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## **National Culture and Ethical Climates: A Comparison of U.S. and Japanese Accounting Firms**

### **Abstract**

- We investigated the effects of Japanese and U.S national cultures on ethical climates within accounting organizations. We hypothesized that national cultural differences would lead to the observation of different ethical climates.
- Results support the national culture hypothesis for the principled climates.
- However, contrary to expectations based on national culture arguments for egoism and benevolence, our findings suggest that key institutional factors, specifically the accounting institutional rules and regulations, lead to differences in ethical climates.

### **Key Results**

- This paper suggests that we need to understand both national culture forces and institutional forces from governing bodies to develop a more comprehensive understanding of cross-cultural ethics.

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With globalization of trade and investments, organizations face more and more ethical issues and dilemmas as they make business decisions outside of their own country (Beyer/Nino 1999). Consequently, there is an increasing need to understand cross-national ethics (Cullen/Parboteeah/Hoegl 2004). One approach to increase our understanding is to examine the cross-national differences in the *moral ethos* of companies, i.e., the “set of force-fields within organizations, comprising everyday norms, rules-in-use, social pressures, and quality of relationships, all of which impinge on members’ understandings, judgments, and decisions concerning good and bad, right and wrong” (Snell 2000, p. 267). In this paper, we studied one manifestation of the moral ethos of companies through ethical climates (Victor/Cullen 1987, 1988) and whether they are affected by national cultures. Specifically, we examined the relationship between national culture and ethical climates for accountants located in two nations (US and Japan). Furthermore, given the highly regulated nature of the accounting profession, we also investigate the possibility that, consistent with some aspects of institutional theory (e.g., DiMaggio/Powell 1983, Kostova 1997, 1999), professional pressures of the accounting field result in an isomorphism of ethical climates in accounting organizations regardless of national context.

We believe that understanding the link between national cultures and ethical climates is critical. First, at a more general level, as more companies operate in foreign locales, it is important to understand how national cultures influence local unit ethical climates. Such an understanding can provide important information to assist global companies in their efforts to adjust their operations to build more ethical organizations. Second, by examining cross-national differences in ethical views of US and Japanese accountants, we provide some additional understanding of how the values and beliefs inherent in national cultures may permeate the ethical values of a profession. Importantly, we investigate a profession that has faced increased scrutiny with numerous scandals both in the US (Jennings 2004) and in Japan (Sakagami/Yoshimi/Okano 1999). Given recent cries to incorporate reform within the Japanese accounting profession (Lafferty 2003, Sakagami/Yoshimi/Okano 1999), we contribute much needed understanding of the ethical orientations of Japanese accountants. Such understanding can also be useful to multinational accounting firms to create conditions conducive to more ethical climates among their employees. Third, given the widespread incidences of corporate wrongdoing at a global level (Carroll 2004), it is crucial to evaluate the ethical orientations of multinationals to better plan ethical management systems that might avoid such corporate wrongdoings. Finally, with globalization of trade and growth of transnational corporations, there are more pressures to internationalize the accounting profession (Tsui/Windsor 2001) by holding accountants to similar standards worldwide. As such, our study provides some understanding of cultural barriers to the internationalizing of the accounting profession.

The ethical climate concept remains popular as a means of understanding the ethical atmosphere in a company. By investigating the ethical climate and national

culture link, we advance ethical climate theory through an increased understanding of the antecedents. Consistent with Cullen/Parboteeah, and Hoegl (2004), we provide evidence that ethics and, more specifically, ethical climates are affected by national cultures. We believe that this not only contributes to our understanding of ethical climates but also makes an important contribution to the ethics literature.

## Ethical Climates

Ethical climates represent a subset of the array of work climates (Cullen Victor/Bronson 1993, Victor/Cullen 1987, 1988). They refer to the institutionalized organizational practices and procedures that define what is considered right or wrong within the organization. They include the prevailing perceptions and beliefs regarding typical organizational practices and procedures that have ethical content (Victor/Cullen 1987, 1988).

For the purpose of this paper, we used ethical climates as identified by Victor and Cullen (1987, 1988). It is considered as a powerful measure of an organization's ethical climate and has received extensive use in the business ethics literature (e.g., Bourne/Snead 1999, Cullen/Parboteeah/Victor 2003, Wyld/Jones 1997; see review by Collins 2000). The Victor and Cullen (1987, 1988) ethical climate typology has three bases of moral judgment: egoistic, benevolence, and principle. These form the three basic ethical climates. In the egoistic climate, company norms support the satisfaction of self-interest. In the benevolent climate, company norms support maximizing the interests of a particular social group. Finally, in the principled climate, company norms support following abstract principles independent of situational outcomes.

In addition to the three basic types of ethical climates, the Victor and Cullen (1987, 1988) typology has three loci of analysis to distinguish further the types of climates found in organizations. The loci of analysis range from the individual to society at large. Hence, each type of ethical criterion has three levels of reference, namely individual, local (e.g., immediate group or organization), and cosmopolitan (e.g., external group or humankind at large).

## National Culture and Ethical Climates

National culture can be defined as "a collective programming of the mind which distinguishes one group from another" (Hofstede 2001, p. 25). Although nations

can have significant subcultures, the concept of a national culture is often useful to distinguish work practices (Hofstede 2001). Broadly we assume that national cultures produce patterned ways of thinking (Kluckhohn 1954) as a set of shared meaning systems (Shweder/Le Vine 1984) that is transmitted from one generation to another through the process of observation and modeling.

Studies have shown that, despite their heterogeneity within a country, organizational cultures are affected by national cultures (Soeters/Schreuder 1988, Hofstede et al., 1990). Research shows that the prevailing ethical norms in companies develop from the national cultural values and customs (Ferrell/Gresham 1985, Hunt/Vitell 1986). Accepting the considerable overlap between work climates and organizational culture (Denison 1996, Glick 1985, Rousseau 1988), it follows that, if organizational cultures are influenced by national cultures, one can also expect that national cultures will also have a significant impact on ethical climates.

We see a strong link between national culture and ethical climates. National cultures include the values, beliefs, assumptions learned in early childhood and through life experiences that distinguish one group from another (Hofstede 2001). However, Jepperson (1991, p. 151) argues that national culture acts as a carrier of institutionalization that produces expectations about “properties, orientations, and behavior of individuals as constraining others in society.” Such expectations produce shared meanings that convey core values, norms, and modes of action by members of any culture. As members of societies are confronted with ethical dilemmas, they are likely to rely on the shared meanings inherent in their national cultures to decide the appropriate way to respond to these ethical situations (Cullen/Parboteeah/Hoegl 2004). Because these shared meanings in shared values and norms make members of a culture respond in “similar patterns of perception, thought...to external stimuli” (Erez 1990, p. 571), we also expect that they will affect individuals by encouraging similarity in their perceptions of ethical climates. Thus, national cultures establish constraining frameworks and expectations within which only certain ethical climates can exist.

## Hypotheses

In this section we specify major distinguishing characteristics of US and Japanese national cultures that may lead to particular ethical climate being perceived within organizations. To examine potential differences between ethical climates, we rely on various popular national culture schemes including Hofstede’s national culture dimensions, Trompenaars (1994) scheme and House et al.’s (2004) GLOBE study. In addition, we focus on the three major ethical climate types (i.e., egoist, benevolent, and principled) as they specify three distinct bases for moral judgment.

## Egoistic Climates

The egoism dimension is generally based upon the maximization of self-interest (Cullen/Parboteeah/Hoegl 2003). Within the egoist climate, the normative expectation is that the decision-maker likely chooses alternatives that benefit himself/herself the most while ignoring the needs of others. According to Victor and Cullen (1988), an egoist ethical climate can be found among real estate brokers where each person's sales are relatively independent. In such an organization, an egoist climate is likely to develop as all salespeople try to behave in self-interested fashion to make sales. When applied to the present paper, an accountant in an egoistic climate will more likely choose those actions that result in the maximum of good for himself/herself.

It is crucial to understand egoism as an ethical dimension because of its influence as a basis for decision-making. Victor and Cullen (1987, 1988), in their original conceptualization of the egoistic ethical climate, argue that egoist organizations encourage individuals to be motivated by personal gains. Given the many scandals that have plagued the accounting profession and the logical link between egoism and self-interested actions that lead to such scandals, we believe that is imperative to study differences in egoist climates for accountants.

Possibly, the most comprehensive and relevant cultural factor for differences in the existence and development of the egoistic climates is individualism-collectivism, a culture dimension popularized by Hofstede (2001), Triandis (1990), Trompenaars (1994) and House et al. (2004). Individualism-collectivism refers to the relationship one perceives between one's self and the group of which one is a member (Triandis 1990). Hofstede (2001) describes members in individualistic societies as more self-centered and more concerned about their own welfare than others. In contrast, members of collectivist cultures believe that the well being of the self is dependent on the well being of the group as a whole. People are more mutually dependent and are more prone to take actions in cooperation rather than in competition. Hofstede (2001) showed that, of the 50 countries he studied, the US ranked highest in individualism while Japan ranked considerably lower. Trompenaars's (1994) also showed that the US has a much stronger individualist orientation than Japan. Similarly, House et al.'s (2004) GLOBE Studies also show that Japan ranks considerably higher on the collectivism dimension than the US.

High levels of US individualism can be traced to a number of influences (Hofstede 2001, Trompenaars 1994). The Protestant religious influences favored individualism where community worship was not necessary and where each and every person could worship individually (Trompenaars 1994). Reacting to the exploitation and worldliness of the church, the Protestant Reformation loosened belief systems allowing a modernization of practices to adapt to industrialization and more individualistic relationship with God (Weber 1958).

Individualism seems most relevant to the egoistic ethical climate. In an individualistic culture, people have only flexible ties to the collective (i.e., country, family

etc.) and behavior is often guided by self-interest. In addition, when collective and individual goals conflict, personal goals usually have primacy (Triandis 1995). As such, because an egoistic climate indicates that people in an organization consider the maximization of their self-interest as ethical and moral, it is logical to expect that organizations in more individualist societies such as the US should develop ethical climates that support the welfare of the individual as a reflection of the societal norm. Consequently, organizations in countries that are high on individualism are more likely to exhibit egoistic ethical climate, because the latter reflects the ultimate concern for the self. Hence, we hypothesize the following:

*Hypothesis 1.* US Americans accountants have stronger egoistic ethical climates than do the Japanese.

### **Benevolent Climates**

Benevolence is primarily based on concern for others (Victor/Cullen 1987, 1988). Within such a climate, the decision-maker is likely to make those decisions that results in maximum collective gains even at the expense of individual needs (Cullen/Parboteeah/Victor 2003). Benevolent climates are likely to develop, for example, in research labs where there is high need for cooperation to achieve the desired success outcomes (Victor/Cullen 1988). In the context of our study, an accountant who perceives a benevolent climate will likely choose those alternatives that provide the greatest good for the greatest number of people affected by the decision.

Similar to the egoist climate, it is crucial to also understand differences in a benevolent climate. A benevolent climate seems to be the antidote to the many scandals that have plagued the accounting profession both in the US and Japan. Benevolent decisions, which involve understanding the consequences of decisions on others and choosing those decisions that benefit most, are thus more likely to be made to benefit all stakeholders of accounting firms. Understanding how national cultures are related to benevolent climates can benefit organizations in implementing counter measures to correct deficient benevolent climates.

The most relevant cultural dimension for the differences in the benevolent climates is collectivism. In the collectivist culture preference is given to the group interests over individual interests (Triandis 1990). Research by Hofstede (2001) and House et al. (2004) suggests that the Japanese society tends to be significantly more collectivistic than the US. In fact, research by the GLOBE group (House et al. 2004) suggests that the Japanese scores higher than the US on both aspects of collectivism that they considered (societal collectivism and in-group collectivism).

As with the individualist nature of US society, the more collectivist nature of Japanese culture has several historical and institutional antecedents. Historically, the geography of the island created a barrier to immigration and promoted the deve-



nal organizations such as those for lawyers or accountants. As discussed by Victor/Cullen (1988, p. 108), decision making is typically dominated by discussions of "how law and professional code apply to an issue." Such rules and codes may originate, for instance, from professional accounting standards or elements of the organizational policies and procedures.

A principled climate is particularly relevant to the present research given that we are looking at accountants (Cullen/Parboteeah/Victor 2003). Accountants typically go through rigorous training and socialization that produce expectations that they will internalize professional principles over organizational norms (Blau/Scott 1962, Scott 1966). As such, the principle climate is important as it reflects the adherence to codes and rules that form the basis of most accountant professional training.

Studies of US and Japanese cultures find differences regarding the notions of "what is right or wrong" (Demente 1994). Differing from US beliefs, to the Japanese, "right or wrong is not so much based on an unvarying, universal code of ethics as it is upon time, place, the people involved, and other circumstances" (Demente 1994, p. 99). Hence, in Japanese culture the idea of right or wrong is more situational and not as strongly anchored in principles as is the US. That is, Japanese ethical reasoning stresses adaptation to a context rather than following universal rules across contexts (Nakane 1970). As such, when dealing with issues, there is a concern for situational outcomes (through mutual cooperation) rather than principled outcomes (through a priori rules and procedures) (Alston 1986).

The universalism/particularism cultural dimension identified by Trompenaars (1994) is also relevant to explain differences in the principled ethical climates. In universalistic cultures, there is an obligation to adhere to standards, which are universally agreed to by the culture. However, in more particularistic cultures, people focus on the exceptional nature of the circumstance, and react based on those circumstances. Hence, in particularistic societies people tend to behave according to situations rather than rules (Trompenaars 1994). Trompenaars' (1994) conclusions suggest that the US is a universalistic society while Japan is more particularistic.

The universalistic nature of the US society implies that there is an emphasis on clear rules and regulations. Such rules and regulations can be most accurately reflected in a principled climate, where ethical issues are guided by external principles. In contrast, the more situational approach that is inherent in Japanese culture suggests that Japanese are less likely to rely on strict rules and guidelines when facing ethical situations. That is, we see that expectations in organizations of adherence to principled (i.e., code-following) ethical reasoning is more culturally congruent with US society and, as such, Japanese perceive less principled ethical climates. Therefore,

*Hypothesis 3.* US accountants have stronger principled ethical climates than Japanese accountants.



### Alternative Hypothesis: Professional Accounting Cultures

Although there is strong evidence that national cultures are linked to ethics (e.g., Cullen/Parboteeah/Hoegl 2004), a number of scholars have empirically and conceptually confirmed that, in addition to national culture, cross-national differences can also be explained by other factors such as social institutions and the context (Kostova 1997, Osland/Bird 2000, Parboteeah/Cullen 2003, Shenkar 2001). Given that our sample include accountants and given the pervasive effects of institutional pressures in forcing nations, professions, organizations and individuals to become more similar or to isomorphize (DiMaggio/Powell 1983, Meyer/Rowan 1977, Parboteeah/Cullen 2003, Cullen/Parboteeah/Hoegl 2004), it is important to consider the relevant accounting institutional pressures. Because accountants are a category of professionals, their profession is controlled by institutionalized social rules of licensing, certifying, and schooling (i.e., normative institutional pressures: DiMaggio/Powell 1983). As such, it is feasible that such professional rules and regulations may be so pervasive that they negate the effects of national culture. Furthermore, with increased pressures to internationalize accounting standards, it is also feasible to expect the absence of national culture influences on ethical climates.

It is accepted that US accountants go through a rigorous socialization process that have important regulating effects on the profession (Greenwood/Suddaby/Hinings 2002). Starting with the university (Siegel/Agrawal/Rigsby 1997), through personnel filtering (Siegel/Rigsby 1998) and professional certifications such as the CPA examination, US accountants are expected to learn and internalize a common set of knowledge, rules and regulations that govern their profession. Furthermore, all US accountants are expected to abide by the same code of ethical conduct in conducting their profession (Jennings 2004, Woelfel 1986). These regulating pressures from the profession are likely to force US accountants to isomorphize or become more similar.

We expect Japanese accountants to be very similar to US accountants. The Japanese accounting system is heavily based on the US accounting system (Sakagami/Yoshimi/Okano 1999). In response to many scandals and calls from the international financial community (Lafferty, 2003), the Japanese accounting system has undergone dramatic restructuring to mimic features of the US accounting practices. As such, we expect that Japanese accountants undergo similar training to US accountants and have to respect similar specific ethical codes. If both US and Japanese accountants undergo fairly similar socialization and training, they are more likely to be similar and less likely to be impacted by their respective national cultures.

The development of international accounting standards and need for harmonization of such standards (Violet 1983) also lead to expectations that Japanese and US accountants might be similar in their ethical orientations. Recent research by

Mizuno (2004) suggests that the so-called “Accounting Big Bang” reforms of the Japanese profession have made Japanese accounting standards almost identical to international accounting standards. Duangploy/Gray (2005) also find that the Japanese revamp of its accounting practices now shows more similarity with US practices.

Thus, based on institutional theory, an alternative argument is that US and Japanese accountants do not differ in ethical climates due to the isomorphic pressures of convergence coming both from the local but similar accounting practices and from the increasing use of International Accounting Standards (Duangploy/Gray 2005).

*Alternative Hypothesis.* There are no ethical climate differences between US and Japanese accountants.

## Methods

### Study Design

To compare perceptions of ethical climates in different national cultures required a research design where one must control for the heterogeneity among industries, organizations, and occupations within national cultures that may affect climates. The objective is to establish maximum similarity among the countries except on the specified variables (i.e., cultural differences and ethical climates) (Drenth/Groenendijk 1984). To control for heterogeneity among industry and occupation, we used accountants as our climate observers. To control for organizational effects, we used both US-owned multinational subsidiaries and independent firms in both countries. The attempt was to create maximum equivalence of samples with the exception of national culture resulting in a matched sample (Sekaran 1983). This approach is similar to those used by Ali (1989) and Hofstede (2001). The result was a 2X2 design crossing parent (US multinational or independent) with location (US or Japan). Comparisons of US-owned multinational subsidiaries enabled us to observe national differences independent of parent organizational culture and potential homogenization effects of globalization. Comparisons of independent organizations enabled us to observe national differences independent of potential heterogeneity among organizational cultures.

## Respondents

### *US Sample*

US respondents were members of four accounting organizations based in the US. Two of these organizations were subunits of multinational "Big Five" accounting firms. Two were independent firms. For all units, we selected a stratified random sample. We based the stratification on the respondents' location in three functions. These were auditing, tax, and consulting. Equal number of accountants was selected from each group. For each of the two Big Six subunits, we selected random samples of 90 accountants, 30 from each strata. For the two independent firms, we selected random samples of 24 accountants from each firm, eight from each stratum. These samples represented approximately 20% to 30% of the professional accountants in each unit. The response rate for the multinational firms was 68.3%, while 33.3% of accountants from the independent firms responded. This represented a total of 139 respondents out of a possible 228.

### *Japanese Sample*

Japanese respondents were members of four accounting firms based in Japan. Two of these organizations were subunits of the same US "Big Five" accounting firms used in the US sample. The two others were independent Japanese firms. Random samples of 75 and 55 accountants were selected from each of the two "Big Six" Japanese subunits. Samples of 45 and 40 were selected from the two independent firms. As with the US, these samples represented approximately 20% to 30% of the professional accountants in each unit. The Japanese samples were also stratified on the basis of accounting function in each firm. However, the Japanese research team based their stratification on the proportion of each function in the unit. The response rate for the Japanese multinational firms was 50.8% while 52.9% of accountants from the independent firms responded. This represented a total of 111 respondents out of a possible 215.

In the US, we mailed questionnaires and a stamped return envelope using addresses supplied by the firms. The cover letter indicated that the respondents' names had been supplied by their firm and had agreed to participate in the study. The letter promised that all responses would remain confidential. The procedure for the Japanese differed only in that the questionnaires were handed out in person. The latter procedure was deemed necessary by the Japanese researchers as proper etiquette in Japanese business culture.

## Measures

### *Ethical Climates*

The Ethical Climate Questionnaire (ECQ) developed by Cullen/Victor, and Bronson (1993), Victor and Cullen (1987, 1988) was used to measure ethical climates. The ECQ measures how organization members typically make decisions that require the use of ethical criteria (Victor/Cullen 1987). In the ECQ, respondents are asked to act as observers of their organizations. To avoid evaluative and affective responses about an organization, the ECQ uses questions that emphasize description rather than feelings (Victor/Cullen 1988). The full version of the ECQ, which taps each of the nine possible theoretical climate type, is published in Cullen/Victor, and Bronson (1993).

### *Control Variables*

Because Victor and Cullen (1988) found ethical climate differences by level, work group, and organizational tenure, we asked each respondent to report their position (i.e., partner or manager or senior or staff), tenure, function (i.e., auditing or tax or consulting), and whether or not they are a CPA. These were included as control variables in our analysis.

### *Translation*

The original language of the ECQ was English. The English version of the ECQ was translated into Japanese. However, because of the nuances of translation and the possibility that one word in one language may not have the same equivalent or may have a completely different meaning in another language (Yu/Lee/Woo 2004), we back translated the questionnaire into English, and then again to Japanese. Bilingual Japanese professors familiar with the ethical climate construct and questionnaire design conducted these translations. To resolve any discrepancies in the translations, the translators discussed extensively with the authors of ECQ the intended meaning of any item in question. Thus, these translation procedures followed the procedures suggested by Douglas and Craig (1983) to ensure accuracy of meaning and concepts.

## National Culture Comparisons

The critical issue raised in the present paper is whether national cultures affect the employee observations of ethical climates. In that context, a critical but overlooked

issue in cross-national research is construct equivalence (Adler 1983). As discussed by Singh (1995), construct equivalence serves three important functions. First, it examines whether a construct (i.e., ethical climates) “serves the same function and is expressed similarly in different cross-national contexts” (Singh 1995, p. 603). Secondly, construct equivalence explores whether the response categories for each item are interpreted similarly across cultures. Finally, construct equivalence also examines whether each item “measures the underlying construct equivalently in cross-national data” (Singh 1995, p. 603).

In the context of the present paper, construct equivalence ensures that the ethical climates identified for the samples of US and Japanese accountants are cross-nationally equivalent. Failure to assess construct equivalence can increase the chance of unsound measures (Singh 1995). However, more importantly, a lack of construct equivalence can be damaging to the validity of inferences in cross-national data (Adler 1983).

To assess construct equivalence, we conducted multi sample analysis (Joreskog/Sorbom 1993) to test whether the US factor structure is different from the Japan factor structure. Initially, we used confirmatory factor analysis using LISREL 8 (Joreskog/Sorbom 1993) to determine the US factor structure on the ECQ. In this initial stage of the confirmatory factor analysis, several items were deleted because of nonsignificant t-values. This item-deletion procedure has been suggested as a method for respecifying indicators that do not load significantly (Anderson/Gerbing 1988).

**Table 1.** Correlations and Descriptive Statistics for All Variables

Variables	Means	s.d	1	2	3	4	5	6	7	8	9	
Firm <sup>a</sup>	0.50	1.24										
Tenure	9.88	16.58	-0.03									
CPA <sup>b</sup>	1.74	1.56	0.02	0.47								
Position <sup>c</sup>	2.64	1.55	0.02	0.04	0.31							
Function <sup>d</sup>	1.94	0.94	-0.27	0.15	0.33	0.12						
Egoism-Individual	2.77	0.97	-0.02	-0.04	0.17	0.18	0.17	(0.76) <sup>e</sup>	(0.78)			
Benevolent-Local	2.94	1.01	-0.01	-0.03	-0.13	-0.24	-0.03	-0.41	(0.75)	(0.78)		
Benevolent-Cosmopolitan	3.55	0.92	-0.11	0.00	-0.09	-0.13	0.09	-0.28	0.69	(0.83)	(0.84)	
Principled-Cosmopolitan	3.25	1.36	0.08	-0.11	-0.13	-0.10	-0.05	-0.08	0.25	0.39	(0.75)	(0.80)

**Notes:** <sup>a</sup> For firm-type, Big Six Firms=0 and Independent Firms=1

<sup>b</sup> For CPA, CPA=1 and Non-CPA=2

<sup>c</sup> For Position, Partner=1, Manager=2, Senior=3, and Staff=4

<sup>d</sup> For function, Auditing=1, Tax=2, and Consulting=3

<sup>e</sup> Reliability Coefficients for Scales are on the main diagonal (US and Japanese respondents respectively)

Our construct equivalence analysis revealed different factor structures for the US and Japanese samples. Consequently, we used separate confirmatory factor analyses for the two groups. Based on these factor analyses, we selected culture-specific items to measure the ethical climate types of benevolent-cosmopolitan, egoistic-individual and principled. Our assumption was that, from the pool of item possibilities, different items might measure the same underlying factors for different groups. That is, using different items from a pool intended to measure the same theoretical construct may better capture culturally specific ways in which the construct is manifested. However, although we used different items to construct culturally-specific factors, we also ran a factor analysis combining both Japanese and US data. As we note below, results using similar items for both countries are similar to the use of culture-specific factors.

After measurement development we tested our hypotheses with ANCOVA using the control variables acting as covariates. Table 1 shows a matrix of correlations and sample statistics including scale reliabilities for each climate measure.

## Results

### Factor Structures and Measurement

#### *Ethical Climate Measure in the US Sample*

Confirmatory factor analysis using LISREL (Joreskog & Sorbom, 1993) showed that the initial measurement model for the US sample fit the data poorly (chi-square = 131.19,  $df = 84$ ,  $p = 0.00076$ ). As such, we respecified the model based on Anderson and Gerbing's (1988) content and statistical recommendations. The resulting model retained 12 of the 16 items in the original model and provided an acceptable fit (chi-square = 59.75,  $df = 48$ ,  $p > .1$ , goodness of fit index (GFI) = 0.93, normed fit index (NFI) = 0.91, cumulative fit index (CFI) = 0.99). Table 2 reports the factor loadings, t-values, and reliabilities for the US and Japanese data where all four ethical climate types were identified.

#### *Construct Equivalence Analysis*

The next step was to assess whether the US factor structure was equivalent to the Japanese factor structure. We first assessed the highest degree of construct equivalence (Singh 1995) by performing a multisample confirmatory factor analysis to assess whether the factor loadings and error variances are identical for each

**Table 2.** Factor Loadings, t-values, and Construct Reliabilities for US and Japanese Data

Climate Types	US		Japanese	
	Factor Loadings	t-values	Fact or Loadings	t-values
<b>Egoism-Individual Climate</b> ( $\alpha$ for US = 0.76; $\alpha$ for Japan = 0.78)				
EI1 In this company, people are mostly out for themselves	0.74	8.81	0.75	6.79
EI10 In this company, people protect their own interests above other considerations	0.93	11.32	0.64	5.98
EI33 In this company, people are expected to follow their own personal and moral beliefs	0.43	5.01	*	*
<b>Benevolent-local Climate</b> ( $\alpha$ for US = 0.75; $\alpha$ for Japan = 0.78)				
BL12 The most important concern is the good of all the people in the company	0.75	9.43	0.55	6.00
BL21 Our major consideration is what is best for everyone in the company	*	*	0.87	10.83
BL27 People in this company view team spirit as important	0.59	7.02	0.78	9.30
BL31 People are very concerned about what is generally best for employees in the company	0.84	10.90	*	*
<b>Benevolent-Cosmopolitan Climate</b> ( $\alpha$ for US = 0.84; $\alpha$ for Japan = 0.83)				
BC26 It is expected that you will always do what is right for the customer and public	0.61	7.50	0.77	9.08
BC28 People in this company have a strong sense of responsibility to the outside community	0.76	10.11	0.71	8.20
BC30 People in this company are actively concerned about the customer's, and the public's interest	0.87	12.32	0.80	9.65
BC34 The effect of decisions on the customer and the public are a primary concern in this company	0.78	10.51	0.71	8.19
<b>Principle-Cosmopolitan Climate</b> ( $\alpha$ for US = 0.70; $\alpha$ for Japan = 0.70)				
PC13 The first consideration is whether a decision violates any law	0.60	7.49	0.60	5.01
PC14 People are expected to comply with the law and professional standards over and above other considerations	0.86	6.59	0.85	7.23

NOTE: \* indicates that item did not load on factor

scale between the US and Japan. We set the factor loadings, factor correlations, and error variances of the Japanese model equal to the US model. This fully constrained model (Model A) fit the data badly (chi-square = 350.95; df = 126). Next we relaxed the factor loadings constraint (i.e., allowed factor loadings to be different), and the new model (Model B) resulted in a chi-square of 286.16 with df = 114. The significant chi-square difference of 64.79 ( $p < 0.001$ ) indicated that the US and Japanese factor structures differ on factor loadings. We then relaxed the error variances and the third model (Model C) resulted in a chi-square of 225.57 with df = 102. A comparison of Model B and Model C revealed a significant chi-square difference of 60.59 (df = 12), implying that the factor structures were also different in terms of error variances. In sum, the above analyses lead us to conclude that the Japanese factor structure was not identical to the US factor structure.

### *Ethical Climate Measures in the Japanese Sample*

Because the Japanese factor structure was not identical to the US factor structure, we conducted a separate confirmatory factor analysis on the Japanese data similar to the initial analysis of the US data using LISREL (Joreskog/Sorbom 1993). The initial measurement model also fit the Japanese data badly (chi-square = 222.11, df = 98,  $p = 0$ ). As such, identical to the US procedures, we followed Anderson and Gerbing's (1988) respecification procedures. The revised model retained 11 of the 16 original items with a very acceptable fit (chi-square = 50.03, df = 38,  $p > 0.09$ , GFI = 0.93; NFI = 0.90; CFI = 0.97). Factor loadings, t-values, and reliabilities are shown in Table 2.

### **Differences in Ethical Climate Types**

In spite of the differences in factor structures, scale items did load on their intended theoretical dimensions. As noted in the methods section, we took this to mean that different items may measure the same constructs for different cultural groups (similar to the approach used previously by Janssens, Brett, and Smith (1995)). As such, we tested hypotheses using conceptually similar measures, although findings did not differ when US measures were imposed on the Japanese data (analysis available from the authors).

Our results identified only four (i.e., egoist-individual, benevolent-local, benevolent-cosmopolitan, and principle-cosmopolitan) of the possible nine ethical climate types. However, these findings are consistent with previous research that has identified only a subset of the ethical climate types (e.g., Bourne/Snead 1999, Cullen/Parboteeah/Victor 2003, Wyld/Jones 1997).



**Table 3.** ANCOVA

MEANS					
Egoism-Individual	F	df	US	Japan	R <sup>2</sup> = 15.3
Country	0.51	1	2.81	2.73	
Firm (Big Six or Independent)	0.13	1			
Tenure	0.25	1			
CPA	13.07***	1			
Position	3.92	1			
Function	2.72	1			
<hr/>					
Benevolent-Local	F	df	US	Japan	R <sup>2</sup> = 13.8
Country	22.59***	1	3.19	2.62	
Firm (Big Six or Independent)	0.28	1			
Tenure	0.12	1			
CPA	1.83	1			
Position	9.81*	1			
Function	0.40	1			
<hr/>					
Benevolent-Cosmopolitan	F	df	US	Japan	R <sup>2</sup> = 17.2
Country	40.20***	1	3.85	3.17	
Firm (Big Six or Independent)	5.91	1			
Tenure	1.18	1			
CPA	0.49	1			
Position	1.67	1			
Function	1.05	1			
<hr/>					
Principled-Cosmopolitan	F	df	US	Japan	R <sup>2</sup> = 23.2
Country	71.84***	1	3.78	2.48	
Firm (Big Six or Independent)	0.44	1			
Tenure	0.18	1			
CPA	0.18	1			
Position	0.44	1			
Function	0.32	1			

\*p &lt;0.05, \*\* p&lt;0.01, \*\*\* p&lt;0.001

	MEANS	
	US	Japan
Egoism-Individual	2.81	2.73
Benevolent-Local	3.20	2.62
Benevolent-Cosmopolitan	3.85	3.17
Principled-Cosmopolitan	3.78	2.48

An ANCOVA by ethical climate types reported in Table 3 reveals differences on three of the four ethical climate types. Results also show that in most cases, control variables had no significant effects on the ethical climate types.

*Hypothesis 1* posited that US employees have stronger egoistic-individual climates than their Japanese counterparts. This hypothesis was rejected. There was no significant difference between the US and Japan on the egoistic-individual climate. *Hypothesis 2* stated that Japanese have stronger benevolent climates than their US American counterparts. This hypothesis was also rejected. For both types of benevolent ethical climate identified in the study (i.e., individual and local), the US accountants perceived stronger climates than their Japanese counterparts. Finally, *Hypothesis 3* stated that US employees have stronger principled-cosmopolitan climates than the Japanese. This *Hypothesis* was supported.

In hypothesis 4, we proposed an alternative hypothesis to examine the possibility that professional accounting cultures may be more influential than national cultures. *Hypothesis 4* is partially supported, as we found no differences only on the egoist principled ethical climate.

## Discussion

Our findings for both the benevolent and egoist climates were contrary to expectations based on national culture arguments. Given our findings and the strong cultural argument to expect the opposite, we suspect that, consistent with institutional theory (DiMaggio/Powell 1983), institutional forces (represented by the governing bodies of the accounting profession) may exist to counterbalance cultural forces that are potentially dysfunctional to the accounting practice. Thus, if US accountants developed strong egoistic, they might follow self-interested individual ethical beliefs contrary to professional accounting standards. Hence, although individualism is a very valued aspect of the US culture, the institutional environment exerts coercive forces to minimize the development of egoistic ethical climates. Such findings are consistent with Osland and Bird's (2000) notion of cultural paradoxes whereby some cultural aspects can be better understood if examined in the light of the appropriate context, namely the accounting institutional context in the present paper.

### *Benevolent Climate*

What are possible institutional forces that can explain higher US benevolent ethical climates? Established by the American Institute of Certified Public Accountants, the Financial Accounting Standards Board (FASB) is the primary standard-setting

body in the US. It operates entirely in the “open.” All of its meetings are open to the public to ensure that the public’s interest is considered and to enable the Board to understand many different perspectives on the underlying issues. Hence, standard setting in the US is a function not only of the accounting profession but, also, of other stakeholders represented by private and public bodies, thus combining the professional and legalistic institutional influence (Bloom/Naciri 1989).

This difference in standard-setting procedures offers a possible explanation for the stronger benevolent climates in the US accounting organizations. Because US accounting profession is mandated to take into consideration all “stakeholders”, US accounting organizations respond by developing climates that are benevolent both at the local level and at the cosmopolitan level. In addition to the institutional pressures from the standard-setting process, US accounting organizations also face normative isomorphic pressures for benevolence from inside the profession. The accounting profession has received its share of public attention as a reaction to ethical lapses by individual practitioners and firms (Sack/Tangreti 1987). Highly publicized unethical acts and failures led to local and national initiatives to remedy the situation (Schlacter 1990). It is very likely that these recent changes have forced US accounting organizations to develop stronger benevolent climates (through training, education, socialization, and public outcry etc.) to resolve ethical issues (Siegel/Agrawal/Rigsby 1997).

### *Egoistic Climate*

We found that Japanese accountants had similar and low egoistic-individual climates compared to US accountants. Although this finding may seem surprising given the higher individualism of US culture, it is consistent with some of the institutional aspects of the US accounting profession. As argued earlier, the strong normative principles emanating from the accounting bodies that govern the profession discourage egoism.

We suspect that the recent changes and similarity between the US and Japanese accounting systems are possible explanations of the similar egoist levels. The Japanese accounting profession has undergone dramatic restructuring and the recent ‘Accounting Big Bang’ suggests that the Japanese accounting system is becoming more similar to the US (Mizuno 2004). As the Japanese put in place systems that mirror the US and Western-based accounting principles, their accountants are also becoming more similar to the US accountants (Duangploy/Gray 2005). Furthermore, the adoption of the International Accounting Standards by both US and Japanese multinationals also suggest isomorphic pressures.

### *Principled Climate*

Consistent with our hypothesis, the stronger principled climates of US accounting organizations suggest that, because of high US universalism, US accountants develop climates that emphasize following company and national rules. These climates support principled ethical reasoning and behavior at the cosmopolitan levels. Furthermore, we suspect that these cosmopolitan levels of ethical climates also exist in response to the detailed US accounting standards, among the most developed in the world (Bloom/Naciri 1989). Throughout their formation, and starting as students, accountants are socialized through schools (Siegel/Agrawal/Rigsby 1997), professional associations (Reddy/Rao 1990), and structural homogenization (existence of common career titles and paths with commonly understood meanings) (Ott 1989). Institutional theory and research suggest that the effects of such institutional elements on organizations are pervasive (DiMaggio/Powell 1983, Meyer/Rowan 1977). Furthermore, the lower principled climate for the Japanese is consistent with Japanese culture and their preference to base decisions on situations or circumstances rather than principles.

### *Overview of Results and Future Research*

Our study makes some important contributions to the study of cross-cultural ethics. First, consistent with institutional theory (DiMaggio/Powell 1983, Scott 1995), our results show that professional organizations, specifically the accounting governing bodies, can have powerful and drastic coercive and normative regulating effects on the profession (Greenwood/Suddaby/Hinings 2002). Such results suggest that US accounting governing bodies, through a process of discourse and debate, have legitimated certain principles that are necessary but contrary to US culture. Future research should investigate other professions to see whether the relevant professional institutional pressures also counter the prevailing national cultures. Second, our results also show the pervasiveness of professional accounting cultures both within the US and in Japan as the latter adopts more US based accounting practices. Such results are also consistent with Hofstede's (2001) assertion that cross-national differences can be explained by national cultures as well as institutional elements, furthermore evidenced by recent studies by Cullen, Parboteeah and Hoegl (2004) and Parboteeah and Cullen (2003). Thus, future research should examine more fine-grained models to understand institutional environments and the conditions under which professional cultures may be more important than national cultures. Third, we also contribute to the dearth of cross-cultural ethical climates. Although research has documented the utility of the ethical climate concept (Snell 2000), there are relatively few studies that have examined empirical cross-national studies. Hence, we provide for a more complete understanding of ethical climates

in Japan, a country that is of significant to the US because of trade. We hope that future research will investigate ethical climates in other cultures. Finally, we also conduct our study following prescribed research designs for cross-national studies. By controlling for potential confounding variables that may affect cross-national differences in ethics, we provide for more robust results.

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