



Ethical climate, organizational-professional conflict and organizational commitment

A study of Chinese auditors

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Ethical climate,
OPC, and OC

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Abstract

Purpose – The purpose of this paper is to focus on the effects of the ethical climate in Chinese certified public accounting (CPA) firms on auditors' perceptions of organizational-professional conflict (OPC) and affective organizational commitment (OC). We also test for differences in the perceived ethical climates of local and international CPA firms.

Design/methodology/approach – The study is based on a survey of 167 professional auditors (seniors and managers) employed by local and international CPA firms operating in the People's Republic of China.

Findings – Certain dimensions of the perceived ethical climate are significantly related to OPC, and to affective OC. As anticipated, there was also a strong negative relationship between OPC and OC. There was no clear pattern of differences in the perceived ethical climates in local and international CPA firms. Impression management was highly correlated with OPC, OC, and three of four ethical climate dimensions, suggesting that Chinese auditors bias their reports of these variables in a socially desirable fashion.

Originality/value – To our knowledge, this is the first study to address the relationship between ethical climate and OPC, and the first to examine OPC and OC among auditors in Mainland China. The findings support our contention that the perceived ethical climate is a key determinant of OPC, suggesting that future research on OPC should place more emphasis on organizational characteristics. In addition, the apparent tendency of auditors to bias their reports of OPC, OC, and ethical climate stresses the importance of controlling for social desirability response bias in surveys of professional accountants.

Keywords Auditors, Ethics, China

Paper type Research paper

Introduction

The idea of conflict between organizational and professional values has a long history in both the sociology and business literature. As noted by Covaleski *et al.* (1998, p. 293):

The sociology of professions literature has long questioned whether bureaucratically oriented control practices may be effectively applied to such professionals as doctors, lawyers, and university professors [...] Generally, it has been concluded that because practitioners should



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have internalized the norms and standards of a profession, the imposition of bureaucratic procedures [...] may lead to professional-bureaucratic conflict and dysfunctional behavior [...]

Accounting researchers have also long recognized the potential discord between professional and organizational values, often referred to as organizational-professional conflict (OPC; Aranya *et al.*, 1981; Aranya and Ferris, 1984). However, there have been relatively few empirical studies of OPC among accountants, and most studies have focused on two primary antecedents of this construct: professional and organizational commitment (OC). Early studies assumed that an inherent incompatibility of these two types of commitment is the primary source of OPC (Aranya and Ferris, 1984). However, empirical results have not supported the assumption that organizational and professional commitments are incompatible, and the relationships between these variables and OPC have been weak and inconsistent. Such findings may partially explain the paucity of research on this topic in recent years. However, despite the weakness of research results on the antecedents of OPC, most studies have found it is associated with dysfunctional consequences such as reduced job satisfaction and higher turnover intentions (Shafer *et al.*, 2002; Bamber and Iyer, 2002). In light of such findings, certified public accounting (CPA) firms should be interested in understanding the sources of OPC.

Social and institutional factors also may have contributed to reduced interest in research on OPC among accountants and auditors. For instance, a broad criticism recently leveled against “mainstream” auditing research is that:

[...] it does not explore audit practice *per se*, but rather fabricates such practice, studying around the edges of the “black box” of auditor decision-making or constructing experiments that cannot ever be expected to replicate [...]

The pressures auditors face (Humphrey, 2008, p. 193). Studies of OPC among auditors are motivated by a desire to better understand the organizational context in which auditors work and the effects of organizational pressure to compromise professional ideals. However, the relative lack of “scientific” rigor of field surveys may have reduced interest in such attempts to engage more closely with auditing practice.

Wide recognition of commercialization and self-promotion on the part of accounting firms and professional accountancy bodies over the last two decades (Shafer and Gendron, 2005; Citron, 2003; Sikka and Willmott, 1995; Lee, 1995; Hanlon, 1994; Sikka *et al.*, 1989) is another factor that may have diminished interest in OPC, a concept that implicitly assumes accountants support traditional professional values such as serving the public interest. However, if public accountants have at least some commitment to professional values, the commercialization of accountancy at the firm and professional levels may in fact increase the potential for OPC.

Thus, we suggest that the potential for OPC in CPA firms remains significant, and that a re-conceptualization of its sources is needed. In particular, we argue that organizational characteristics such as the perceived ethical climate in CPA firms will be key determinants of OPC. The ethical climate construct has been studied for over two decades in the organizational behavior and business ethics literature (Victor and Cullen, 1987, 1988; Treviño *et al.*, 1998), and the collective results of many studies indicate that the perceived climate in one’s organization affects the likelihood of unethical behavior and affective outcomes such as OC (Martin and Cullen, 2006).

However, ethical climate has received little attention from accounting researchers[1]. In fact, Shafer (2008) appears to be the first study in the accounting literature to investigate the ethical climate in CPA firms. That study focused primarily on the effects of ethical climate on Chinese auditors' ethical decisions, finding that the perceived climate in one's firm significantly influenced the self-reported likelihood of unethical behavior. The current study extends this research by examining the effects of ethical climate on OPC and OC. We also test for differences in ethical climate in local and international CPA firms. Most studies of ethics in accounting have not addressed the issue of social desirability response bias, which is likely to be present in studies of sensitive issues (Randall and Fernandes, 1991). To address this concern, we examine the relationships among impression management, OPC, OC, and ethical climate perceptions.

The Chinese public accounting profession is in a relatively early stage of development, having been re-established in 1980 after China embarked on its economic reforms (Cooper *et al.*, 2002). A national institute (the Chinese Institute of Certified Public Accountants (CICPA)) and provincial institutes of CPAs have been established under the control and supervision of government finance ministries[2]. Most of the basic ethical requirements and enforcement mechanisms established by the Chinese profession seem similar to those in Western countries. For instance, the ethics code emphasizes that auditors should strive to maintain independence and objectivity and serve the public interest. Practice reviews of CPA firms must be undertaken at least once every five years, and CPAs face suspension or revocation of their license for ethical transgressions[3]. Despite apparent similarities of the public accounting professions in China and Western countries, we feel there are reasons for concern regarding ethics in Chinese accounting firms. As noted by Shafer (2008), it has often been argued that China's transition to a market economy has been accompanied by a precipitous decline in ethics or morality. Accordingly, we feel that ongoing research on the ethical climate in Chinese CPA firms is warranted.

The following section reviews relevant literature and develops the research hypotheses. This is followed by discussions of the methodology and research findings. The paper concludes with a discussion of the implications of the findings and suggestions for further research.

Literature review and hypothesis development

Organizational-professional conflict and organizational commitment

As previously discussed, relatively few empirical studies have addressed the issue of OPC among accountants. Indeed, in a recent review of related literature, Hall *et al.* (2005) identified only seven such studies[4]. These studies have been primarily limited to the North American context, and several are now quite dated. Further, they are characterized by inconsistencies in their theoretical assumptions and results[5]. Early studies such as Aranya and Ferris (1984) essentially defined OPC as the product of conflict between organizational and professional commitments. However, their survey of over 2,000 US and Canadian accountants led them to conclude that "[...] organizational and professional commitments are not necessarily conflicting and [...] their interaction may be responsible for only a small portion of observed OPC" (Aranya and Ferris, 1984, p. 11). Harrell *et al.* (1986) concluded based on a survey of internal auditors that organizational (professional) commitment was positively (negatively)

correlated with OPC. In contrast, McGregor *et al.* (1989) found that OC was negatively correlated with OPC among management accountants. The relationship between professional commitment and OPC was not significant. In a study of government accountants, Meixner and Bline (1989) also found no evidence of a relationship between professional commitment and OPC.

More recent studies have assumed that commitment to professional ideals will be positively related to OPC, and that the relationship between OC and OPC will be negative. However, the results of these studies have also been mixed. Shafer *et al.* (2002) found that two aspects of professionalism, professional dedication, and autonomy demands, had significant positive effects on OPC among management accountants. As hypothesized, a strong negative relationship was found between OPC and OC. Bamber and Iyer (2002) failed to find a significant relationship between professional identification and OPC in a study of Big 5 auditors, although consistent with Shafer *et al.* (2002) they did find a significant negative relationship between organizational identification and OPC.

In light of the inconsistencies in these studies, it seems that an alternative perspective on the antecedents of OPC is needed. We suggest that the primary determinants of OPC should be organizational factors such as the perceived ethical climate. OPC results from pressure to breach professional standards, and thus is a reflection of organizational values or expectations that conflict with professional ideals. Such organizational expectations may be viewed as part of the ethical climate. Variables such as professional commitment should at most mediate the impact of ethical climate on OPC. For instance, if a firm has an “unethical” climate, employees with higher levels of commitment to professional ideals are likely to experience more conflict than employees with lower levels of such commitment. On the other hand, if a firm’s ethical climate is supportive of professional values employees may experience relatively little OPC regardless of their level of professional commitment, resulting in a weak relationship between commitment and conflict. This may explain the mixed results of studies that have assumed professional commitment is a direct antecedent of OPC. It seems more logical to assume that the organizational culture or climate is the originating source of such conflict.

This line of reasoning is consistent with qualitative studies which demonstrate that the organizational culture in accounting firms may create tensions or conflict for individual auditors. For instance, Covaleski *et al.* (1998, p. 294) conclude that accounting firms use techniques of discipline and control “aimed at transforming autonomous professionals into business entrepreneurs” but the ideology of professional autonomy creates resistance to such control. McNair (1991) suggests that public accounting firms promote an attitude of compromise among audit staff through a system of formal norms and informal counter-norms that creates “ethical ambivalence”. Formal norms encourage ethical behavior, while informal counter-norms support unethical behavior such as compromising audit quality in the interest of profitability. Such conflicting norms create tensions or conflict that must be resolved by individual auditors (McNair, 1991). Gibbins and Newton (1994) similarly conclude that public accountants often engage in “defensive noncompliance” in response to pressure from superiors. The collective results of studies such as these clearly suggest that the ethical culture or climate in public accounting firms may create OPC. We now turn our attention to a more detailed examination of the ethical climate construct.

Ethical climate

Victor and Cullen (1987, 1988) developed the concept of an organizational ethical climate, defined as “the prevailing perceptions of typical organizational practices and procedures that have ethical content” (Victor and Cullen, 1988, p. 101). The ethical climate may be viewed as one component of the overall organizational culture or climate (Victor and Cullen, 1987, 1988; Treviño *et al.*, 1998), constructs that have long been recognized to influence individual decision making (Smircich, 1983; Schneider, 1975). Victor and Cullen (1988, 1987) proposed a conceptual typology of climate types based on two dimensions:

- (1) the ethical criteria used in decision making (egoism, benevolence, principle); and
- (2) the *locus* of analysis (individual, local, cosmopolitan).

The ethical criteria are based on three major classes of ethical theory:

- (1) egoism, which focuses on maximizing self-interest;
- (2) utilitarianism, which extends concern or caring to mutual or group interests; and
- (3) deontology which emphasizes moral principles.

The adoption of these criteria assumes that organizations or organizational subgroups may be “prototypically benevolent, principled, or egoistic” (Victor and Cullen, 1988, p. 105). The *locus* of analysis dimension refers to who is considered when contemplating ethical or moral issues, or the limits of consideration when making moral judgments. The *locus* of analysis may be at the individual, local (organizational), or cosmopolitan (social) level. When the two dimensions are combined, they result in a theoretical typology of nine distinct ethical climates, shown in Figure 1.

		<i>Locus of analysis</i>		
		Individual	Local	Cosmopolitan
<i>Ethical criterion</i>	Egoism	Self-interest (1)	Company profit (2)	Efficiency (3)
	Benevolence	Friendship (4)	Team interest (5)	Social responsibility (6)
	Principle	Personal morality (7)	Company rules and procedures (8)	Laws and professional codes (9)

Source: Victor and Cullen (1988)

Figure 1.
Theoretical climate types

This typology clarifies the interaction of the two ethical climate dimensions in an organizational context. For example, in the context of the egoism criterion, the *locus* of analysis specifies the particular “self” whose interests are given priority (Victor and Cullen, 1988, p. 106). Egoism pursued at the individual level (cell 1) will result in a focus on maximizing self-interest. If the *locus* of analysis is at the local or organizational level (cell 2), the pursuit of egoism may dictate an emphasis on maximizing company profit. At the cosmopolitan level (cell 3), consideration will be given to what is in the best interest of the social or economic system as a whole, e.g. economic efficiency.

Similarly, the benevolence criterion may be applied to any of the three loci of analysis. Benevolence or caring at the individual level (cell 4) suggests an emphasis on friendship or interpersonal relations. When applied to the local or organizational level (cell 5), benevolence dictates a concern for the organizational collective (e.g. *esprit de corps*, team interest). At the cosmopolitan level (cell 6), benevolence is extended to constituencies outside the organization. For example, caring for the interests of society as a whole suggests a concern for social responsibility (Victor and Cullen, 1988, p. 107).

At the principled level, “the loci of analysis define sources of principles expected to be used in the organization” (Victor and Cullen, 1988, p. 107). At the individual level (cell 7), employees tend to follow their own moral or ethical principles. At the local level (cell 8), principles are established within the organization (e.g. company rules and procedures, codes of ethics) that employees are expected to follow. At the cosmopolitan level (cell 9), the source of principles lies outside the organization (e.g. legal systems and professional codes of conduct). Victor and Cullen (1988, p. 107) use the examples of lawyers and CPAs to illustrate the principle/cosmopolitan cell – professionals who are expected to adhere to moral or ethical principles established outside their organization.

Victor and Cullen (1988, p. 105) suggest that ethical climate influences “what ethical conflicts are considered, the process by which such conflicts are resolved, and the characteristics of their resolution”. This contention is consistent with models of ethical decision making in organizations, which recognize contextual influences such as organizational culture (Hunt and Vitell, 1991, 1986; Treviño, 1986; Ferrell and Gresham, 1985). Victor and Cullen (1988) also recognize that, because the ethical climate represents prevailing group norms, conflict between such norms and individuals’ values may result in adaptive reactions such as stress and whistle-blowing. In professional environments such as CPA firms, conflict between the prevailing norms of the group and individuals’ values may result in OPC.

In an auditing context, a perceived emphasis on the pursuit of self-interest (egoistic/individual) or firm interests (egoistic/local) is likely to result in higher levels of conflict between organizational expectations and professional values[6]. In contrast, a benevolent/cosmopolitan climate should be negatively associated with OPC, due to its emphasis on serving the public interest[7]. We also suggest that principle/cosmopolitan and principle/local climates should be negatively associated with OPC. This is most obvious in the case of the principle/cosmopolitan climate, with its focus on adhering to professional standards. If formal standards are adopted at the firm level, they generally should meet the minimum requirements of the profession. Thus, more emphasis on following local standards should also be associated with lower levels of OPC. In contrast, we suggest that a principle/individual climate will be positively associated with OPC. This climate is based on perceptions that employees follow their own ethical principles,

rather than firm or professional standards, which in a public accounting context would seem to be questionable behavior. This discussion suggests the following hypothesis:

- H1.* Egoistic/individual (cell 1), egoistic/local (cell 2), and principle/individual (cell 7) ethical climates will be positively associated with OPC in CPA firms. Benevolent/cosmopolitan (cell 6), principle/local (cell 8), and principle/cosmopolitan (cell 9) climates will be negatively associated with OPC.

Although previous studies have not examined the relationship between ethical climate and OPC, studies in the management and business ethics literature have recognized the potential influence of ethical climate on OC. Treviño *et al.* (1998) suggest that, in general, OC should be lower when the ethical climate is perceived as egoistic and higher when the climate is perceived as benevolent or principled. This suggestion is based on the observation that employees will feel more emotionally attached to an organization that supports values such as caring for employees and the broader community and adherence to ethical principles. Treviño *et al.* (1998) found that egoistic/individual climates were negatively correlated with OC, while benevolent/local and benevolent/cosmopolitan climates were positively correlated with commitment. However, significant results were not obtained for the effects of principled climates.

Cullen *et al.* (2003) also hypothesized that egoistic (benevolent) climates will result in decreased (increased) OC. They suggest that principled climates will be associated with OC only in the case of professional employees, since professionals are likely to be influenced by the perceived extent to which the organization is supportive of the ethical principles of their profession. A comparison of results from non-professional employees of a telephone company and professional employees of four public accounting firms supported the hypotheses: in both samples egoistic (benevolent) climates negatively (positively) influenced commitment to the organization, but only in the case of the accounting firms did a principled climate positively influence commitment.

Following the research cited above, we propose that in general auditors will feel less attached to accounting firms in which the environment is relatively egoistic, and more attached to firms that place more emphasis on benevolence and principle. Employees who value an ethical or moral workplace are likely to be alienated to some extent by climates that emphasize the pursuit of self-interest (egoistic/individual) or firm interests (egoistic/local). As argued previously, due to the heavy emphasis in the auditing profession on serving the public interest, a benevolent/cosmopolitan climate should be positively associated with OC. Benevolent/individual and benevolent/local climates should also be positively associated with affective commitment due to their emphasis on personal relations and caring for employees. Following our previous discussion regarding the effects of principled climates on OPC, we argue that a principle/individual climate in public accounting is likely to be perceived negatively and thus be associated with lower levels of OC. On the other hand, principle/local and principle/cosmopolitan climates should be perceived as supportive of professional standards and thus should be associated with higher levels of commitment. This discussion leads to the following hypothesis:

- H2.* Egoistic/individual (cell 1), egoistic/local (cell 2), and principle/individual (cell 7) ethical climates in CPA firms will be negatively associated with affective organizational commitment. Benevolent (cells 4, 5, and 6),

principle/local (cell 8), and principle/cosmopolitan (cell 9) climates will be positively associated with affective organizational commitment.

As discussed earlier, several previous studies in accounting have assumed that OC is an antecedent of OPC; however, the findings of these studies have been inconsistent. Other studies have concluded that OC is a consequence, rather than an antecedent of OPC. For example, Shafer *et al.* (2002) found that higher levels of OPC appear to lead to lower levels of affective commitment. These results are consistent with research on “person-organization fit” in the organizational behavior literature, which has generally found that OC increases when employees feel there is a close fit between their values and expectations and those of their employer (Finegan, 2000; Kristof, 1996; O’Reilly *et al.*, 1991; Chatman, 1991, 1989; Posner *et al.*, 1985). Based on this logic, we argue that higher levels of OPC will lead to lower levels of affective OC, as indicated in the following hypothesis:

H3. OPC will be negatively associated with affective organizational commitment.

A summary of the relationships hypothesized thus far is shown in Figure 2. As the figure shows, we are hypothesizing that the ethical climate in CPA firms will directly affect both OPC (*H1*) and affective OC (*H2*), and that OPC will also directly affect commitment (*H3*). The relationships illustrated in Figure 2 suggest that OPC will mediate the relationship between ethical climate and affective OC. As discussed by Baron and Kenny (1986), a mediator variable may be viewed as a mechanism through which an independent variable affects a dependent variable. The presence of mediation effects in this context is consistent with our previous suggestion that ethical climate will affect OPC, which will in turn affect OC. Thus, OPC should serve as a mechanism through which the organizational ethical climate may influence affective OC, as reflected in the following hypothesis:

H4. OPC will mediate the relationship between ethical climate and affective organizational commitment.

We were also interested in the effects of CPA firm type (local vs international) on organizational ethical climate. As previously mentioned, concerns have frequently been raised regarding the state of ethics or morality in Chinese society (Wang, 2003)

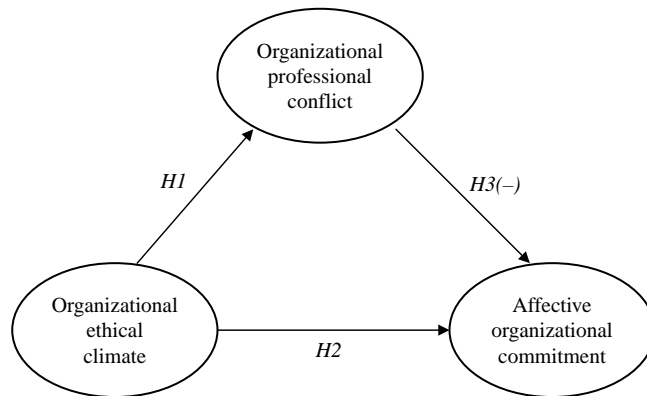


Figure 2.
Hypothesized relationships among ethical climate, OPC and OC

and the business community (Tam, 2002; Snell and Tseng, 2002; Hanafin, 2002; Koehn, 2001). Indeed, accounting researchers have expressed doubts regarding Chinese CPA firms' ability to uphold professional standards in the current business environment (Cooper *et al.*, 2002; Tang, 2000, 1999; Hao, 1999). Because organizational ethical climates reflect prevailing social norms (Victor and Cullen, 1988), it seems plausible that local firms will be more strongly influenced by the norms or expectations in the local business community. In contrast, international firms should attempt to maintain comparable standards of practice worldwide. Following a similar line of reasoning, Shafer (2008) hypothesized that the ethical climate in international CPA firms in China would be more supportive of professional values; however, the findings did not support this hypothesis[8]. These results raise doubts regarding the association between CPA firm type and perceived ethical climate. Nevertheless, we feel this issue merits further consideration, and accordingly pose the following research question:

RQ1. Will significant differences exist in the organizational ethical climates in local Chinese accounting firms and international firms operating in China?

Research method

Instrument

The data reported in this study are part of a larger survey; however, the findings reported herein have not been reported elsewhere. For purposes of the current study, participants completed:

- the Ethical Climate Questionnaire[9] (Cullen *et al.*, 1993);
- the three-item OPC Scale adapted by Shafer *et al.* (2002) from the original Aranya and Ferris (1984) Instrument;
- seven items from the Meyer and Allen (1984) OC Scale designed to measure affective commitment[10];
- the Impression Management Scale (Paulhus, 1991); and
- a Demographic Questionnaire.

The order of the questions included in each scale was randomized. The scale items are illustrated in the Appendix. All of these scales have been used in previous studies, some extensively so, and all have generally been found to possess acceptable levels of reliability and validity.

Responses to the ethical climate instrument were provided on a six-point scale anchored on "completely false" (1) and "completely true" (6), adopted from the original instrument. Responses to the OPC and OC instruments were provided on a similar six-point scale anchored on "completely disagree" (1) and "completely agree" (6). The original seven-point scale for impression management (anchored on "not true"[1] and "very true"[7]) was retained.

The impression management scale was used to control for the potential effects of social desirability response bias, which is often present in studies of sensitive issues such as ethical judgments or perceptions (Randall and Fernandes, 1991; Paulhus, 1991, 1984). This scale has been widely used in studies of sensitive issues in the social sciences (Paulhus, 1991). The scale is comprised of 20 generic statements (see the Appendix) designed to measure individuals' propensity to deliberately manage or

manipulate their reported attitudes or behavior. Individuals who provide extreme responses to this scale (responses of six or seven) are assumed to be somewhat disingenuous, and a single score is computed for each participant by tallying the number of such extreme responses.

The instruments were translated from English to Chinese using back-translation. First, two independent translations were prepared, one by a professional translation service and one by a graduate accounting student whose native language is Chinese. These two Chinese translations were then compared by a graduate translation student whose is also a native Chinese speaker, and all discrepancies were resolved to the mutual satisfaction of the translators. Another graduate translation student then back-translated the Chinese version into English, and all differences between the original and back-translated English versions were again resolved to the mutual satisfaction of the translators. The Chinese version of the instrument was then reviewed by three partners with public accounting firms in the PRC, and pre-tested with approximately 35 staff members of PRC public accounting firms. Minor adjustments to the instrument to improve clarity were made based on feedback from the partner reviews and pre-test.

Participants

The instrument was distributed during summer 2006 to audit seniors and managers through contacts at several local and international CPA firms operating in Shenzhen, Beijing, and Shanghai. Participation in the survey was voluntary. The survey materials were accompanied by a cover letter assuring participants that individual responses would be treated as strictly confidential, that the researchers had no way of identifying individual participants, and that the data would only be analyzed in the aggregate and reported for academic research purposes. Respondents were instructed to seal the completed instrument in an enclosed envelope and return it to an administrative staff person for collection by the researchers.

Table I provides a summary of demographic information for the survey participants. Approximately, 300 instruments were distributed, and a total of 167 usable responses were received, providing a response rate of approximately 55 percent. Participants were divided into approximately equal-sized groups of early and late respondents, and a comparison of demographic information and survey responses for the two groups revealed no statistically significant differences. Although the response rate appears reasonable for survey research, detailed demographic information for the pool of potential respondents was not gathered; thus, the inability to perform further tests for nonresponse bias should be recognized as a limitation of the study. A total of 80 participants were employed by local Chinese CPA firms, defined as firms that have no operations outside the PRC. Eighty-seven participants were employed by international CPA firms with offices in China. Respondents included 92 audit seniors or "in-charge" auditors, and 75 audit managers.

Participants' mean age was 37, and the mean level of professional experience was nine years. The representative participant devoted 73 percent of their time to auditing, with the remainder split between taxation, consulting, and other (e.g. administrative) functions. A majority (59 percent) of respondents was male, and most possessed either a bachelor's (67 percent) or master's (23 percent) degree. Eighty-four percent were CPAs.

	Senior	Manager	Total
Local CPA firms	38	42	80
International CPA firms	54	33	87
Total	92	75	167
Mean age	37.1 (9.0)		
Mean professional experience	9.0 (5.4)		
<i>Percentage of time spent on</i>			
Auditing	73%		
Taxation	11		
Consulting	9		
Other	7		
	100%		
<i>Gender</i>			
Male	59%		
Female	41%		
<i>Degree</i>			
Bachelors	67%		
Masters	23		
Other	10		
	100%		

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Table I.
Demographic summary

Note: Numbers in parentheses are standard deviations

Findings

Preliminary analysis

Exploratory principal components factor analyses were conducted for the OPC and OC scales. Both analyses revealed that all items in each scale loaded on a single factor. The coefficient alpha for the OPC (OC) scale was 0.74 (0.79), indicating acceptable internal reliability. Scales were constructed for OPC and OC by taking the mean of the items included in each measure. Exploratory principal components factor analysis was also performed on the 36 items from the ethical climate scale. This analysis revealed four interpretable factors with eigenvalues in excess of one, corresponding with the egoistic/individual, egoistic/local, benevolent/cosmopolitan, and principle/cosmopolitan climates[11]. Scales for each of these factors were constructed by taking the mean of the related items. The coefficient alpha statistics for these four scales appeared to be acceptable, ranging from 0.69 to 0.76.

Correlation and univariate ANOVA analyses were used to test for associations between demographic variables and the various scale measures. These analyses revealed that, with the exceptions of firm type and position, demographic factors in general had little effect on the variables of interest[12]. Firm type had a significant association with the egoistic/individual and benevolent/cosmopolitan climates. As illustrated in Table II Panel A, local firm auditors perceived higher levels of both these climate types, which seem somewhat incompatible[13]. Thus, in answer to *RQ1*, we did not find a consistent pattern of differences in the perceived ethical climates of local and international firms[14]. Position had a highly significant effect (in both cases, $p = 0.004$) on two of the measures: perceptions of the egoistic/individual climate and OPC. As shown in Panel B of Table II, relative to audit seniors, managers perceived

Panel A: responses by firm type^{a,b}

	Local	Intl.	Pooled
Egoistic/individual climate	3.82 (0.99)	3.49 (1.0)	3.65* (1.0)
Egoistic/local climate	3.59 (0.73)	3.55 (0.66)	3.57 (0.69)
Benevolent/cosmopolitan climate	4.29 (0.72)	3.96 (0.80)	4.12** (0.78)
Principle/cosmopolitan climate	4.89 (0.73)	4.75 (0.90)	4.82 (0.83)
OPC	3.34 (1.1)	3.48 (1.1)	3.42 (1.1)
OC	3.98 (0.82)	3.96 (1.0)	3.97 (0.92)

Panel B: responses by position

	Senior	Mgr.	Pooled
Egoistic/individual climate	3.44 (1.1)	3.90 (0.90)	3.65** (1.0)
Egoistic/local climate	3.53 (0.67)	3.62 (0.72)	3.57 (0.69)
Benevolent/cosmopolitan climate	4.20 (0.72)	4.03 (0.84)	4.12 (0.78)
Principle/cosmopolitan climate	4.88 (0.75)	4.74 (0.91)	4.82 (0.83)
OPC	3.20 (1.1)	3.68 (1.0)	3.42** (1.1)
OC	4.07 (0.95)	3.84 (0.86)	3.96 (0.92)

Table II.
Mean responses

Notes: Mean difference is significant at *0.05 level and **0.01 level or smaller; numbers in parentheses are standard deviations; all variables were measured on six-point scales

higher levels of the egoistic/individual climate and higher levels of OPC. Managers also possessed lower levels of OC, but the difference in this case was not significant.

The results of correlation analyses for the continuous measures are summarized in Table III. Consistent with *H1*, the correlations between OPC and the two egoistic climates were highly significant and positive[15]. Also as anticipated, the correlations between OPC and the benevolent/cosmopolitan and principle/cosmopolitan climates were highly significant and negative. Three of the correlations predicted in *H2* were also observed: the significant negative correlation between the egoistic/individual climate and OC, as well as the significant positive relations between OC and both the benevolent/cosmopolitan and principle/cosmopolitan climates. The only exception to *H2* was the lack of a significant negative correlation between OC and the egoistic/local climate. As predicted by *H3*, a highly significant negative correlation was observed between OPC and OC.

The impression management measure was highly correlated with most of the variables. The correlations in Table III suggest that participants biased their reports of OPC downward, and their reports of affective commitment upward. The negative

	OPC	OC	EI	EL	BC	PC	IM
OPC	-						
OC	-0.410 (0.000)	-					
EI	0.495 (0.000)	-0.494 (0.000)	-				
EL	0.252 (0.001)	-0.103 (0.183)	0.243 (0.002)	-			
BC	-0.287 (0.000)	0.509 (0.000)	-0.232 (0.003)	0.190 (0.014)	-		
PC	-0.310 (0.000)	0.502 (0.000)	-0.193 (0.012)	0.110 (0.158)	0.527 (0.000)	-	
IM	-0.391 (0.000)	0.293 (0.000)	-0.270 (0.000)	-0.139 (0.073)	0.337 (0.000)	0.334 (0.000)	-

Table III.
Correlation coefficients

Notes: OPC – Organizational-professional conflict; OC – Organizational commitment; EI – Egoistic/individual climate; EL – Egoistic/local climate; BC – Benevolent/cosmopolitan climate; PC – Principle/cosmopolitan climate; IM – Impression management

(positive) correlations between impression management and the egoistic (cosmopolitan) climate types also indicates that reports of the ethical climate in CPA firms may be biased to portray the environment as more “ethical”. To control for the effects of social desirability response bias, the impression management variable was included in all regression models.

Regression models

The hypotheses were tested using multiple regression models. *H1* was tested by regressing OPC on the four ethical climate variables, impression management, CPA firm type, and position [16,17]. As reported in Table IV Panel A, the results indicate that the two egoistic climate types had significant positive effects on OPC.

	Standard beta	<i>t</i> -statistic	<i>p</i> -value
<i>Panel A: effects of ethical climate on OPC</i>			
Independent variables			
Egoistic/individual climate	0.349	4.87	0.000
Egoistic/local climate	0.168	2.47	0.015
Benevolent/cosmopolitan climate	-0.069	-0.86	0.390
Principle/cosmopolitan climate	-0.171	-2.37	0.019
Impression management	-0.175	-2.41	0.017
CPA firm type	0.073	1.07	0.288
Position	0.115	1.77	0.078
Model <i>F</i> -value	13.9		
Model significance	0.000		
Model <i>R</i> ²	0.380		
<i>Panel B: effects of ethical climate on affective OC</i>			
Independent variables			
Egoistic/individual climate	-0.345	-5.23	0.000
Egoistic/local climate	-0.110	-1.77	0.079
Benevolent/cosmopolitan climate	0.301	4.06	0.000
Principle/cosmopolitan climate	0.289	4.10	0.000
Impression management	-0.007	-0.10	0.920
CPA firm type	0.020	0.32	0.752
Position	0.021	0.36	0.722
Model <i>F</i> -value	20.5		
Model significance	0.000		
Model <i>R</i> ²	0.475		
<i>Panel C: effects of ethical climate and OPC on affective OC</i>			
Independent variables			
Egoistic/individual climate	-0.320	-4.53	0.000
Egoistic/local climate	-0.098	-1.55	0.124
Benevolent/cosmopolitan climate	0.296	3.98	0.000
Principle/cosmopolitan climate	0.278	3.91	0.000
Impression management	-0.019	-0.28	0.777
CPA firm type	0.025	0.40	0.692
Position	0.029	0.49	0.625
OPC	-0.072	-0.98	0.328
Model <i>F</i> -value	18.1		
Model significance	0.000		
Model <i>R</i> ²	0.478		

Table IV.
Regression models for
OPC and OC

The principle/cosmopolitan climate also had a significant negative effect on OPC, as anticipated. The only exception to *H1* was that the effect of the benevolent/cosmopolitan climate was not significant. The only other variable that was significant in this model was impression management, which had a significant negative effect on reported OPC. The model was highly significant, and explained almost 40 percent of the variation in OPC.

To test *H2*, OC was regressed on the ethical climate factors, impression management, employment and position. The results of this model, presented in Panel B of Table IV, indicate that three of the four ethical climate variables had significant impacts on affective commitment, and one climate type had a marginally significant impact. The benevolent/cosmopolitan and principle/cosmopolitan climates both had highly significant positive effects on OC, as expected. The egoistic/individual climate had a highly significant negative effect on commitment, while the effect of the egoistic/local climate was also marginally significant and negative. The model was again highly significant, and explained almost 50 percent of the variation in affective commitment.

The results presented thus far indicate that the organizational ethical climate has highly significant direct effects on OPC (*H1*) and OC (*H2*), and that there is a strong negative correlation between OPC and OC (*H3*). To test *H4* we followed the procedures recommended by Baron and Kenny (1986). Given that the ethical climate factors had significant direct effects on both OPC and OC in separate regression models, mediation would be indicated if, in a regression of OC on both ethical climate and OPC, the OPC variable remained significant and the climate variables decreased in significance. The results of this test, reported in Panel C of Table IV, indicate that OPC is not a significant mediator of the relationship between ethical climate factors and OC. When the OPC variable was entered into the regression of OC on ethical climate, its effect did not approach significance, and the only appreciable change in results was that the egoistic/local climate was no longer significant.

Discussion

The findings of this study indicate that the perceived ethical climate in CPA firms has significant effects on both OPC and OC. Multiple regression results for the effects of ethical climate on OPC indicated that the egoistic/individual, egoistic/local, and principle/cosmopolitan climates significantly affect perceived conflict, and the model explained approximately 40 percent of the variation in OPC. A multiple regression model for the effects of ethical climate on affective OC also indicated that three of the four climate types (egoistic/individual, benevolent/cosmopolitan, and principle/cosmopolitan) had highly significant effects in the predicted directions, and the model explained almost 50 percent of the observed variation in commitment. Neither firm type nor position had a significant effect on OPC or OC. Consistent with our hypothesis, OPC exhibited a highly significant negative correlation with affective OC. However, OPC did not mediate the relationship between ethical climate and OC.

Correlation analyses indicated that the impression management variable was highly correlated with several of our measures, including OPC, OC, and three of the four ethical climate variables. The significant negative (positive) correlation between impression management and OPC (OC) suggests that participants biased their reports of OPC (OC) downward (upward). The finding for OPC does not seem surprising,

because auditors who have been socialized to uphold professional standards should view the presence of such conflict as a negative reflection on their firm. The apparent tendency to exaggerate one's affective OC also does not seem surprising since commitment to one's employer should generally be viewed as socially desirable. The negative (positive) correlations between impression management and the egoistic (benevolent and principled) climates suggest that auditors' who are prone to impression management also attempt to portray the ethical climate in their firm in a positive light. Prior accounting studies have not recognized the potential effects of social desirability bias on self-reports of OPC or OC, but our results suggest that future studies of these variables should control for impression management.

A very limited number of studies have examined ethical climate in CPA firms; thus, there are many opportunities for further research in this area. The current research could be extended to examine the potential interactive effects of auditors' professional commitment or professionalism and the perceived ethical climate on affective outcomes such as OPC and OC. We previously suggested that individual differences in variables such as professional commitment should interact with ethical climate perceptions to affect outcomes such as perceived OPC, but this potential interaction was not addressed in the current paper.

Martin and Cullen (2006) discuss three general classes of antecedents of organizational ethical climates: the external context, organizational form, and strategic and managerial orientations. However, Martin and Cullen note that research on the antecedents of ethical climate is sparse and fragmented. With respect to the external or institutional context, future studies of accounting firms could test for potential differences in ethical climates across countries and cultures. Parboteeah *et al.* (2005) investigated differences in the ethical climates of CPA firms in the USA and Japan (finding limited support for the hypothesized differences), but this study pooled responses from all professional employees within the firms. Future studies could make more valid comparisons by focusing on cross-cultural differences in ethical climate perceptions for specific functional areas such as auditing, taxation, and consulting. Regarding the effects of organizational form, studies could compare professional accountants' perceptions of the ethical climate across different types of organizations, e.g. public accounting firms, private industry, government, and nonprofit organizations. Researchers could also examine the effects of a variety of managerial orientations or characteristics on the perceived ethical climate in their organizations. For instance, Schminke *et al.* (2005) found that under certain conditions the cognitive moral development of organizational leaders affects the ethical climate in their organization. Similar research in a public accounting context could identify the characteristics of leaders who may have a positive influence on the ethical climate or culture in CPA firms.

Studies could also further examine the potential consequences of perceived organizational ethical climates. Martin and Cullen (2006) note that previous studies have examined the effects of ethical climates on OC, job satisfaction, general psychological well-being, and various dysfunctional behaviors. One of the primary opportunities for further research in accounting is in the area of "dysfunctional behaviors" which includes making or complying with unethical decisions. In general, it is usually suggested that benevolent and principled climates will foster more ethical behavior, while egoistic climates are likely to encourage employees to compromise

their own ethical or moral principles (Martin and Cullen, 2006; Victor and Cullen, 1987, 1988). The findings of Shafer (2008) were generally consistent with this line of reasoning, but no other study has investigated the effects of ethical climate on dysfunctional behavior by professional accountants. Future studies could extend this research by examining the link between ethical climate and dysfunctional behavior in different organizational contexts and cultures.

Future research could also investigate in more detail the ethical climate in specific CPA firms. While the current study surveyed auditors from several firms, studies that focus on one or a few accounting firms could provide greater insight into the characteristics and influence of the ethical climate. For instance, studies could compare the ethical climate in auditing, taxation, and consulting within the same firm, allowing for comparisons across functional specializations while holding the overall firm culture constant. Longitudinal studies of individual firms could also provide important insights into changes in the ethical climate over time. For example, it has often been suggested that accounting firms have become increasingly focused on commercialism over the last few decades (Zeff, 2003a, b; Wyatt, 2004; Sikka and Willmott, 1995; Lee, 1995; Hanlon, 1994; Sikka *et al.*, 1989), and efforts have been made in recent years to counteract this apparent trend (passage of the Sarbanes-Oxley legislation in the USA). Longitudinal studies of major firms would be one approach to assessing long-term trends in the ethical climate or culture in public accounting, and could provide evidence on the effectiveness of regulatory interventions designed to discourage commercialism in the accounting profession.

Notes

1. Most previous research on ethical issues in accounting has focused primarily on individual, rather than organizational, factors. This is perhaps best illustrated by the prevalence of studies of individual differences in cognitive moral development, both in Western (Bernardi and Arnold, 2004, 1997; Sweeney and Roberts, 1997; Windsor and Ashkanasy, 1995; Ponemon, 1992a, b) and Chinese (Gul *et al.*, 2003; Tsui and Windsor, 2001; Tsui and Gul, 1996) contexts.
2. Our discussion of the legal and ethical requirements for CPAs in China is based on a reading of translated versions of the Law of the People's Republic of China on Certified Public Accountants, the code of ethics of the CICPA, and other information obtained from the CICPA web site (www.CICPA.org.cn).
3. The education requirements to become a CPA in China are significantly less stringent than in most Western countries, with only two years of college required. However, our informal conversations with Chinese CPAs suggest that the vast majority of CPA candidates have at least the equivalent of a four-year degree. This contention is consistent with our sample data discussed later. The continuing education requirements in China are also similar to those in the USA, with a minimum requirement of 80 hours every two years, including four hours of ethics training.
4. The primary focus of the Hall *et al.* (2005) review paper was on accountants' professional commitment. However, as explained herein, the literature on accountants' professional commitment, organizational commitment, and OPC are closely related.
5. The discussion in this section focuses on the relationships among organizational commitment, professional commitment, and OPC because these three variables are common to most studies of OPC. The studies cited also examine other antecedents and consequences of OPC. Commonly analyzed consequences of OPC include job satisfaction

and turnover intentions (Aranya and Ferris, 1984; McGregor *et al.*, 1989; Shafer *et al.*, 2002), and most studies have found that OPC is negatively (positively) correlated with satisfaction (turnover intentions). Other antecedent variables include demographic characteristics such as supervisory status, professional experience, and professional memberships. The current study does not develop hypotheses regarding the effects of demographic variables on OPC, but their effects are tested and controlled for.

6. Our discussion of “professional values” assumes that auditors to some extent support the idealized values of classic professional discourse, such as maintaining high standards of ethics and serving the public interest. A lack of commitment to such values should weaken the observed relationships between ethical climate, OPC, and OC.
7. The effects of benevolent/individual and benevolent/local climates on OPC are less obvious. For example, a CPA firm could be perceived as caring for its employees as individuals, but at the same time willing to compromise professional standards at the behest of clients. In this case, employees could be emotionally attached to the organization but also experience OPC.
8. Although Shafer (2008) failed to find a significant relationship between firm type and perceived ethical climate, that study did find that auditors employed by local CPA firms judged aggressive actions as more ethical and reported a higher likelihood of engaging in similar actions.
9. We altered the wording of several items in the Ethical Climate Questionnaire due to unique characteristics of the public accounting environment. In particular, some of the original benevolent/cosmopolitan climate measures referred to “the customer’s and the public interest”. Since, it is well known that in auditing basic conflicts can arise between the customer’s (client’s) interest and the public interest, these items were modified to say “the public interest”.
10. Researchers in the management and business ethics literature (Treviño *et al.*, 1998) argue that the organizational ethical climate will affect employees’ emotional attachment to the organization. Accordingly, we focused on the measurement of affective organizational commitment, which is a measure of emotional attachment.
11. The Victor and Cullen typology is a model of theoretical climate types, and not all climates can be expected to emerge in all organizations (Victor and Cullen, 1987, 1988). The egoistic/individual factor included only three of the four related items, because the reverse-scored item “There is no room for one’s own personal morals or ethics in this organization” did not load significantly on this factor.
12. Gender had a marginally significant ($p = 0.054$) effect on perceptions of the principle/cosmopolitan climate, with the mean perception of females being slightly higher than for males. The other demographic variables, including age, experience, percentage of time spent on auditing, and degree type had no significant associations with ethical climate, OPC, or OC.
13. This finding appears consistent with the qualitative studies previously discussed, which demonstrate that significant tensions and conflict may exist in public accounting firms. For instance, adopting McNair (1991) terminology, employees may feel that the firm’s formal norms emphasize serving the public interest (benevolent/cosmopolitan climate), but at the same time may feel pressure to comply with informal counter-norms that emphasize pursuing self-interest (egoistic/individual climate).
14. It would be interesting to compare ethical climate perceptions of auditors in Chinese and Western cultures, but apparently no data are available for direct comparisons. Cullen *et al.* (2003) and Parboteeah *et al.* (2005) appear to be the only studies that have reported mean responses to the ethical climate questionnaire for accounting firms in Western cultures. Both these studies included US accounting firms, but both also pooled responses across

specializations (auditing, tax, and consulting). Cullen *et al.* (2003) reported mean responses of 2.62, 2.29, and 4.18, respectively, for the egoistic/individual, egoistic/local, and principle/cosmopolitan climates. The mean responses reported by Parboteeah *et al.* (2005) were 2.81, 3.85, and 3.78 for the egoistic/individual, benevolent/ cosmopolitan, and principle/cosmopolitan climates, respectively. Thus, our participants assessed each of the four climate types higher than US respondents. However, because significant differences may exist across functional specializations in accounting firms, these comparisons should be interpreted with caution.

15. Owing to the failure to obtain reliable factors for all of the ethical climate types, some of the detailed propositions included in the hypotheses (e.g. the relationship between a principle/individual climate and OPC) are not tested herein.
16. In the models presented in this section, impression management, firm type and position are included as control variables. Because several of the independent variables were correlated, we examined the variance inflation factors for all models reported. Unless otherwise noted, none of the variance inflation factors exceeded 2, which indicates that the coefficients were not significantly biased by multicollinearity. None of the substantive findings relating to the effects of the ethical climate variables differ if the control variables are omitted. In the regression models for organizational commitment, experience and organizational tenure were included as alternatives for the position variable. Although organizational tenure is often positively correlated with OC (Mathieu and Zajac, 1990), in our sample there was no significant relationship. In fact, as previously noted, audit managers in our sample had slightly lower levels of organizational commitment.
17. Because several prior studies have assumed that organizational commitment is an antecedent of OPC, we also tested an alternative version of this regression model that included OC as an independent variable, the details of which are not reported herein. The effects of organizational commitment on OPC did not approach significance in the model, suggesting that organizational commitment is not a significant antecedent of OPC for our participants.

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Further reading

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Appendix

Scale items

Ethical climate.

- (1) In this organization, people are mostly out for themselves (EI).
- (2) The major responsibility for people in this organization is to consider efficiency first (EC).
- (3) In this organization, people are expected to follow their own personal and moral beliefs (PI).
- (4) People are expected to do anything to further the organization's interests (EL).
- (5) In this organization, people look out for each other's good (BI).
- (6) There is no room for one's own personal morals or ethics in this organization* (EI).
- (7) It is very important to follow strictly the organization's rules and procedures here (PL).
- (8) Work is considered sub-standard only when it hurts the organization's interests (EL).
- (9) Each person in this organization decides for himself what is right and wrong (PI).
- (10) In this organization, people protect their own interest above other considerations (EI).
- (11) The most important consideration in this organization is each person's sense of right and wrong (PI).
- (12) The most important concern is the good of all the people in the organization (BL).
- (13) The first consideration is whether a decision violates any law (PC).
- (14) People are expected to comply with the law and professional standards over and above other considerations (PC).
- (15) Everyone is expected to stick by organizational rules and procedures (PL).
- (16) In this organization, our major concern is always what is best for the other person (BI).
- (17) People are concerned with the organization's interests – to the exclusion of all else (EL).
- (18) Successful people in this organization go by the book (PL).
- (19) The most efficient way is always the right way, in this organization (EC).
- (20) In this organization, people are expected to strictly follow legal or professional standards (PC).
- (21) Our major consideration is what is best for everyone in the organization (BL).
- (22) In this organization, people are guided by their own personal ethics (PI).
- (23) Successful people in this organization strictly obey the organizational policies (PL).
- (24) In this organization, the law or ethical code of the profession is the major consideration (PC).
- (25) In this organization, each person is expected, above all, to work efficiently (EC).
- (26) It is expected that you will always do what is right for the public (BC).

- (27) People in this organization view team spirit as important (BL).
- (28) People in this organization have a strong sense of responsibility to the outside community (BC).
- (29) Decisions here are primarily viewed in terms of contribution to profit (EL).
- (30) People in this organization are actively concerned about the public interest (BC).
- (31) People are very concerned about what is generally best for employees in the organization (BL).
- (32) What is best for each individual is a primary concern in this organization (BI).
- (33) People in this organization are very concerned about what is best for themselves (EI).
- (34) The effects of decisions on the public are a primary concern in this organization (BC).
- (35) It is expected that each individual is cared for when making decisions here (BI).
- (36) Efficient solutions to problems are always sought here (EC).

Organizational-professional conflict.

- (1) My current employment situation gives me the opportunity to express myself fully as a professional.*
- (2) In my organization, there is a conflict between the work standards and procedures of the organization and my ability to act according to my professional judgment.
- (3) I often have to choose between following professional standards and doing what is best for my organization.

Affective OC.

- (1) I do not feel a strong sense of belonging to my organization.*
- (2) I do not feel "emotionally attached" to this organization.*
- (3) This organization has a great deal of personal meaning to me.
- (4) I do not feel like "part of the family" at this organization.*
- (5) I really feel as if this organization's problems are my own.
- (6) I could easily become as attached to another organization as I am to this one.*
- (7) I am willing to put in a great deal of effort beyond that normally expected in order to help this organization be successful.

Impression management.

- (1) I sometimes tell lies if I have to.*
- (2) I never cover up my mistakes.
- (3) There have been occasions when I have taken advantage of someone.*
- (4) I never swear.
- (5) I sometimes try to get even rather than forgive and forget.*
- (6) I always obey laws, even if I'm unlikely to get caught.
- (7) I have said something bad about a friend behind his or her back.*
- (8) When I hear people talking privately, I avoid listening.
- (9) I have received too much change from a salesperson without telling him or her.*
- (10) I always declare all my income for income tax purposes.
- (11) When I was young I sometimes stole things.*

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- (12) I have never dropped litter on the street.
(13) I sometimes violate traffic or pedestrian laws.*
(14) I never read sexy books or magazines.
(15) I have done things that I don't tell other people about.*
(16) I never take things that don't belong to me.
(17) I have taken sick-leave from work or school even though I wasn't really sick.*
(18) I have never damaged a library book or store merchandise without reporting it.
(19) I have some pretty awful habits.*
(20) I don't gossip about other people's business.

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Legend. EI – egoistic/individual climate; EL – egoistic/local climate; EC – egoistic/cosmopolitan climate; BI – benevolent/individual climate; BL – benevolent/local climate; BC – benevolent/cosmopolitan climate; PI – principle/individual climate; PL – principle/local climate; PC – principle/cosmopolitan climate; * – item was reverse scored.

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