

## **Work Experience, Ethical Work Climates and Their Impact on East Asian Accountants**

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### **ABSTRACT**

The purpose of this study is to determine and compare the perception of the Ethical Work Climate of accountants in China and Taiwan based on work experience. The Ethical Work Climate was developed by Bart Victor and John B. Cullen (1988), and Cullen, Victor, and Bronson (1993) to understand the ethical environment of any institution and its impact on employee behavior. Data was collected using the 36-item revised version of the Ethical Climate Questionnaire composed of samples from accountants in China and Taiwan. The accountants were employed in CPA firms in both countries. Two hundred and seventy-two samples were collected from sixty-seven CPA firms in China. Two hundred seventy-four samples were collected from CPA firms throughout Taiwan. The results showed there was a significant difference between the two nations in almost all climates.

Keywords: Work Experience, Ethical Work Climates, China, Taiwan, Accountants

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## INTRODUCTION

Unethical behavior in accounting practices is not only a concern for the United States but is echoed around the world. The World Bank, using U.S. regulatory indicators, measured governance worldwide and found China at 45.6, well below South Korea and Malaysia (Financial Week 2009). In terms of assessing accounting practices, the Economist Intelligence Unit scored China below India, along with the Philippines and Vietnam but above Indonesia.

Emerging Asian economies indicated by these rankings, show reasons for concern. The recent scandal in India underscores the vulnerability of emerging Asian economies; especially China and Indonesia (Financial Week 2009). According to Jie and Hall (2012), the Chinese accounting industry is still largely in the developmental stages facing an aging CPA staff, professionalism, quality control, and lack of qualified personnel. Another reason why China might be vulnerable is the pressure that is placed on lower level cadre members to meet the desired level of GDP set by the government (Vodopynova 2018). China's own National Statistics Bureau inspected almost 1200 companies in 2018 and found that 80 percent had falsified records, overstating earnings or hiding losses. Julian Roche stated in *Corporate Governance in Asia* (2005) that accounting scandals in Taiwan are uncommon, although the effects of the Asian financial crisis left an impact on industries that resulted in several companies being held accountable for overstating sales and misleading investors in 2004.

Both China and Taiwan are members of the International Federation of Accountants (IFAC). This is a professional organization founded on the principle of providing accounting standards as well as ethics for the accounting profession globally. The differences between the two countries lie in oversight. In China, the Ministry of Finance, who administers the CPA exam, oversees the accounting profession. On the other hand, Taiwan has an independent layer of administrative agencies that oversee CPA's and CPA firms. (IFAC 2019). China and Taiwan both understand the severity of misleading investors and governments when presenting financial statements. The penalty in both countries are severe fines or imprisonment or both (Bush and Fang 2019).

## LITERATURE REVIEW

Most companies have a code of ethics, so why do employees who seem to behave well make decisions that lead to criminal acts? Does the environment in which one work impact the decision-making on each employee? Recently Wells Fargo paid fines of \$185 million when 3500 employees opened over a million fraudulent accounts (Carucci 2018). According to Carucci, organizations are responsible for designing the situation where employees feel compelled to make decisions they would otherwise not make.

The ethical climate of organizations has an extensive history of research that produced tools for measuring employees and their reaction to an organization perceived ethical behavior and how those issues are settled (Chouaib and Zaddem 2013). An organizations climate is drawn from its own history, which includes regulations, professional goals, and code of ethics played out against an employee's individual factors (Dark and Rix 2015). This construct is accountable for behavioral guidelines driving what is right and wrong and how that perception determines relationships within organizations (Pagliaro, et. al. 2018.)

The ethical work climate model (Victor and Cullen, 1988) and (Bronson 1993) provides the conceptual framework for this study. It is a matrix of nine ethical climates drawn along a vertical and horizontal axis. The vertical axis comprises the ethical reasoning system; principle, benevolence, and egoism. The locus of analysis or the frame of reference for deciding include, individual, local and cosmopolitan (Dark and Rix 2015).

Significant characteristics of the ethical work climate model include caring, where emphasis is placed on concern for others (Mitonga-Monga 2018; Baskin, et.al. 2015). In a benevolent climate, the prominent concern is for the wellbeing of others. When formulated through a frame of reference of the individual, an employee is apt to decide based upon the friendships built within the organization. Caring is also revealed when a benevolent climate is framed through a local locus. A local locus reasons within the organization at the business unit, thus an employee in a benevolent/local climate when faced with decision-making would seek advice from the team. The final union of a benevolent climate is with cosmopolitan. An employee whose frame of reference is cosmopolitan reasons at the system level of interest. In this manner, the union of benevolence and cosmopolitan frames a reference for an employee to decide along the lines of what is socially responsible for the organization (Dark and Rix 2015; Mitonga-Monga 2018). An organizational climate that stresses adherence to laws and codes is referred to as principle. In this environment ethical reasoning relies upon the application and interpretation of legal and moral principles. An employee whose frame of reference is cosmopolitan in a principled organization will make decisions according to external laws and codes, such as a code of ethics from a professional association. If an employee at that same organization frames decision-making from a local perspective, one would be driven to follow company rules and procedures and an employee who is strongly individual would decide according to one's own personal view of what is moral. The final characteristic is referred to as instrumental. Instrumental is the extent to which the individual looks out for one's own self-interest irrespective of others. Seen through the climate of egoism, at the individual loci of analysis, the employee considers one's own needs to protect themselves. What is important to the survival of the company, such as profits, market share is found in an employee whose frame of reference is local. Egoism/cosmopolitan would see an employee whose ethical decision-making frame of reference focusing on efficiency of a business system (Dark and Rix 2015; Mitonga-Monga 2018; Chouaib and Zaddem 2013; Baskin, et.al. 2015).

This study examines the level of work experience and its impact on the ethical reasoning of CPA's in the accounting industry in both China and Taiwan. One study, as noted earlier (Jie & Hall) 2012, stated that although there was no difference in the ethical reasoning abilities of U.S. and Taiwanese graduating students, elder Taiwanese CPA's scored lower than that of the Taiwanese students at a significant level. Abdolmohammadi, Read and Scarbrough (2003) pointed to the fact that Rest indicates ethical reasoning increases with age and education, but in accounting studies, older and more educated audit managers possessed lower levels of ethical reasoning than younger less experienced audit seniors, Zhang and Lui cite in their 2015 study three reasons Chinese CPA's lack professional ethics; lack of effective code of professional ethics, lack of effective supervision and punishment, and lack of effective internal control systems.

## **METHODOLOGY**

The focus of the present study is to assess whether the environment at CPA firms in China and Taiwan have an affect on the outcome of their work based on the number of years the CPA's are employed. Our main proposition relies on the summary of the literature review. Indications show through studies that the longer one works at a firm, the lower their ethical reasoning becomes. This contradicts researches, such as, James Rest who postulated the opposite Abdolmohammadi, Read and Scarbrough (2003).

### **Research Instrument**

The ethical climate theory framework was developed by Victor and Cullen (Victor et.al. 1993) representing the nine theoretical ethical climate types developed from their original study. Respondents are asked to complete the survey by replying how one really sees the organization than how one would prefer it to be. In this way, respondents objectively describe the organization's climate to those outside the organization.

Ethical work climate Questionnaire's Mandarin version was translated from the English by Dr. Chiulien C. Venezia. This version was translated back into English by an expert in Mandarin and English studies at Southern Taiwan University of Science and Technology in Taiwan. The translated and original English version of the Questionnaire were compared for accuracy and found to be accurate for distribution. Demographic information was included in the translation with focus on the amount of time spent at work. Responses were given through a 5-point scale (from 1 = "completely false" to 5 = "completely true").

### **DATA COLLECTION**

The Questionnaire was distributed to CPA's at small scale CPA firms in China through a Chinese colleague. Colleagues in Taiwan distributed the questionnaire at big 4 CPA firms in Taiwan. Two hundred and seventy-two samples were collected from sixty-seven CPA firms in China. One hundred eleven samples were retrieved from CPA firms in Taiwan. To analyze work experience, the researches split the sample into junior (under 5 years of experience) and senior (5 and over 5 years work experience) groups. Seventy-three participants are junior accountants and three hundred and ten are senior accountants.

### **Research Hypotheses**

Using the theoretical aspects of ethical climate, this research study wants to know whether the amount of work experience will impact the ethical reasoning ability of Chinese and Taiwanese accountants in their respective firms.

H1: Years of work experience has no positive correlation on the perception of ethical work climate of Chinese Accountants from their CPA firms.

H2: Years of work experience has no positive correlation on the perception of ethical work climate of Taiwanese Accountants from their CPA firms.

H3: Junior accountants in China and junior accountants in Taiwan have no positive correlation on perceived ethical work climate from their CPA firms.

H4: Senior accountants in China and senior accountants in Taiwan have no positive correlation on perceived ethical work climate from their CPA firms.

## ANALYSIS & RESULTS

### Data Analysis

This research used IBM SPSS statistic program for statistical analysis. Compare Means and independent sample T-test were used for data analysis. For the purpose of this research, the researchers set the significant level at 95% ( $p \leq 5\%$ ).

## RESULTS

Table 1 reports the compare means between the junior and senior accountants in China and Taiwan.

Table 2 shows the means and the p value of the variables which are under 5 and 5 and over 5 groups' means and the Ethical Climate dimensions among Chinese accountants. The results show Principle-local (PL) received the score 4.127 in under 5 years work experience group and 3.9401 in 5 and over 5 years work experience group.

Table 3 presents the means and the p value of the variables which are under 5 and 5 and over 5 groups' means and the Ethical Climate dimensions among Taiwanese accountants. The results show Principle-local (PL) received the highest score 3.588 and Principle-cosmopolitan (PC) obtained the highest score 3.8929 over 5 years work experience group.

Table 4 indicates the means and the p value of the variables which are under 5 years of work experience means and the Ethical Climate dimensions between Chinese and Taiwanese accountants. The highest score in Chinese group shows 4.127 and the highest score in Taiwanese group shows 3.5875 in Principle-local (PL).

Table 5 reveals the means and the p value of the variables which are 5 and over 5 years of work experience means and the Ethical Climate dimensions between Chinese and Taiwanese accountants. The highest score in Chinese group shows 4.101 and the highest score in Taiwanese group shows 3.8929 in Principle-cosmopolitan (PC).

## DISCUSSION

In China, senior accountants seemed to show that the longer one stayed on the job the lower one's reliance on company rules and procedures. That would support the literature review, and this studies basic assumption. Although, in Taiwan there seems to be no difference between length of time and the degree of ethical reasoning. This is puzzling. It has been mentioned that in Taiwan there are layers of bureaucracy that oversee the profession. This might indicate why there is no difference between length of time on the job and ethical reasoning. Although the junior CPA's in China are more apt to rely upon seeking out the team, laws and codes, rules and procedures than Taiwanese counterparts. Junior Chinese accountants also will be more concerned about company profits and efficiency. On the one hand, laws and codes and rules and procedures indicate a strong adherence to following an ethical way of working. Company profits and efficiency indicate that one's strong adherence to rules and codes might be placed in jeopardy to satisfy the organizational goals. This might reflect what was indicated in the Introduction that pressure by lower level cadres to meet GDP levels set by the government.

Junior level Taiwanese (5 years and less work experience) seem to be lax with most climates, especially with one's own self-interest. The organization should be concerned about creating an environment where self-interest takes prominence.

Senior accountants in China (5 years and above 5 years of work experience) scored higher in all climates except where one relies on one's own interpretation of what is right and wrong. This climate demonstrated no difference. This would support the earlier result with senior Chinese accountants but causes a conundrum for Taiwan. Table 3 showed no difference between Taiwanese accountants with less time and Taiwanese accountants who had worked more than five years. Statistically, the two should reflect one another throughout the study but that does not seem to be the case. Overall it refutes Rest's view that with age comes higher ethical reasoning but supports Jie and Hall's 2012 study where elder Taiwanese CPA's scored lower than Taiwanese students, as well as, Abdolmohammadi et. al in a 2003 article that recounted older and more educated audit managers possessed lower levels of ethical reasoning than younger less experienced audit seniors.

## CONCLUSION AND LIMITATION OF THE STUDY

This study has shown that there exists a difference in how organizations in China and Taiwan impact the climate of their organizations and its effect on accounting practices. Work experience has shown to be a determining factor when making ethical decision-making within both nations. Further research could consider whether the cultural/political and legal environment has impacted either nation and the design of the organization and its impact on the ethical work climates. The study also conducted the survey in the big 4 accounting firms in Taiwan but a variety of different CPA firms in China. Further studies between both big 4 in both countries would be of interest.

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## APPENDIX

Table 1: Sample demographics

Work experience	Country	Mean	N	Std. Deviation
under 5 years	China	3.4544	53	0.42272
	Taiwan	3.2681	20	0.42752
	Total	3.4033	73	0.42929
5 years and over	China	3.5479	219	0.43368
	Taiwan	3.3926	91	0.42341
	Total	3.5023	310	0.43581
Total	China	3.5297	272	0.43239
	Taiwan	3.3701	111	0.42492
	Total	3.4834	383	0.43575

Table 2: Independent sample T-test on ECQ Dimensions on work experience- China

	under 5	5 and over 5	t test
	mean	mean	p value
PI	3.231	3.3433	0.33
PL	4.127	3.9401	0.08 ***
PC	4.038	4.1014	0.57
BI	3.302	3.2994	0.98
BL	3.509	3.4994	0.93
BC	3.957	3.9665	0.93
EI	2.993	3.0286	0.73
EL	3.657	3.5825	0.41
EC	3.797	3.8387	0.68

\*\*\* significant level 1% ; \*\*significant 5% ; \*significant 10%

PI: principle-individual; PL: principle-local; PC: principle-cosmopolitan; BI: benevolence-individual; BL: benevolence-local; BC: benevolence-cosmopolitan; EI: egoism-individual; EL: egoism-local; EC: egoism-cosmopolitan

Table 3: Independent sample T-test on ECQ dimensions on work experience -Taiwan

	under 5	5 and over 5	t test
	mean	mean	p value
PI	3.188	3.2225	0.80
PL	3.588	3.6126	0.88
PC	3.525	3.8929	0.11
BI	3.066	3.1429	0.62

BL	2.768	2.9886	0.19
BC	3.283	3.4870	0.23
EI	3.100	3.2176	0.37
EL	3.350	3.4484	0.44
EC	3.338	3.4835	0.39

\*\*\* significant level 1% ; \*\*significant 5% ; \*significant 10%

**Table 4: Independent sample T-test on ECQ dimensions on under 5 years work experience (Junior) between China & Taiwan**

	<u>China</u>	<u>Taiwan</u>	<u>t test</u>	
	mean	mean	p value	
PI	3.231	3.1875	0.81	
PL	4.127	3.5875	0.01	**
PC	4.038	3.5250	0.03	**
BI	3.302	3.0660	0.25	
BL	3.509	2.7675	0.00	***
BC	3.957	3.2830	0.00	***
EI	2.993	3.1000	0.57	
EL	3.657	3.3500	0.05	***
EC	3.797	3.3375	0.03	**

\*\*\* significant level 1% ; \*\*significant 5% ; \*significant 10%

**Table 5: Independent sample T-test on ECQ dimensions on 5 years & above work experience (Senior) between China & Taiwan**

	<u>China</u>	<u>Taiwan</u>	<u>t test</u>	
	mean	mean	p value	
PI	3.343	3.2225	0.17	
PL	3.94	3.6126	0.00	***
PC	4.101	3.8929	0.03	**
BI	3.299	3.1429	0.09	***
BL	3.499	2.9886	0.00	***
BC	3.967	3.4870	0.00	***
EI	3.029	3.2176	0.02	**
EL	3.583	3.4484	0.05	***
EC	3.839	3.4835	0.00	***

\*\*\* significant level 1% ; \*\*significant 5% ; \*significant 10%