The responses to each item were collected using a seven-point Likert-type scale. The first item for moral equity for example, had end points "fair/unfair," "just/unjust," and "morally right/not morally right." Item scores were averaged for each factor when the Cronbach's alpha measure of reliability exceeded the .60 recommended by Robinson et al. (1991). When it didn't, through trial and error the item combination with the highest alpha score was used. This was the process used for the moral equity and contractualism factors. For factors in which the alphas did not score above .60 regardless of the item combinations, the authors chose the item they deemed to best represent the factor. For egoism, for example, it was believed that the item "personally beneficial/not personally beneficial" was a superior measure to the item "in the best interest of the audit firm/not in the best interest of the audit firm." Table II reports reliability measures (Cronbach's alphas) for each of the scales used.

The instrument used in the current study was first translated into Chinese by one of the researchers whose mother tongue is Chinese. A second individual whose mother tongue is Chinese, back translated the instrument to English. The original and reversed English translations were compared and

any discrepancies from the original items resulted in the rewording and refining of the Chinese questionnaire. Several iterations of this procedure were carried out until the original and back-translated English questionnaires were identical in meaning.

Questions regarding ethical decisions were asked in the third-person format. This indirect format reduces the bias created when a person presents himself in a socially desirable manner (Nunnally, 1978). Research indicates that social desirability bias can be minimized by using a third-person questioning approach (e.g. Fisher, 1993; Vargas et al., 2004). The Cohen et al. (1996b) MES studies confirmed the presence of social desirability bias and controlled for this bias using this technique.

*Participants*

The participants were Canadian and Chinese fourth year undergraduate accounting students. Since the subjects were students, they have not yet received any workplace training, so it is more likely that differences in ethical perceptions are due to cultural differences. Thorne's (2000) study also indicated no difference in the ethical decision making process of accounting students and accountants suggesting that students are good surrogates for accountants.

Canadian data for this study were collected at a Western Canadian university from January to April 2004, while the Chinese data were collected at a university in the northeast of China, from May to June 2004. In Canada, 71 students provided valid data, which resulted in a usable rate of 64% (total participation of 111). Among the eliminated responses, 14 did not pass a consistency check of reliability, nine did not pass an internal check of validity, and 17 did not provide complete responses.

TABLE II

Reliability measures (Cronbach's Alphas) for each of the MES scales used

	Cases			
	1	2	3	4
Moral equity	.879	.848	.892	.814
Contractualism	.903	.886	.870	.873
Relativism	.689	.743	.820	.732

Utilitarianism and Egoism were measured using one scale.



In China, there were 64 complete and usable responses out of 123, a usable rate of 52%. 17 eliminated responses did not pass the consistency check of reliability, 28 did not pass the internal check of validity and 14 did not totally complete the instrument. Participation in this study was voluntary.

**Results and discussion**

Descriptive information about the respondents is presented in Table III. Respondents were almost evenly divided between males and females (52 and 48%, respectively). Canadian respondents' average age was 23.9, 56% were male and 44% were female. Chinese respondents' average age was 22.6, 52% were male and 48% were female. While Canadian and Mainland Chinese students were significantly

different in age ( $p = .004$ ), working hours per week ( $p = .002$ ), and the number of years of work experience ( $p = .000$ ), these factors were not correlated to ethical reasoning scores (P-scores) for the Canadian and Chinese data (Table IVa and b).

Hypothesis 1 theorized that due to cultural differences, Canadian accounting students are expected to have higher deliberative reasoning than Chinese accounting students. Table V reports the result of an independent samples' *t*-test comparing the P-scores indicating that the deliberative reasoning scores for Canadian accounting students is higher than for Chinese accounting students ( $p = .000$ ). This provides support for hypothesis 1. This result is consistent with the findings of Tsui and Windsor (2001) who found that the cultural differences between Australians and Chinese resulted in Australians having higher moral capacity

TABLE III  
Descriptive information

Items	Mean (S.D.)		<i>p</i> -value (2-tailed test)
	Canada ( <i>n</i> = 71)	China ( <i>n</i> = 64)	
Age	23.88 (3.48)	22.61 (10.31)	.004
Working hours per week	17.50 (17.62)	7.90 (17.67)	.002
Number of years of work experience	2.77 (3.26)	.11 (.31)	.000
Grade point average (GPA)	3.19 (.37)	3.08 (.14)	.085

TABLE IV  
Pearson's correlations among selected factors for (a) Canadian Subjects, (b) Chinese Subjects

	Age	Work	Week	GPA	P-score
<i>(a)</i>					
Age	1				
Number of years of work experience	.777*	1			
Working hours per week	.184	.380**	1		
GPA	.086	.038	-.128	1	
P-score	.122	.118	-.054	-.005	1
<i>(b)</i>					
Age	1				
Number of years of work experience	.231	1			
Working hours per week	.078	.710**	1		
GPA	-.479**	.126	.262*	1	
P-score	-.125	.107	.056	.217	1

TABLE V  
The deliberative reasoning scores of Canadian and Chinese accounting students

	Country	N	Mean	Std. deviation	Std. error mean
P-score	Canadian	71	31.9718	12.90705	1.53179
	Chinese	61	21.8359	11.59196	1.44899

The means are different at  $p = .00$  (one-tailed,  $t = 4.78$ ).

than Chinese. Thus lower power distance, short-term orientation, and individualism, appears to be consistent with higher moral capacity and high deliberative reasoning.

Given that Canadians are expected to have higher deliberative reasoning than Chinese (H1), hypothesis 2 proposed that Canadian accounting students would make more ethical auditing decisions than Chinese accounting students. Subjects who could not decide what action would be taken were treated as having indicated that the unethical decision would be made. Omitting those subjects who were undecided did not affect the results. Table VI reports Chi-square tests, which indicate a difference in the ethical decisions of Canadian and Chinese accounting students in the first three cases, but no difference in the fourth. For Canadians, more subjects made unethical than ethical decisions in two of the four cases. More Chinese subjects made unethical than ethical decisions in all four cases. Table VIIa indicates that there was a significant difference in the number of Canadian subjects that made ethical versus unethical choices in all the cases. For Chinese subjects, in all but the third case, there was a significant difference between those making ethical and unethical choices (Table VIIb). Taken together, the results indicate that in two of the cases, significantly more Canadians made ethical than unethical decisions ( $p < .05$ ) and in three of the four cases more Chinese made unethical than ethical decisions. This provides support for hypothesis 2 and supports the contention of Tsui and Windsor (2001) who suggested that the higher ethical reasoning scores of Australian auditors would be expected to result in their ability to act more ethically than Chinese auditors. These results are also consistent with the comments of et al. (2003) who suggest that there is a high incidence of

unethical behavior and lack of independence in the Chinese auditing profession.

Hypothesis 3 posited that the higher a subject's deliberative reasoning, the more use would be made of post-conventional ethical reasoning. P scores were, therefore, expected to be positively related to the MES factors moral equity, utilitarianism and contractualism. There was some support for this hypothesis as both moral equity and contractualism, but not utilitarianism were found to be positively related to deliberative reasoning (Table VIII).

Hypothesis 4 predicted that, since Canadians are expected to have higher deliberative reasoning, they are also expected to use more post-conventional MES factors than Chinese. The results of the ordinal logistic regressions are shown in Table IX with a summary of the results in Table X. The results support hypothesis 4. Canadian students used more post-conventional stage MES factors in three of the four cases. In only one of the four cases did Chinese subjects use post-conventional MES factors. Canadian subjects displayed a high level of confliction, using both post-conventional and pre-conventional ethical reasoning in three of the four scenarios.

These results provide empirical support for the link between the cognitive moral development stream of research and the MES factor approach. They suggest support for categorizing the MES factors into post-, pre- and conventional factors. High deliberative reasoning appears to indicate the use of the MES factors: moral equity, utilitarianism, and contractualism, low deliberative reasoning score, less use of these factors. The two approaches may thus be viewed as providing complimentary frameworks for understanding the ethical decision making process. Table X suggests for both Canadian and Chinese accounting students, a disturbing use of conventional and pre-conventional ethical reasoning.

TABLE VI  
Chi-Square tests of subjects' responses to the cases by nationality

Nationality	Canadian	Unethical	Ethical	Total
	Chinese	19	52	71
Total		49	12	61
		68	64	132
<i>Chi-square tests</i>	Value	df	Asymp. sig. (2-sided)	Exact sig. (1-sided)
Pearson Chi-square	37.694	1	.000	
Continuity correction	35.580	1	.000	
Likelihood ratio	39.897	1	.000	
Fisher's exact test				.000
Linear-by-linear association	37.408	1	.000	
N of valid cases	132			
Nationality	Canadian	Unethical	Ethical	Total
	Chinese	48	23	71
Total		52	9	61
		100	32	132
<i>Chi-square tests</i>	Value	df	Asymp. sig. (2-sided)	Exact sig. (1-sided)
Pearson chi-square	5.559	1	.018	
Continuity correction	4.640	1	.031	
Likelihood ratio	5.739	1	.017	
Fisher's exact test				.015
Linear-by-linear association	5.517	1	.019	
N of valid cases	132			
<i>Chi-square tests of subjects' responses to the cases by nationality</i>				
Nationality	Canadian	Unethical	Ethical	Total
	Chinese	16	55	71
Total		34	27	61
		50	82	132

TABLE VI  
continued

	Value	df	Asymp. sig. (2-sided)	Exact sig. (2-sided)	Exact sig. (1-sided)
<i>Chi-square tests</i>					
Pearson chi-square	15.372	1	.000		
Continuity correction	13.993	1	.000		
Likelihood ratio	15.625	1	.000		
Fisher's exact test				.000	.000
Linear-by-linear association	15.255	1	.000		
N of valid cases	132				
Case four					
Unethical					
Nationality	Canadian	58	Ethical	71	
	Chinese	50		61	
Total		108		132	
<i>Chi-Square tests</i>					
	Value	df	Asymp. sig. (2-sided)	Exact sig. (2-sided)	Exact sig. (1-sided)
Pearson chi-square	.002	1	.967		
Continuity correction	.000	1	1.000		
Likelihood ratio	.002	1	.967		
Fisher's exact test				1.000	.575
Linear-by-linear association	.002	1	.967		
N of valid cases	132				

TABLE VII

Chi-Square tests for differences in (a) Canadian Subjects responses to the cases, (b) Chinese Subjects responses to the cases

	Case one	Case two	Case three	Case four
<i>(a)</i>				
Chi-square	15.338	8.803	21.423	28.521
Df	1	1	1	1
Asymp. sig.	.000	.003	.000	.000
<i>(b)</i>				
Chi-square	20.903	30.311	.803	23.290
Df	1	1	1	1
Asymp. sig.	.000	.000	.370	.000

While egoism has been found to be lacking as a significant factor in non-auditing MES accounting research, the current study indicates its importance in an auditing context.

The coefficients of the MES factors reported in Table IX (summarized in Table X) were expected to be negative since low (high) scores on the items making up the MES factors indicated ethical (unethical) decisions. It is interesting to note that when the post-conventional MES factors had negative (positive) signs, Canadian and Chinese subjects tended to make ethical (unethical) decisions. This result suggests that subjects were willing to make decisions that they were aware were unethical.

Implications

The findings of the current study suggest areas of focus for university education, hiring, training, and socialization of accounting students and auditors, in order to enhance ethical decision making. The ethical decisions that were made by Canadian and Chinese accounting students in this study were troubling. Table X reports that the majority of Canadian students made ethical decisions in only two of four scenarios, while the majority of Chinese students made unethical decisions in all four scenarios. These decisions were linked to students' use of MES factors. Egoism, the MES factor associated with pre-conventional ethical reasoning, was the most frequently used mode of reasoning by both Canadians and Chinese students. Relativism was also used in two of the four cases by Chinese students. These results suggest that the selection and training of accounting students as auditing recruits should focus on how these recruits make ethical decisions. Decisions should be based on the criteria of moral equity, utilitarianism and contractualism, the modes associated with post-conventional ethical reasoning, rather than egoism and relativism. Students' university education and the socialization process that takes place within audit firms must also emphasize the importance post-conventional ethical reasoning over the conventional and pre-conventional modes of reasoning.

There was an important difference between Canadian and Chinese students that appeared to be attributable to culture differences. The lower ethical

TABLE VIII

Multiple regression of subjects' deliberative reasoning (P scores) on the post-conventional MES factors with gender as a covariate

	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. error			
(Constant)	35.314	2.444		14.452	.000
Moral equity	-1.067	.465	-.113	-2.294	.022
Utility	-.399	.403	-.044	-.991	.322
Contractualism	-.834	.399	-.104	-20.090	.037
Gender	-.420	1.147	-.016	-.366	.714

TABLE IX  
Ordinal logistic regressions of Canadian and Chinese Subjects' decisions on the MES factors with gender as a covariate

	Canadian			Chinese		
	Estimate	df	Sig.	Estimate	df	Sig.
<i>Case one</i>						
<i>Canadians</i>						
Model	-2 Log likelihood	Chi-square	df	Sig.		
Intercept only	110.678	37.251	6	.000		
Final	73.427	Std. error	Wald	df		
	Estimate				95% Confidence interval	
					Lower bound	Upper bound
Moral equity	-.725	.298	5.925	1	.015	-.141
Utilitarianism	.659	.289	5.194	1	.023	1.226
Contractualism	-.360	.225	2.578	1	.108	.080
Relativism	.033	.295	.012	1	.912	.611
Egoism	-.623	.212	8.640	1	.003	-.208
Gender	1.232	.686	3.223	1	.073	2.577
<i>Chinese</i>						
Model	-2 Log likelihood	Chi-square	df	Sig.		
Intercept only	129.411	12.353	6	.055		
Final	117.058	Std. error	Wald	df		
	Estimate				95% Confidence interval	
					Lower bound	Upper bound
Moral equity	-.268	.256	1.098	1	.295	.234
Utilitarianism	.128	.186	.476	1	.490	.492
Contractualism	-.073	.207	.124	1	.724	.332
Relativism	-.043	.224	.036	1	.849	.397
Egoism	-.332	.142	5.496	1	.019	-.054
Gender	-.252	.530	.227	1	.634	.786
<i>Case two</i>						
<i>Canadians</i>						
Model	-2 Log likelihood	Chi-square	df	Sig.		
Intercept only	132.294	24.540	6	.000		
Final	107.754	Std. error	Wald	df		
	Estimate				95% Confidence interval	
					Lower bound	Upper bound
Moral equity	-.231	.289	.638	1	.424	.336
Utilitarianism	.517	.227	5.172	1	.023	.962
Contractualism	-.284	.255	1.234	1	.267	.217

TABLE IX  
continued

Relativism	.691	.314	4.835	1	.028	.075	1.306
Egoism	-.449	.159	7.966	1	.005	-.761	-.137
Gender	.047	.597	.006	1	.937	-1.124	1.218
<i>Chinese</i>							
Model	-2 Log likelihood	Chi-Square	df	Sig.			
Intercept only	121.899		6	.010			
Final	Estimate	Std. error	Wald	df	Sig.	95% Confidence interval	Upper bound
Moral equity	-.342	.246	1.933	1	.164	-.824	.140
Utilitarianism	.164	.206	.633	1	.426	-.240	.567
Contractualism	.263	.256	1.056	1	.304	-.239	.766
Relativism	.079	.210	.143	1	.706	-.332	.491
Egoism	-.504	.197	6.564	1	.010	-.889	-.118
Gender	-1.291	.558	5.354	1	.021	-2.385	-.198
<i>Case three</i>							
<i>Canadians</i>							
Model	-2 Log likelihood	Chi-square	df	Sig.			
Intercept only	100.235		6	.002			
Final	Estimate	Std. error	Wald	df	Sig.	95% Confidence interval	Upper bound
Moral equity	.278	.274	1.025	1	.311	-.260	.815
Utilitarianism	.253	.234	1.172	1	.279	-.205	.712
Contractualism	-.435	.220	3.908	1	.048	-.867	-.004
Relativism	-.504	.328	2.360	1	.124	-1.146	.139
Egoism	-.593	.216	7.563	1	.006	-1.016	-.170
Gender	.321	.654	.241	1	.623	-.960	1.602
<i>Chinese</i>							
Model	-2 Log likelihood	Chi-Square	Df	Sig.			
Intercept only	128.051		6	.001			
Final	Estimate	Std. error	Wald	df	Sig.	95% Confidence interval	Upper bound
Moral equity	.267	.250	1.140	1	.286	-.223	.756
Utilitarianism	.279	.204	1.860	1	.173	-.122	.679

TABLE IX  
continued

Contractualism	-.804	.234	11.798	1	.001	-1.263	-.345
Relativism	-.575	.284	4.109	1	.043	-1.131	-.019
Egoism	-.369	.178	4.325	1	.038	-.717	-.021
Gender	-.470	.546	.740	1	.390	-1.541	.601
<i>Case four</i>							
<i>Canadians</i>							
Model	-2 Log likelihood	Chi-square	df	Sig.			
Intercept only	123.112						
Final	93.679	29.433	6	.000			
	Estimate	Std. error	Wald	df	Sig.	95% Confidence interval	
						Lower bound	Upper bound
Moral equity	1.230	.383	10.291	1	.001	.478	1.981
Utilitarianism	-.277	.281	.973	1	.324	-.828	.273
Contractualism	.088	.210	.176	1	.674	-.323	.499
Relativism	-.497	.373	1.770	1	.183	-1.229	.235
Egoism	.284	.176	2.614	1	.106	-.060	.628
Gender	-.145	.610	.056	1	.813	-1.341	1.051
<i>Chinese</i>							
Model	-2 Log likelihood	Chi-square	df	Sig.			
Intercept only	120.258						
Final	102.952	17.305	6	.008			
	Estimate	Std. error	Wald	df	Sig.	95% Confidence interval	
						Lower bound	Upper bound
Moral equity	.331	.260	1.629	1	.202	-.177	.840
Utilitarianism	-.100	.199	.254	1	.614	-.490	.289
Contractualism	.325	.222	2.146	1	.143	-.110	.759
Relativism	.722	.249	8.427	1	.004	.235	1.209
Egoism	-.087	.155	.317	1	.574	-.391	.216
Gender	-.586	.586	1.002	1	.317	-1.735	.562



TABLE X  
Summary of MES factors used and decisions made in each case by Canadians and Chinese

	Cases			
	1	2	3	4
<i>MES Factors</i>				
Moral equity	Can			Can
Utilitarianism	Can	Can		
Contractualism			Can/China	
Relativism		Can	China	China
Egoism	Can/China	Can/China	Can/China	
<i>Decisions</i>				
Canadians	Ethical	Unethical	Ethical	Unethical
Chinese	Unethical	Unethical	Unethical	Unethical

Case 1: Conflict of interest

Case 2: Auditor independence

Case 3: Client confidentiality

Case 4: Conflict of interest

reasoning of Chinese was attributed to their high power distance, high collectivism, and long-term orientation. This is consistent with the findings of Tsui (1996) and Tsui and Windsor (2001). This resulted in less use of post-conventional ethical reasoning and more unethical decisions by Chinese students. Canadian students, however, were highly conflicted in the use of post- versus pre-conventional reasoning. These results therefore indicate different deficiencies in the ethical decision making of the Canadian and Chinese accounting students that require the attention of university educators, the selection and training of auditing recruits and the auditing profession's socialization process. In order to enhance ethical decision making, both Canadians and Chinese should desist from using egoism and relativism as modes of reasoning. As well, Chinese should be using more post-conventional ethical reasoning. The current study should also be extended to compare the cultural effects of socialization in the auditing profession. How do auditors and accounting students, for example, differ in their ethical decision making across cultures?

The current study extends prior research by being the first to use an auditing-specific context to examine the MES factors that are used in ethical decision making. The results indicate that egoism is the primary mode of ethical reasoning used by

Canadian and Chinese accounting students. This contrasts with previous MES accounting studies which omitted egoism when using general business contexts (Cohen et al. 1996a, b, 2001). This research needs to be extended to examine whether egoism and/or other MES factors play important roles in an auditing context for auditors as well as accounting students of other nationalities.

#### *Limitations and future research*

The current study did not consider the effect of the legal system in each country. Since Canada and China have significantly different legal systems and legal environments, it is hard to tell whether this played a role when respondents evaluated the ethical dilemmas. The study used a convenience sample rather than one that was randomly selected. Both Canadian and Mainland Chinese samples were collected from one university in each country rather than collected across both nations. So, it is possible that the students who responded were not representative of the population in either country. Future research should collect data from across the countries involved in the study. The survey utilized in the current study may not simulate the same pressures that would be experienced in an actual auditing

environment. Future research could minimize this effect by using auditors who have experienced similar situations. Future research should also compare subjects from cultures varying in Hofstede's cultural dimensions to a greater and lesser extent than those tested in the current study to better assess the generalizability of our findings.

## Appendix A

*An example of one of the cases Alice and the ABC company*

Alice is the senior auditor and a CA for a national CA firm that provides auditing, tax, and consulting

services. The firm has developed a package called the ACME Accounting System which is sold to the general public as well as the firm's clients. Alice is the auditor in charge of the fieldwork on the ABC Company Inc. audit. During the course of this audit assignment, Alice is asked to evaluate the quality control of the accounting system which happens to be the ACME system. Before rendering the management letter to ABC management, Alice is told by her boss to modify the negative comments regarding the ACME system.

### Alice and the ABC Company

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Would Alice amend the management letter? (Check one)

Would amend it       Can't decide       Would not amend it

In the process of Alice deciding whether she should amend the management letter, many items need to be considered. Below is a list of some of these items. Please indicate the importance of each of the following considerations:

1. Whether the weaknesses in the ACME system may be easily remedied by compensating controls.

**Importance:**

Great     Much     Some     No

2. Would a good employee defer to her superior's judgment?

**Importance**

Great     Much     Some     No

3. Whether Alice's job may be threatened by her refusal to revise the letter.

**Importance**

\_\_\_ **Great** \_\_\_ **Much** \_\_\_ **Some** \_\_\_ **No**

4. Whether fair deliberation on the client's financial position can predict professional reputation.

**Importance**

\_\_\_ **Great** \_\_\_ **Much** \_\_\_ **Some** \_\_\_ **No**

5. What is best for Alice's firm?

**Importance**

\_\_\_ **Great** \_\_\_ **Much** \_\_\_ **Some** \_\_\_ **No**

6. Whether Alice has a duty to ensure the management letter is accurate.

**Importance**

\_\_\_ **Great** \_\_\_ **Much** \_\_\_ **Some** \_\_\_ **No**

7. What is the potential value of an independent audit in lieu of society's current perspective on an enterprise's net worth?

**Importance**

\_\_\_ **Great** \_\_\_ **Much** \_\_\_ **Some** \_\_\_ **No**

8. How is society best served?

**Importance**

\_\_\_ **Great** \_\_\_ **Much** \_\_\_ **Some** \_\_\_ **No**

9. Whether clients really care about internal control or if all they ever really want is a clean audit opinion.

**Importance**

\_\_\_ **Great** \_\_\_ **Much** \_\_\_ **Some** \_\_\_ **No**

10. Would amending the management letter be consistent with what Alice thinks is right?

**Importance**

\_\_\_ **Great** \_\_\_ **Much** \_\_\_ **Some** \_\_\_ **No**

11. What action would Alice's peers in the audit firm expect her to make?

**Importance**

\_\_\_ **Great** \_\_\_ **Much** \_\_\_ **Some** \_\_\_ **No**

12. What factors are relevant in determining Alice's professional responsibility?

**Importance**

\_\_\_ **Great** \_\_\_ **Much** \_\_\_ **Some** \_\_\_ **No**

From the list above, rank the four items of greatest importance:

\_\_\_ Most Important                      \_\_\_ 3rd Most Important

\_\_\_ 2nd Most Important                  \_\_\_ 4th Most Important

Please give your beliefs about Alice's decision by placing an "x" between each of the opposites that follow.

FAIR	_____	UNFAIR
JUST	_____	UNJUST
MORALLY RIGHT	_____	NOT MORALLY RIGHT
ACCEPTABLE TO MY FAMILY	_____	NOT ACCEPTABLE TO MY FAMILY
CULTURALLY ACCEPTABLE	_____	CULTURALLY UNACCEPTABLE
TRADITIONALLY ACCEPTABLE	_____	TRADITIONALLY UNACCEPTABLE
PRODUCES THE GREATEST UTILITY	_____	PRODUCES THE LEAST UTILITY
MINIMIZES BENEFITS WHILE MAXIMIZES HARM	_____	MAXIMIZES BENEFITS WHILE MINIMIZES HARM
VIOLATES AN UNWRITTEN CONTRACT	_____	DOES NOT VIOLATE AN UNWRITTEN CONTRACT
VIOLATES AN UNSPOKEN PROMISE	_____	DOES NOT VIOLATE AN UNSPOKEN PROMISE
PERSONALLY BENEFICIAL	_____	NOT PERSONALLY BENEFICIAL
IN THE BEST INTEREST OF THE AUDIT FIRM	_____	NOT IN THE BEST INTEREST OF THE AUDIT FIRM
CAUSES GREAT HARM	_____	CAUSES LITTLE HARM

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