

**A Theoretical Model of *Guanxi*, Regional Marketisation Differences,
Perceived Ethical Climate, and Organisational Deviant Behaviour Among
Internal Auditors in China**

A thesis in fulfilment of the Requirement for the Degree of Master of Research

by

Qirong Song

DEPARTMENT OF ACCOUNTING AND CORPORATE GOVERNANCE
FACULTY OF BUSINESS AND ECONOMICS, MACQUARIE UNIVERSITY,
SYDNEY 2109, AUSTRALIA

06 October 2016

Table of Contents

List of Figures	iv
List of Tables	v
List of Acronyms	vi
Abstract	vii
Statement of Candidate	viii
Acknowledgement	ix
Chapter 1: Introduction	1
Chapter 2: Background	9
2.1 International convergence in the internal audit profession	9
2.2 Ethical climate in the internal audit profession.....	11
Chapter 3: Literature Review	13
3.1 Ethical climate	13
3.2 <i>Guanxi</i>	18
3.2.1 <i>Rent-seeking guanxi</i>	20
3.2.2 <i>Favour-seeking guanxi</i>	21
3.2.3 <i>Supervisor–subordinate guanxi</i>	22
3.3 Regional marketisation differences.....	26
3.4 Organisational deviant behaviour	28
Chapter 4: Theoretical Development and Hypotheses Formulation.....	29
4.1 <i>Guanxi</i> and perceived ethical climate	29
4.1.1 <i>Rent-seeking guanxi and perceived ethical climate</i>	31
4.1.2 <i>Favour-seeking guanxi and perceived ethical climate</i>	32
4.1.3 <i>Supervisor–subordinate guanxi and perceived ethical climate</i>	34
4.2 <i>Rent-seeking guanxi</i> and supervisor–subordinate <i>guanxi</i>	36
4.3 <i>Favour-seeking guanxi</i> and supervisor–subordinate <i>guanxi</i>	37
4.4 Regional marketisation differences and perceived ethical climate	38
4.5 Perceived ethical climate and organisational deviant behaviour	40
Chapter 5: Research Methodology.....	43
5.1 Participants.....	43
5.2 Measures examined.....	44
5.2.1 <i>Rent-seeking guanxi</i>	45
5.2.2 <i>Favour-seeking guanxi</i>	46
5.2.3 <i>Supervisor–subordinate guanxi</i>	46

5.2.4 Perceived ethical climate	46
5.2.5 Regional marketisation differences.....	47
5.2.6 Organisational deviant behaviour	47
5.3 Structural Equation Modelling (SEM).....	48
Chapter 6: Results	49
6.1 Descriptive statistics	49
6.2 Correlation matrix	50
6.3 Descriptive analysis of perceived ethical climate	54
6.4 Descriptive analysis of rent-seeking <i>guanxi</i>	55
6.5 Descriptive analysis of favour-seeking <i>guanxi</i>	56
6.6 Descriptive analysis of supervisor–subordinate <i>guanxi</i>	57
6.7 Structural Equation Modelling (SEM) results	58
6.8 Additional analysis.....	62
Chapter 7: Conclusions	65
7.1 Implications.....	70
7.2 Limitations	72
References.....	73

Appendices

- Appendix 1: Research Instrument
- Appendix 2: Ethics Approval Letter

List of Figures

FIGURE 4.1 Theoretical Model of Perceived Ethical Climate	42
FIGURE 6.1 Results of Structural Equation Modelling (SEM)	60
FIGURE 6.2 Additional Analysis of Model with Direct and Indirect Effects.....	64

List of Tables

TABLE 3.1 Summary of Key Features of Rent-seeking, Favour-seeking, and Supervisor–subordinate Guanxi	25
TABLE 6.1 Demographic Statistics (n=268)	50
TABLE 6.2 Pearson Correlation Coefficients and Reliability Statistics of Variables	52
TABLE 6.3 Descriptive Statistics of Individual Questions Measuring Perceived Ethical Climate.....	55
TABLE 6.4 Descriptive Statistics of Individual Questions Measuring Rent-seeking Guanxi	56
TABLE 6.5 Descriptive Statistics of Individual Questions Measuring Favour-seeking Guanxi	57
TABLE 6.6 Descriptive Statistics of Individual Questions Measuring Supervisor–subordinate Guanxi.....	58
TABLE 6.7 Tabular Results for Theoretical Model	62

List of Acronyms

CCG	Centre for China and Globalisation
CFA	Confirmatory Factor Analysis
CFI	Comparative Fit Index
CIIA	China Institute of Internal Auditors
COSO	Committee of Sponsoring Organizations of Treadway Commission
ECT	Ethical Climate Theory
FDI	Foreign Direct Investments
IFI	Incremental Fit Index
IIA	Institute of Internal Auditors
IPPF	International Professional Practices Framework
JDM	Judgement and Decision Making
NBSC	National Bureau of Statistics of China
ODB	Organisational Deviant Behaviour
RMSEA	Root Mean Square Error of Approximation
SEM	Structural Equation Modelling
TLI	Tucker-Lewis Index
UNCTAD	United Nations Conference on Trade and Development

Abstract

This paper extends internal auditors' judgement and decision making (JDM) research by developing and empirically testing a theoretical model that links *guanxi* and regional marketisation differences to perceived ethical climate and organisational deviant behaviour (ODB) in China. *Guanxi* is selected because it permeates interpersonal relationships among Chinese people in every aspect of organisational and social life in contemporary China. Therefore, *guanxi* is an important cultural variable in understanding ethical climate and ODB in China. *Guanxi* is defined as intricate and pervasive networks whereby individuals are bound by implicit social and psychological contracts to follow norms such as maintaining long-term harmonious relationships, mutual commitment, loyalty, obligation, assurance, and understanding. Specifically, this theoretical model investigates three types of *guanxi*, namely rent-seeking, favour-seeking, and supervisor-subordinate *guanxi* as antecedents to perceived ethical climate. This model also incorporates regional marketisation differences as another important antecedent to perceived ethical climate. This study uses a *Marketisation Index* to measure various degrees of marketisation across three major economic regions, namely the Eastern, Central, and Western Regions of China. The *Marketisation Index* encompasses indicators measuring effectiveness and efficiency of regional compliance, enforcement, and accountability mechanisms. Moreover, this model includes ODB as an important consequence of perceived ethical climate. Most theoretical models pertaining to ethical climate are developed and empirically tested in Anglo-American countries driven by cultural values of individualism and independence. This study suggests that such models may not be applicable to collectivist and interdependent societies such as China, where dominant cultural values include implicit mutual obligation, reciprocity, and *harmony within hierarchy*. These dominant cultural values are embedded in *guanxi*. Internal auditors have been selected because they play a dominant role in enhancing ethical climate, as Chinese regulators place significant importance on internal auditors in designing internal control systems centred around preventing wrongdoing and enhancing ethical practices. Moreover, *guanxi* poses special challenges to Chinese internal auditors because they hold allegiance to both management and the internal audit profession. Findings from Structural Equation Modelling (SEM) support the theoretical model, which shows the importance of *guanxi* and regional marketisation differences in understanding ethical climate and mitigating ODB in China. Evidence shows a negative association between rent-seeking *guanxi* and perceived ethical climate and a positive association between favour-seeking *guanxi* and perceived ethical climate. In addition, internal auditors working in regions with a higher *Marketisation Index* perceive ethical climate to be stronger. The results further validate the theoretical model by showing that ethical climate is negatively associated with internal auditors' ODB. These findings provide holistic insights into linkages among *guanxi*, regional marketisation differences, perceived ethical climate, and ODB. The findings in this study have a number of implications for global standard-setters, such as Institute of Internal Auditors (IIA), Chinese regulators, such as China Institute of Internal Audit (CIIA), Chinese firms, multinational enterprises operating in China, and international organisations with Chinese employees. The model shows that a country's unique contextual factors cannot be ignored in enhancing ethical climate and mitigating ODB.

Statement of Candidate

The work presented in this thesis has not been submitted for a higher degree to any other university or institution. The source of information used and the extent to which the work of others has been utilised is acknowledged in the thesis. Ethics Committee approval has been obtained (Reference Number: 5201600248).

Qirong Song

A handwritten signature in cursive script, reading "Qirong Song". The signature is written in dark ink and is positioned below the printed name.

Acknowledgement

This thesis owes its existence to the help, support, and inspiration of several people. First, I offer my sincerest gratitude to my supervisor, Professor Chris Patel, who has supported me throughout my thesis with his patience and knowledge. I am very appreciative for his selfless time and tireless hours of reading my drafts word-by-word. His feedback and inspiring suggestions have been critical for the development of this thesis content. Moreover, Professor Patel's trust and encouragement enable me to get through tough phases of this research project. His powerful and inspirational influence in my academic career and future will always be remembered and appreciated.

I would also like to sincerely thank Dr. Sammy Ying for her generous help and invaluable comments in improving the quality of the research. Your support and encouragement are very much appreciated.

I am truly grateful to the academics and internal auditors for giving their valuable time and support in participating in the study. Without them, this research project would not have been completed. Most importantly, special thanks to Ms Wang for her precious help and assistance during the field study.

I also owe huge thanks to many colleagues for their assistance and encouragement. My sincere gratitude to Bella Zheng, Peipei Pan, June Cao, and Nazia Adeel for their friendship and support.

Finally, I am indebted to the Faculty of Business and Economics at Macquarie University for granting me the scholarship and offering the funding to undertake this research. I would like to thank the faculty HDR staff for all the support and assistance during my research project.

Chapter 1: Introduction

Given the contemporary global business landscape and the international convergence of auditing professional standards and code of ethics, it is important to understand the influence of various cultural contexts on auditors' judgement and decision making (JDM) (Patel, Harrison, & McKinnon, 2002; Chan, Lin, & Mo, 2003; Patel, 2003; Parboteeah, Martin, & Cullen, 2010; Nolder & Riley, 2013; Wu & Patel, 2015). Specifically, internal auditors' JDM is of particular interest to this study because internal audit is an important component of internal control systems with the objective of improving effectiveness and efficiency of operations, reliability of financial reporting, and compliance with laws, regulations, and policies (Sawyer, 1996). With more than 180,000 members across more than 170 countries and territories, the Institute of Internal Auditors (IIA) emphasises that "internal auditing is conducted in diverse legal and cultural environments" (IIA, 2012a, p. 1). The rapid pace of globalisation poses special challenges to managers, standard-setters, and researchers to possess a more sophisticated "global mindset" to understand internal audit in various cultural contexts (Ramamoorti, 2012). Moreover, *International Standards for the Professional Practice of Internal Auditing*, Section 2110.A1, states that "the internal audit activity must evaluate the design, implementation, and effectiveness of the organisation's ethics-related objectives, programs, and activities" (IIA, 2012c, p. 11). It is therefore suggested that the "global mindset" includes not only understanding traditional technical dimensions of internal audit practices, but also ethics, including ethical climate and ethical behaviour in specific cultural contexts (Parboteeah et al., 2010; Ramamoorti, 2012; Branson, Chen, & Anderson, 2015). Given the current importance of the global convergence of the code of ethics issued by the IIA, there have been calls in the literature to examine how various national cultural contexts may influence internal auditors in enhancing ethical climate and mitigating deviant practices (Sweeney, Arnold, & Pierce, 2010; Nolder & Riley, 2013; Wu & Patel, 2015). Moreover, this study

extends internal auditors' JDM research by developing and empirically testing a theoretical model linking perceived ethical climate to its antecedents and consequences.

Perceived ethical climate is conceptually distinct from actual ethical climate. Lefkowitz (2009) pointed that individual ratings of organisational ethical climate do not necessarily correspond to the organisation's actual ethical climate, even that the organisation has a uniform climate or consistent level of code of ethics. However, extensive prior studies suggest that perceived ethical climate plays dominant role in employees' ethical judgement and decision making (Herndon Jr, Ferrell, LeClair, & Ferrell, 1999; Weeks, Loe, Chonko, & Wakefield, 2004; Shafer, 2008; Shafer & Simmons, 2011; Karatepe & Agbaim, 2012). For example, Shafer (2008)'s study shows that auditors working in Chinese public accounting firms with stronger perceived ethical climate are less likely to judge questionable actions to be ethical. Moreover, Shafer and Simmons (2011)'s study shows that stronger perceived ethical climate reduces Chinese tax accountants' intentions to engage in questionable behaviour. Therefore, it is suggested that perceived ethical climate is an important factor in influencing internal auditors' role of mitigating deviant actions.

This study develops and empirically tests the theoretical model in China because of its growing global economic influences. Specifically, in 2015, China became the second largest foreign direct investments (FDI) destination in the world and exported the third largest amount of FDI to other countries (The United Nations Conference on Trade and Development (UNCTAD), 2016). Moreover, according to the *Chinese International Migration Report 2015*, there are almost 60 million overseas Chinese around the world (Center for China and Globalization (CCG), 2015). A comprehensive understanding of ethical climate in the Chinese context is particularly important for local Chinese firms, multinational enterprises operating in China, and international organisations with Chinese employees.

Moreover, improving ethical climate is a matter of great concern to China (Tsang, 1998; Millington, Eberhardt, & Wilkinson, 2005; Shafer, 2008, 2015; Shafer, Simmons, & Yip, 2016). Ethical climate is a shared perception of both formal and informal organisational procedure, policies, and practices with moral consequences (Martin & Cullen, 2006). A stronger ethical climate raises employees' awareness of moral obligation and facilitates closer psychological contracts between employees and their organisations (Martin & Cullen, 2006; Hsieh & Wang, 2016). Therefore, strong ethical climate plays a dominant role in preventing, detecting, and correcting organisational wrongdoings (Treviño, Butterfield, & McCabe, 1998; Martin & Cullen, 2006; Valentine, Greller, & Richtermeyer, 2006; Shafer, 2008). To tackle increasingly prevalent ethical issues such as corruption and business misconduct, Chinese regulators have focused on enhancing ethical climate (Xi, 2015a; Yu & Zhang, 2015; Zhao & Peng, 2015). Particularly, President Jinping Xi of the People's Republic of China strongly emphasises that it is important to improve ethics at a national level and foster a strong ethical climate to enforce legislation (Xi, 2015b).

Most theoretical models pertaining to ethical climate are developed and empirically tested in Anglo-American countries driven by cultural values of individualism and independence (Kashima, Yamaguchi, Kim, Choi, Gelfand, & Yuki, 1995; Gardner, Gabriel, & Lee, 1999; Cohen, Wu, & Miller, 2016). This study suggests that such models may not be applicable to collectivist and interdependent societies such as China, where dominant cultural values include implicit mutual obligation, reciprocity, and *harmony within hierarchy* (Patel et al., 2002; Patel, 2003, 2006). These dominant cultural values produce a relationship-based governance system in contrast to the rule-based governance system in Anglo-American countries (Hui & Graen, 1998; Liu, Wang, & Wu, 2011; Hennart, 2015; Taylor, Fan, & Tan, 2015). Specifically, in the relationship-based governance, transactions take place via personal and implicit agreements based on interpersonal relationships rather than rigid rules or laws enforceable in courts (Li,

Park, & Li, 2003). Given the context of a relationship-based governance system, the China Institute of Internal Auditors (CIIA) issued *Specific Standards for Internal Auditing*, Section 2305, entitled *Interpersonal Relationships* to encourage internal auditors to develop and maintain close interpersonal relationships with other organisational participants (CIIA, 2013).

Given the importance of interpersonal relationships in internal audit activities and governance systems, *guanxi* has been selected because it permeates interpersonal relationships in every aspect of organisational and social life in contemporary China (Zhao, 2008; Eberhard, 2013; Wu, 2013). *Guanxi* is defined as intricate psychological networks, whereby individuals are bound by implicit social and psychological contracts to follow norms such as maintaining long-term harmonious relationships, mutual commitment, loyalty, obligation, assurance, and understanding (Park & Luo, 2001; Chen & Chen, 2004). *Guanxi* originated in the early stages of Chinese civilisation and continues to evolve as the social context changes (Zhao, 2008; Eberhard, 2013; Wu, 2013). Chinese core cultural values of implicit mutual obligation, reciprocity, and *harmony within hierarchy* are embedded in *guanxi* (Fox, 1987; Lin, 2001; Zhang & Pimpa, 2012; Kuah Pearce, 2016). These core cultural values as embedded in *guanxi* are dominant factors in establishing the personality of Chinese individuals and are likely to influence their ethical decision making. Specifically, the core cultural value of *harmony within hierarchy* as embedded in *guanxi* places individuals in the context of hierarchical relationships (Lin, 2001). Each person is bound by an invisible, unwritten, and unspoken code of reciprocity (Park & Luo, 2001).

Chinese regulators place significant importance on internal auditors in fostering a strong ethical climate, enhancing ethical practices, and countering opportunist behaviour (Zheng & An, 2013). *Guanxi* poses special challenges to internal auditors because they hold allegiance to both management and the internal audit profession (Cooper, Leung, Dellaportas, Ahmad, & Taylor,

2009; Khelil, Hussainey, & Noubbigh, 2016a). On the one hand, professional code of ethics requires internal auditors to maintain integrity and objectivity in forming judgement (IIA, 2009). On the other hand, internal auditors, top management, supervisors, peers, subordinates, and junior staff are bound together by an invisible, unwritten, and unspoken code of reciprocity (Park & Luo, 2001). Internal auditors are motivated and under great pressure to frequently and consistently exchange *qinqing*, *ganqing*, and *renqing* with other organisational participants. It is suggested that core cultural values of mutual obligation, reciprocity, and *harmony within hierarchy* as embedded in *guanxi* may influence internal auditors' perceived ethical climate and deviant behaviours.

Prior findings on the influence of *guanxi* on ethical judgement and decision making are conflicting (Leung & Wong, 2001; Li & Madsen, 2011; Zhan, 2012). Some studies have associated *guanxi* with unethical behaviour, such as backdoor deals, nepotism, and corruption (Schramm & Taube, 2003; Braendle, Gasser, & Noll, 2005). However, other evidence suggests that *guanxi* does not necessarily equate with being unethical (Buttery & Wong, 1999; Leung & Wong, 2001). This study rejects such simplistic conclusions by examining *guanxi* from both positive and negative aspects.

This study selects three types of *guanxi*, namely rent-seeking, favour-seeking *guanxi*, and supervisor–subordinate *guanxi*. These types of *guanxi* are particularly relevant for examining perceived ethical climate and deviant behaviour within organisations. First, in rent-seeking *guanxi*, employees are mainly concerned with their own self-interest and motivated to enhance their own economic and social benefit (Fan, Woodbine, & Scully, 2012a; Fan, Woodbine, Scully, & Taplin, 2012b). Evidence shows that the frequent and complex economic and social exchanges involved in rent-seeking *guanxi* imply unethical overtones to hide the instrumental nature of the relationships (Ang & Leong, 2000). Therefore, this study formulates and tests the

hypothesis that internal auditors with stronger rent-seeking *guanxi* are likely to perceive ethical climate to be weaker. In favour-seeking *guanxi*, organisational participants are motivated to protect the interests and reputation of the organisation and its members (Su & Littlefield, 2001; Su, Sirgy, & Littlefield, 2003; Fan et al., 2012a). Chan, Cheng, and Szeto (2002) posit that favour-seeking *guanxi* is considered to be socially acceptable and ethical. Prior research suggests that the emotional intensity and intimacy in favour-seeking *guanxi* reduce the likelihood of unethical behaviours (Vetlesen, 1994; Fan, Woodbine, & Scully, 2014). Therefore, this study formulates and tests the hypothesis that internal auditors with stronger favour-seeking *guanxi* are likely to perceive ethical climate to be stronger. Supervisor–subordinate *guanxi* is dyadic, particular, and sentimental interpersonal relationships between supervisors and subordinates (Law, Wong, Wang, & Wang, 2000). Organisational participants with stronger supervisor–subordinate *guanxi* are more motivated to develop and maintain harmonious interpersonal relationships with their supervisors and subordinates, and are more concerned with mutual interests and benefit of each other (Babin & Boles, 1996; Law et al., 2000; Han & Altman, 2009; Zhang, Li, & Harris, 2015). Supervisor–subordinate *guanxi* is particularly important in understanding internal auditors’ perceived ethical climate and deviant behaviour because employees are under great pressure to display unquestioning loyalty, submission, and obedience to their supervisors (Han & Altman, 2009; Ying & Patel, 2015). Given the conflicting evidence of the association between supervisor–subordinate *guanxi* and ethical climate in prior research (Han, Peng, & Zhu, 2012; Zhang, Deng, & Wang, 2014), it is suggested that the relationship between supervisor–subordinate *guanxi* and ethical climate is an empirical research question that requires further investigation.

With the objective of examining ethical climate in China, it is important that the theoretical model takes into account the significant level of regional marketisation differences. Marketisation refers to the degree of the region’s market liberalisation and measures the extent

to which the distribution of economic resources is determined by the market (Su, Wan, & Feng, 2015). Based on various socio-economic conditions, the National Bureau of Statistics of China (NBSC) categorises the country into four major economic regions, namely the Eastern, Central, Western, and Northeastern regions (NBSC, 2011). Previous studies have found substantial regional marketisation differences among these four regions (Chen, 1996; Wei & Fan, 2000; Li & Wei, 2010). Specifically, this study uses a *Marketisation Index* to measure regional marketisation differences. *Marketisation Index* encompasses indicators measuring effectiveness and efficiency of regional compliance, enforcement, and accountability mechanisms. Moreover, prior studies propose that regions with a higher *Marketisation Index* are likely to have stronger compliance, enforcement, and accountability mechanisms (Wang, Fan, & Zhu, 2007). Empirical evidence shows that stronger compliance, enforcement, and accountability mechanisms lead to more ethical decision making (Hoffman & Patton, 1997; Hoogervorst, De Cremer, & van Dijke, 2010). Therefore, this study suggests that internal auditors working in regions with a higher *Marketisation Index* are subject to stronger compliance, enforcement, and accountability mechanisms, and, therefore, are likely to perceive ethical climate to be stronger.

Finally, the theoretical model also provides useful insights into how organisational deviant behaviour (ODB), one of the most serious problems facing organisations, is influenced by perceived ethical climate. Ethical climate is an important component of governance mechanisms designated to mitigate ODB (Bennett & Robinson, 2003; Vardi & Weitz, 2003; Kidwell, Martin, Kidwell, & Martin, 2005; Griffith, Kadous, & Young, 2015). Organisational deviant behaviour (ODB) refers to employees' voluntary behaviour that violates organisational norms and values, and in doing so threatens the interests and reputation of an organisation and its members (Robinson & Bennett, 1995, p. 556). Examples of ODB within the audit profession include exerting minimal effort on audit assignments, gathering insufficient information, and

obstructing or sabotaging others' works. Low levels of ODB are particularly crucial for internal audit in improving the effectiveness and efficiency of internal control systems (Dalton, Cohen, Harp, & McMillan, 2014). Previous research shows that stronger ethical climate results in less deviant behaviour (Henle, Giacalone, & Jurkiewicz, 2005; Fortin, Nadisic, Bell, Crawshaw, & Cropanzano, 2015; Mo & Shi, 2015). Therefore, this study suggests that Chinese internal auditors perceiving stronger ethical climate are less likely to engage in ODB.

The findings from Structural Equation Modelling (SEM) support the theoretical model, which shows the importance of *guanxi* and regional marketisation differences in understanding ethical climate and ODB in China. Specifically, findings based on 268 responses of internal auditors from three major economic regions show that (i) internal auditors with stronger rent-seeking *guanxi* perceive ethical climate to be weaker, (ii) internal auditors with stronger favour-seeking *guanxi* perceive ethical climate to be stronger, (iii) both rent-seeking *guanxi* and favour-seeking *guanxi* have significant positive associations with supervisor–subordinate *guanxi*, and (iv) internal auditors working in regions with a higher *Marketisation Index* perceive ethical climate to be stronger. The results further validate the theoretical model by showing that perceived ethical climate is negatively associated with internal auditors' ODB. These findings provide holistic insights into linkages among *guanxi*, regional marketisation differences, perceived ethical climate, and ODB. The findings show that a country's unique contextual factors cannot be ignored in enhancing ethical climate and mitigating ODB.

This paper makes four contributions. First, this study contributes to the literature on ethical climate by developing a theoretical model that links perceived ethical climate to its antecedents and its consequences. Using SEM, this study also provides empirical evidence to support the model. Second, this study contributes to the literature by showing the importance of Chinese cultural context, particularly *guanxi*, in understanding perceived ethical climate and ODB in

China. Third, this study further contributes to prior studies by showing that rent-seeking, favour-seeking, and supervisor–subordinate *guanxi* have different influences on perceived ethical climate and ODB. Fourth, this study contributes to the prior literature by investigating the influence of regional marketisation differences on perceived ethical climate and ODB.

The remainder of the study is organised as follows. Chapter Two provides relevant background information. Chapter Three provides a critical analysis of the previous literature on ethical climate, *guanxi*, regional marketisation differences, and ODB. Chapter Four develops hypotheses. Chapter Five describes the research methodology, followed by the analysis of findings in Chapter Six. The final chapter concludes the study.

Chapter 2: Background

2.1 International convergence in the internal audit profession

The contemporary global business landscape facilitates international convergence of internal audit professional standards and code of ethics. Particularly, the IIA has more than 180,000 members across more than 170 countries and territories (IIA, 2016a). Moreover, the IIA has issued a conceptual framework, entitled *The International Professional Practices Framework* (IPPF), an authoritative guide for internal auditors and internal audit activities globally (IIA, 2016c). The IPPF requires all internal auditors to confirm with the mandatory elements in IPPF including *Core Principles for the Professional Practice of Internal Auditing*, the definition of internal auditing, *Code of Ethics*, and *International Standards for the Professional Practice of Internal Auditing* (IIA, 2016c). In the introduction section of the *International Standards for the Professional Practice of Internal Auditing*, the IIA stresses the importance of cultural diversity in the internal audit profession by stating that, “internal auditing is conducted in diverse legal and cultural environments” (IIA, 2012a, p. 1). However, the IIA does not further emphasise the importance of understanding contextual factors in conducting internal audit

activities. Given the importance of the international convergence of the IPPF, this study suggests that greater emphasis needs to be placed on cultural contexts in examining internal auditors' judgement and decision making.

The CIIA is a national member of the IIA. In introducing *International Standards for the Professional Practice of Internal Auditing* to China, the CIIA has made a number of adjustments according to the unique economic, social, and cultural environment in China (Wang & Yan, 2010). One of the most significant adjustments to the IPPF in China is the issue of *Specific Standards for Internal Auditing*, Section 2305, entitled *Interpersonal Relationships* (CIIA, 2013). This section is designated especially to provide guidance for dealing with interpersonal relationships between internal auditors and other organisational participants (CIIA, 2013). Specifically, Section 2305.5 stipulates that developing and maintaining close interpersonal relationships are important in improving communication and collaboration between internal auditors and other organisational members, and thus enhancing audit quality (CIIA, 2013). Section 2305.6 states that internal auditors should possess adequate awareness and capability to develop and maintain close interpersonal relationships (CIIA, 2013). Section 2305.7 states that internal auditors should maintain independence and objectivity in dealing with interpersonal relationships (CIIA, 2013). Moreover, Section 2305.8 states that internal audit supervisors should regularly evaluate their subordinates' interpersonal relationships and help their subordinates to improve interpersonal relationships based on the evaluation results (CIIA, 2013). In summary, these significant adjustments in the adoption of IPPF in China reflect the importance of developing and maintaining close interpersonal in internal audit activities. This emphasis on interpersonal relationship is closely aligned with Chinese core cultural values, including implicit mutual obligation, reciprocity, and *harmony within hierarchy*. Therefore, it is crucial to take this cultural context into consideration when examining perceived ethical climate and ODB among Chinese internal auditors.

2.2 Ethical climate in the internal audit profession

In more recent years, there has been increased interest in ethical issues in the internal audit profession, and ethical climate has become an important topic of research (Arnold Sr, Dorminey, Neidermeyer, & Neidermeyer, 2013; Ma'Ayan & Carmeli, 2015; DeZoort & Harrison, 2016; Khelil, Khelil, Hussainey, Hussainey, Noubbigh, & Noubbigh, 2016b; Roussy, Brivot, & Parker, 2016). Ethical climate is a shared perception of both formal and informal organisational procedures, policies, and practices with moral consequences (Martin & Cullen, 2006). Strong ethical climate is crucial in designing and implementing effective and efficient internal control systems with the objective of preventing, detecting, and correcting organisational wrongdoings. Internal auditors play a dominant role in enhancing ethical climate. Increasing ethical dilemmas emerge from the conflicting role of internal auditors as they hold allegiance to both management and the internal audit profession (Cooper et al., 2009; Khelil et al., 2016a). This study suggests that research of ethical climate in the internal audit profession is particularly important because of the increasing ethical dilemmas faced by internal auditors.

The IIA defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations” (IIA, 2016b). The scope of internal audit within an organisation is broad and involves a wide range of topics, including organisations’ internal control systems, risk management, safeguarding of assets, the reliability of financial information, and compliance with laws and regulations. In summary, internal audit is a key corporate governance mechanism as well as an internal consultancy service (Stewart & Subramaniam, 2010).

Given that internal auditors proactively participate in a wide range of governance and consultancy activities, they play various roles within organisations. Conflicts may arise from different roles. Specifically, internal auditors are required to be independent of management

but are advisers to that same management (Vinten & Van Peursem, 2005; Burton, Emmett, Simon, & Wood, 2012). They are helpers and protectors of the management team and the organisation (Roussy, 2013). Also, they are experts in supporting audit committee members (Sarens, De Beelde, & Everaert, 2009). They contribute to the integrity of financial information (Reynolds, 2000; Spira & Page, 2003). Prior research acknowledges the presence of conflicts in the role of the internal audit profession (Vinten & Van Peursem, 2005; Cooper et al., 2009), showing that playing one role makes it difficult or impossible for an internal auditor to play another role.

Ethical dilemmas emerging from these conflicts pose special challenges for internal auditors in enhancing ethical climate and mitigating deviant practices. *The International Standards for the Professional Practice of Internal Auditing*, Section 2110.A1, states that “the internal audit activity must evaluate the design, implementation, and effectiveness of the organisation's ethics-related objectives, programs, and activities” (The Institute of Internal Auditors (IIA), 2012c, p. 11). Specifically, the IIA requires an internal auditor to fulfil his or her responsibility to foster a strong ethical climate by regularly performing the following duties.

- “Assessing the state of the organisation’s ethical climate and the effectiveness of its strategies, tactics, communications, and other processes in achieving the desired level of legal and ethical compliance.
- Evaluating the design, implementation, and effectiveness of the organisation's ethics-related objectives, programs, and activities.
- Providing assurance that ethics programs achieve stated objectives, key risks are effectively managed, and controls continue to operate effectively.
- Providing consulting services to help the organisation establish a robust ethics program and improve its effectiveness to the desired performance level.
- Serving as a subject matter expert on ethics-related issues and as a member of the organisation's ethics council (or equivalent).
- Acting as a catalyst for change, promoting and recommending enhancements for the organisation’s governance structure and practices.” (IIA, 2012d, p. 1)

However, as they are exposed to increasing ethical dilemmas, internal auditors may be less capable of fulfilling these responsibilities. To facilitate internal auditors in fostering a strong ethical climate, it is important to examine antecedent factors that influence internal auditors’

perceived ethical climate. Also, an investigation of deviant behaviours provides more useful insights into perceived ethical climate in the internal audit profession.

This research utilises the perceived ethical climate measurement developed by Booth and Schulz (2004). The research instrument developed by Booth and Schulz (2004) evaluates six factors that comprise ethical climate, namely (i) mission and values, (ii) leadership and management influence, (iii) peer group influences, (iv) procedures, rules and code of ethics, (v) ethics training, and (vi) rewards and sanctions. These six factors align and mutually reinforce each other to create a strong ethical climate that promotes greater levels of ethical decision making, namely decision making in the interests of the organisation (Ford & Richardson, 1994; Booth & Schulz, 2004; Bobek & Radtke, 2007). Specifically, organisations with clear missions and values that convey an ethical “tone-at-the-top” engender a strong ethical climate that encourages ethical decision making and ethical behaviours (Ford & Richardson, 1994). Ethics training and procedures, rules and codes of ethics further articulate and reinforce the ethical norms of an organisation (Beeri, Dayan, Vigoda Gadot, & Werner, 2013). Finally, organisational systems of rewards and sanctions create incentives for ethical behaviours (Dalton et al., 2014). Booth and Schulz (2004)’s measurement of perceived ethical climate has been applied and tested for reliability in a number of prior research in the audit profession (Dalton et al., 2014; Bobek, Hageman, & Radtke, 2015).

Chapter 3: Literature Review

3.1 Ethical climate

Ethical climate has been extensively studied in prior research, and the definition of ethical climate is elusive (Victor & Cullen, 1987; Victor & Cullen, 1988; Ford & Richardson, 1994; Booth & Schulz, 2004; Bobek & Radtke, 2007; Shafer, 2015). Of particular relevance, this study defines ethical climate as a shared perception of both formal and informal organisational

procedures, policies, and practices with moral consequences (Martin & Cullen, 2006). This definition has been extensively utilised in examining ethical climate in various organisations across countries (Deshpande & Joseph, 2009; Fu & Deshpande, 2012; Wang & Hsieh, 2012; De Waegeneer, Van De Sompele, & Willem, 2015; Thomas, Adapa, & Joyce, 2015). By defining ethical climate as a shared perception, this definition demonstrates that ethical climate is the result of an individual's subjective assessment, interpretation, and understanding of the environment (Schacter, Gilbert, & Wegner, 2011). Prior research suggests that cultural contexts build up the foundation for individual's subjective assessment, interpretation, and understanding of the environment (Douglas & Schwartz, 1999).

Ethical climate research originates from psychological and sociological studies of individual moral behaviours in the 1980s (Victor & Cullen, 1987; Victor & Cullen, 1988). Specifically, literature about *moral atmosphere* and *just community* arises when developmental psychologists notice the influence of social factors on individual moral behaviour, and recognise that individual characteristics alone are insufficient to explain moral and ethical behaviour (Higgins, Power, & Kohlberg, 1984). To bridge this literature gap, Victor and Cullen (1987) introduce the concept of ethical climate as one dimension of organisational climate, and develop ethical climate theory (ECT), referring to organisational climate¹ research. Climates are shared perceptions of individuals within organisations, and impact an individual's decision-making process (Schneider, 1975; Joyce & Slocum, 1979; Field & Abelson, 1982). As one dimension of organisational climate, ECT shares many of the same key conceptual frameworks with organisational climate research. Field and Abelson (1982) proposed a theoretical climate model, linking different types organisational climate to its important antecedents and

¹ Terms "work climate" and "organisational climate" have been used interchangeably since the early stage of studies in this area (Friedlander & Margulies, 1969; Pritchard & Karasick, 1973; Abbey & Dickson, 1983). "Organisational climate" is more frequently referred to than "work climate". This paper will use the term "organisational climate".

consequences. Martin and Cullen (2006) emphasise the importance of developing and empirically testing a theoretical model that links ethical climate and its antecedents and consequences in ECT studies. These models may cast a light on the exploratory studies of ethical climate from a holistic perspective (Martin & Cullen, 2006).

However, there is a lack of empirical evidence to support holistic theoretical models linking ethical climate to its antecedents and consequences. Martin and Cullen (2006) only empirically tested the associations between ethical climate and its consequences, including organisational commitment, job satisfaction, psychological well-being, and dysfunctional behaviour. They did not include ethical climate's antecedents in the empirical test because prior studies were neither "substantial in number" nor "sufficiently centred around consistent themes" regarding ethical climate's antecedents (Martin & Cullen, 2006). Moreover, a number of researchers have pointed out that the literature investigating the determinants of ethical climate is both "fragmented" and "under-researched" (Martin & Cullen, 2006; Shafer, 2008; Martin, Johnson, & Cullen, 2009). Furthermore, Shafer (2008) has called for studies to develop and test models incorporating both antecedents and consequences of perceived ethical climate. Responding to these calls, this study contributes to prior research by developing and empirically testing a theoretical model linking perceived ethical climate to its antecedents and its consequences.

Increasingly, the rapid pace of globalisation poses special challenges to managers, standard-setters, and researchers to possess a more sophisticated "global mindset" to understand internal auditors' perceived ethical climate in different cultural contexts (Ramamoorti, 2012). Most of the theoretical models pertaining to ethical climate are developed and empirically tested in Anglo-American countries, in which cultural values are driven by individualism and independence (Kashima et al., 1995; Gardner et al., 1999; Cohen et al., 2016). This study suggests that such models may not be applicable to collectivist and interdependent societies

such as China, where dominant cultural values include implicit mutual obligation, reciprocity and *harmony within hierarchy* (Patel et al., 2002; Patel, 2003, 2006). Moreover, Parboteeah et al. (2010) stress that studies assessing ethical climate in various cultural contexts are critical, “particularly now”. This study contributes to the literature by developing and empirically testing the theoretical model in the Chinese cultural context.

There are two main streams of previous ethical climate studies from a cultural perspective, namely cross-national studies and single-country studies. Most cross-cultural studies utilise cultural dimensions theory by comparing ethical climates in countries from different cultural groups, such as individualist countries and collectivist countries (Parboteeah et al., 2010). For example, a study by Parboteeah, Cullen, Victor, and Sakano (2005) compared responses from members of accounting firms in the US and Japan. Specifically, the study shows that, compared to Japanese accountants, US accountants are more likely to perceive that their ethical climate emphasises following companies and national rules (Parboteeah et al., 2005). Cross-national studies assume that individual personal values are consistent with aggregate national cultural values in terms of power distance, individualism, uncertainty avoidance, masculinity, and long-term orientation (Parboteeah et al., 2005; Weeks, Loe, Chonko, Martinez, & Wakefield, 2006; Lopez, Babin, & Chung, 2009; Chuang & Gallano, 2011). However, cross-national studies provide limited insights into the association between cultural contextual factors and ethical climates.

To obtain deeper understandings of the influence of specific cultural contextual factors on perceived ethical climate, this research utilises a single-country study. Previous single-country studies of ethical climate mainly focus on the validity of an ethical climate questionnaire (ECQ) proposed by Victor and Cullen (1987), and particularly consider the consequences of ethical climate (Deshpande, George, & Joseph, 2000; Kim & Miller, 2008; Bulutlar & Öz, 2009). For

example, findings from companies in Turkey show that, in organisations where ethical climate is stronger, bullying behaviours are less likely to occur (Bulutlar & Öz, 2009). A study of managerial employees in state institutions in Russia shows that managerial employees who believed that their organisation had a stronger ethical climate are more likely to perceive that ethics is important in achieving business success (Deshpande et al., 2000). Evidence from a study of the Korean tourism industry shows that stronger ethical climate leads to greater job satisfaction (Kim & Miller, 2008). Though prior single-country studies are predominantly centred around the consequences of ethical climate, this study suggests that single-country studies are also useful in investigating antecedents of ethical climate.

In summary, there is a dearth of studies in linking ethical climate to its antecedents and consequences in a theoretical model. Moreover, given the contemporary global business landscape, it is imperative to develop and empirically test the theoretical models in cultural contexts that are different from Anglo-American cultural contexts, such as China. This research uses a single-country study to develop and empirically test the theoretical model because single-country study provides a deeper understanding of the different influence of various cultural contextual factors. Previous discussion shows that there are limited studies of developing and providing empirical evidence to support a theoretical model that links perceived ethical climate to its antecedents and its consequences. Moreover, it is important to develop and empirically test the theoretical model in China, where dominant cultural values include implicit mutual obligation, reciprocity, and *harmony within hierarchy*. Specifically, the theoretical model as proposed in this study incorporates *guanxi* and regional marketisation differences as antecedents, and ODB as an important consequence of perceived ethical climate.

3.2 *Guanxi*

Guanxi permeates interpersonal relationships among Chinese people in every aspect of their organisational and social life (Fox, 1987; Tsui, Farh, & Xin, 2000; Leung & Wong, 2001; Su et al., 2003; Chan, 2006; Liu, 2013). As discussed earlier, *guanxi* is defined as intricate and pervasive networks whereby individuals are bound by implicit social and psychological contracts to follow norms such as maintaining long-term harmonious relationships, mutual commitments, loyalty, obligation, assurance, and understanding (Park & Luo, 2001; Chen & Chen, 2004). *Guanxi* is an important cultural variable in understanding ethical climate and ODB in China.

Originated in the early stage of Chinese civilisation, *guanxi* constantly evolves as the social context changes (Patel & Psaros, 2000). After the Chinese Economic Reform in 1978 and the increasing pace of globalisation, traditional Chinese cultural values, such as interdependence, restraint in terms of personal desires, and implicit and indirect expression, have been constantly challenged by independent Western cultural concepts (Zeng & Greenfield, 2015). Evidence shows that varying degrees of interdependence and independence coexist in contemporary China (Singelis, Bond, Sharkey, & Lai, 1999; Suizzo, 2007). Moreover, in responding to an increasing market-oriented economy and competition, it has become more prevalent to “say what is on your mind” rather than “read others’ minds”, expressing oneself rather than restraining oneself, and promoting one’s own goals rather than others’ goals (Markus & Kitayama, 1991; Xing, 2016). Moreover, it has been recognised that *guanxi* can be operationalised as a social mechanism that helps to strive for desirable resources within hierarchically structured relationships while maintaining harmony and social order at the same time (Chan, 2006). Specifically, the term *guanxi* was particularly referred to as an instrumental tool to obtain privileges and competitive advantages via “getting to know the right people” in the mid-1970s (Yang, 1994). Discussion of *guanxi* as an instrumental tool first appeared in

Chinese newspapers around 1978 (Yang, 1994). At that time, when resources were first allowed to flow through the market, individuals with controlled state-owned resources exchanged public resources for personal benefit (Su, Mitchell, & Sirgy, 2007). Later on, *guanxi* was utilised in obtaining access to limited resources and information, bridging gaps in information and resource flows between unlinked firms, and facilitating transactions when the environment is uncertain (Zhang & Pimpa, 2012).

Prior findings of the influence of *guanxi* on ethical judgement and decision making are conflicting (Leung & Wong, 2001; Li & Madsen, 2011; Zhan, 2012). Some studies have associated *guanxi* with unethical behaviour, such as backdoor deals, nepotism, and corruption (Schramm & Taube, 2003; Braendle et al., 2005). Specifically, Schramm and Taube (2003) argue that the coexistence of *guanxi* and legal systems makes it much more difficult for the individual citizen to determine the boundary between legal and illegal behaviour. Moreover, Braendle et al. (2005) argue that business-to-government *guanxi*, in particular, harms the Chinese corporate governance system and hampers its further economic development growth. However, other researchers support the view that *guanxi* does not necessarily equate with being unethical (Buttery & Wong, 1999; Leung & Wong, 2001). Buttery and Wong (1999) propose that *guanxi* reflects the ability to be flexible and adapt because it enables rapid reaction within networks based on trust and reciprocity. Leung and Wong (2001) argue that *guanxi* is basically ethical and can be used as a positioning strategy in China.

Given this conflicting evidence in relation to *guanxi* and ethics, examining the influence of three types of *guanxi*, namely rent-seeking, favour-seeking, and supervisor–subordinate *guanxi*, brings sharper insights into the influence of *guanxi* on perceived ethical climate. Rent-seeking and favour-seeking *guanxi* are commonly observed in a wide range of interpersonal relationships among various individuals, such as families, friends, colleagues, and strangers.

Among the wide range of various interpersonal relationships, supervisor–subordinate *guanxi* is selected because internal auditors are under great pressure to display unquestioning loyalty, submission, and obedience to their supervisors (Han & Altman, 2009; Ying & Patel, 2015). In summary, these three types of *guanxi* are important in understanding Chinese internal auditors' perceived ethical climate and their likelihood of engagement in ODB.

3.2.1 Rent-seeking *guanxi*

A rent-seeking theory in political economy is utilised to explain rent-seeking *guanxi*. Rent here refers to the returns over and above the costs of employing a monopolistic resource, such as bureaucratic power, by manipulating government policy (Tollison, 1982). Rent-seeking is synonymous with corruption in imperfect market conditions, in which an official has the power to allocate a resource at a price below the market equilibrium level (Su & Littlefield, 2001; Su et al., 2003).

Rent-seeking *guanxi* reflects on institutional norms signifying social collusion based on a power exchange in a hybrid Chinese socialist market economy (Su et al., 2003). Rent-seeking *guanxi* is market-oriented and its motivation is to maximise self-interest (Hwang, 1987; Ho, Kwock, & James, 2015). Rent-seeking *guanxi* discriminates in favour of the contracting parties at the expense of outsiders or other stakeholders (Su et al., 2003). Rent-seeking *guanxi* also includes gift-giving, hospitality, and social exchange of favours, which are associated with opportunism, illicit payments, and corruption (Millington et al., 2005). Individuals with a strong rent-seeking *guanxi* operationalise *guanxi* as an important instrumental tool to maximise personal economic and social benefit (Pye, 1992; Su & Littlefield, 2001; Su et al., 2003). Specifically, individuals with a strong rent-seeking *guanxi* regard “knowing the right people” as essential to “get things done”. In rent-seeking *guanxi*, individuals are more likely to accept

back-door deals, power exchange, and bureaucratic privilege (Su & Littlefield, 2001; Su et al., 2003; Fan et al., 2012a).

Moreover, in rent-seeking *guanxi*, individuals are bound by implicit reciprocity principles of giving and repaying. Specifically, the reciprocity principles include five components (Yang, 2000). First, when a person offers a favour, it should be accepted. Second, when a favour is given, one is obligated to return it. Third, one should attempt to return the favour promptly. Fourth, when asked for a favour, one should comply, or at least in part. Fifth, one should wait for the favour to be returned, not request its return.

3.2.2 Favour-seeking *guanxi*

Favour-seeking *guanxi* signifies social contacts and interpersonal exchange of resources in a collectivistic society (Su & Littlefield, 2001; Su et al., 2003; Fan et al., 2012a). Moreover, favour-seeking *guanxi* is emotionally driven and rooted in a culture characterised by interdependence (Su et al., 2003). In favour-seeking *guanxi*, individuals are concerned about economic and social benefit of the organisation and its members and are bound by implicit mutual obligation to restrain self-interest (Ang & Leong, 2000; Luo, 2011). Individuals with strong favour-seeking *guanxi* are motivated to support and protect each other from adversity (Ang & Leong, 2000; Luo, 2011). Moreover, individuals with strong favour-seeking *guanxi* perceive other organisational participants as dependable and trustworthy in promoting each other's economic and social benefit (Ang & Leong, 2000; Luo, 2011). The strategic bargaining and calculation of self-interest may damage the emotional underpinnings and harmonious status of favour-seeking *guanxi* (Ang & Leong, 2000; Luo, 2011). Favour-seeking *guanxi* involves unlimited exchange of favours, where both parties are committed to each other on a long-term basis by an unspoken code of reciprocity (Ang & Leong, 2000; Luo, 2011).

Favour-seeking *guanxi* places significant emphasis on *harmony within hierarchy*, with all members bound by rigid socially-constructed rules (Park & Luo, 2001). These socially-constructed rules have origins in Confucianism (Hammond & Glenn, 2004). Confucius proposes *wulun* (五伦, five *lun*) in regards to the norms applied in dealing with five types of interpersonal relationships. *Wulun* sets the foundation for the hierarchical order between superior and subordinates, parents and children, husbands and wives, the elder and the younger, and friends in Chinese society. To maintain *harmony within hierarchy*, individuals are obliged to meet the expectation of their prescribed roles. Specifically, in superior–subordinate *guanxi*, a supervisor treats the subordinates with respect and a subordinate serves the supervisor with loyalty, or *junchen you yi* (君臣有义). In parent–child *guanxi*, parents take responsibility for the education and development of their children and the children obey their parents with filial piety, or *fuzi you qin* (父子有亲). In husband–wife *guanxi*, a husband takes charge of social activities and a wife is responsible for domestic life, or *fufu you bie* (夫妇有别). In elder–younger *guanxi*, the elder treat the younger in a friendly manner and the younger treat the elder with reverence, or *zhangyou you xu* (长幼有序). In friends *guanxi*, friends behave with mutual reciprocity, trust, and obligation, or *pengyou you xin* (朋友有信). In summary, these socially-constructed rules are centred around truthfulness, loyalty, and commitment (Hammond & Glenn, 2004).

3.2.3 Supervisor–subordinate *guanxi*

Supervisor–subordinate *guanxi* is unique in China. It represents dyadic, particular, and sentimental interpersonal relationships between supervisors and subordinates (Law et al., 2000). The overlap between work and social relations is pervasive in China. It is extremely difficult for a Chinese employee to imagine working in an organisation in the absence of broad or far-reaching personal interactions with supervisors (Law et al., 2000). For example, in China, *danwei* (work unit) means far more than a mere workplace, as influenced by multi-hierarchical and collectivistic social infrastructure and core Chinese cultural values (Xing, 1995). More

specifically, workers are bound by *danwei* (work unit) for life. Each *danwei* creates its own housing, child care, schools, clinics, shops, services, and post offices (Lu & Perry, 1997). The influence of a work unit on the life of an individual is substantial (Kwan, Chai, & Tana, 2014). For example, permission has to be obtained from the work units before undertaking some everyday events such as travel, marriage, or having children (Kwan et al., 2014). In *danwei*, supervisors play a dominant role in promoting subordinates' career development, determining their welfare, and giving permission for undertaking everyday events (Law et al., 2000; Han & Altman, 2009; Zhang et al., 2014; Zhang et al., 2015). Therefore, close interpersonal relationships with supervisors are particularly important for Chinese organisational participants. Although by the year 2000, the power of work units had diminished, the close psychological attachment of employees to the organisation and other organisational members, particularly supervisors, persists (Kwan et al., 2014).

In supervisor–subordinate *guanxi*, organisational participants are motivated to develop and maintain harmonious interpersonal relationships with their supervisors and subordinates and are concerned with mutual interests and benefit, (Babin & Boles, 1996; Law et al., 2000; Han & Altman, 2009; Zhang et al., 2015). Specifically, in close supervisor–subordinate *guanxi*, individuals are frequently involved in informal interactions after office hours (Law et al., 2000). Exchanges in supervisor–subordinate *guanxi* cover a wide range of social and economic benefit (Zhang et al., 2014). The parties involved in supervisor–subordinate *guanxi* have unequal rights and different obligation as required by their respective roles in the relationship (Zhang et al., 2014). Subordinates are under pressure to display unquestioning submission, obedience, and loyalty to supervisors, and the supervisor is obliged to support the overall welfare of their subordinates (Zhang et al., 2014).

Key similarities and differences among favour-seeking, rent-seeking, and supervisor–subordinate *guanxi* are summarised in TABLE 3.1. Failure to fulfil mutual commitments and obligation of these three types of *guanxi* could result in social sanctions such as losing reputation and credibility, being ostracised from existing cohesive groups, and being excluded from future social and economic exchanges (Kiong & Kee, 1998). Individuals with strong *guanxi* orientation are motivated to maintain long-term harmonious pervasive networks, enlarge their existing cohesive groups, and consistently make attempts to develop new interpersonal relationships (Chung & Hamilton, 2001; Lu & Reve, 2011; Omar & Higgs, 2015). Therefore, individuals with strong *guanxi* orientation are under great pressure to display trustworthiness and dependability in fulfilling their mutual commitment and obligation (Leung & Wong, 2001; Fan, 2002; Zhang & Pimpa, 2012).

TABLE 3.1 Summary of Key Features of Rent-seeking, Favour-seeking, and Supervisor–subordinate *Guanxi*

Different Types of <i>Guanxi</i>		Rent-seeking <i>guanxi</i>	Favour-seeking <i>guanxi</i>	Supervisor–subordinate <i>guanxi</i>
Similarities		<ul style="list-style-type: none"> • Intricate and pervasive networks • Bound by implicit social and psychological contracts • Maintain long-term harmonious relationships • Mutual commitments, loyalty, obligation, assurance, and understanding 		
Differences	Key Features	<ul style="list-style-type: none"> • More concerned with self-interest • More motivated to maximise own economic and social benefit, even at expenses of others 	<ul style="list-style-type: none"> • More concerned with belonging, fitting in and conformity • More motivated to protect the interests and reputation of the organisation and its members as a part of an extended family 	<ul style="list-style-type: none"> • More motivated to develop and maintain harmonious interpersonal relationships with their supervisors and subordinates • More concerned with mutual interest and benefit of their supervisors and subordinates
	Role of interpersonal relationships	<ul style="list-style-type: none"> • An important instrumental tool to obtain economic and social benefit 	<ul style="list-style-type: none"> • Define one’s place and provide a prescribed role in the social structure 	<ul style="list-style-type: none"> • Important components in their workplace life
	Mutual commitment and obligation	<ul style="list-style-type: none"> • Implicit reciprocity principles of giving and repaying 	<ul style="list-style-type: none"> • Meet the expectation of the prescribed role • Socially-constructed rules centred around truthfulness, loyalty, and commitment 	<ul style="list-style-type: none"> • Supervisors: to support overall welfare of their subordinates • Subordinate: to display unquestioning loyalty, submission, and obedience to their supervisors

3.3 Regional marketisation differences

As discussed earlier, most single-country studies examining ethical climate are at a national level (Deshpande et al., 2000; Kim & Miller, 2008; Bulutlar & Öz, 2009). This study contributes to the literature by investigating the influence of regional marketisation differences on perceived ethical climate. Furthermore, this study suggests that it is crucial to take into account the importance of regional marketisation differences in investigating perceived ethical climate.

Marketisation refers to the degree of the region's market liberalisation and measures the extent to which the distribution of economic resources is determined by the market (Su et al., 2015). The *Marketisation Reform* in China was initiated in 1978 with the objective of transforming China's economy away from a planned economic system and toward a greater market-based economy (Jijun, Zongyi, & Yunying, 2007). Marketisation enables enterprises to operate as market-oriented firms by changing the legal environment in which they operate (Van der Hoeven & Sziraczki, 1997). Chinese regulators have focused their efforts in *Marketisation Reform* on State-owned Enterprises (SOEs). For example, the *Guidance for Furthering SOEs Reform* encourages marketisation of state-owned capital, public resources, and recruitment processes among SOEs (the Central Committee of the Communist Party of China & the State Council of P.R. China, 2015). Moreover, President Jinping Xi stresses the importance of introducing marketisation mechanisms in improving the effectiveness and efficiency of resource allocation (People's Daily, 2016).

In the *Annual Report 2000: Marketisation Index for China's Provinces* by National Economic Research Institute in China, Fan, Wang, and Zhang (2001) developed a *Marketisation Index* to measure the relative position of a region in its progress towards market economy compared to other regions. Specifically, the index is measured into a scale of 0-10 (Fan et al., 2001). Each

province gets an index value between 0-10 based on their values of all indicators of the index respectively (Fan et al., 2001). The index compares the relative distance between provinces on the road towards marketisation, not the absolute distance from each province to the final destination. For example, the province with the highest *Marketisation Index* may be still far away from completion of the market-economy reform, but the index shows that other provinces are even less advanced regarding to marketisation.

According to the theoretical framework and the characteristics of current stages of the reform process in China, the index incorporates a total of 19 institutional arrangements and policies indicators from 5 aspects of the market-oriented reforms (Fan et al., 2001). The 5 aspects are (i) size of the government in the regional economy, (ii) economic structure, mainly concerning the growth of the non-state sector and the reform of the state enterprises, (iii) inter-regional trade barriers, including the price control, (iv) factor-market development, including factor mobility, and (v) legal frameworks. Fan et al. (2001) suggest that development of legal framework, including the setting-up of legal framework for property-rights protection and contract enforcement, is particularly important for China's market-oriented reform. The *Marketisation Index* has been extensively utilised in various economic and social research about regional disparity, legal environment, economic growth, energy efficiency etc. (Cai, Wang, & Du, 2002; Fan, Wong, & Zhang, 2005; Li, Yue, & Zhao, 2009; Ganga, Xiaolua, & Guangrongb, 2011; Pan, Zhang, & Zhang, 2013).

While China has achieved substantial progress in its market-oriented transformation and economic development at a national level, the country continues to be faced with problems of regional disparity (Fan et al., 2001). Based on various socio-economic conditions, the NBSC categorises the country into four major economic regions, namely the Eastern, Central, Western, and Northeastern Regions (NBSC, 2011). A recent report, entitled *the Report of Eight-Years'*

Marketisation Progress in China, 2016, shows that the Eastern region is the most advanced in marketisation, followed by the Northeastern, Central, and Western Regions (Wang, Yu, & Fan, 2016). Researchers propose that regions that are more developed in marketisation are likely to have more effective and efficient compliance, enforcement, and accountability systems (Wang et al., 2007). Prior research suggests that compliance, enforcement, and accountability systems influence the organisational ethical climate and ethical decision making (Martin & Cullen, 2006). Therefore, the theoretical model includes regional marketisation differences as an important antecedent to perceived ethical climate.

3.4 Organisational deviant behaviour

ODB refers to employees' voluntary behaviours that violate organisational norms and values, and in doing so threaten the interests and reputation of an organisation and its members (Robinson & Bennett, 1995, p. 556). These deviant behaviours are generally considered to be unethical and to be driven by self-interest (Vardaman, Gondo, & Allen, 2014). Additionally, dissatisfied employees may also violate organisational rules due to perceived injustices (Vardaman et al., 2014). ODB is selected for examination because it substantially jeopardises overall organisational functioning (Dalton et al., 2014). Examples of ODB include fraud, vandalism, theft, lying, discretionary absenteeism, and job neglect (Robinson & Bennett, 1995).

Dalton et al. (2014) suggest that ODB is especially detrimental in the context of the audit profession, given that audit activities heavily rely on teams where individuals work well together to provide high-quality audits. Examples of ODB within the audit profession include exerting minimal effort on audit assignment, gathering insufficient evidence, and obstructing others' work (Dalton et al., 2014). Teamwork also plays an important role in the internal audit profession. For example, the *International Professional Practices Framework* (IPPF) issued by the IIA defines *internal audit activity* as "a department, division, team of consultants, or

other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations"(IIA, 2012b, p. 21). It is therefore suggested that low level of ODB is important for internal auditors to improve the effectiveness and efficiency of organisational internal control systems. This theoretical model incorporates ODB as an important consequence of perceived ethical climate.

Chapter 4: Theoretical Development and Hypotheses Formulation

4.1 *Guanxi* and perceived ethical climate

Ethical climate is a shared perception of both formal and informal organisational procedures, policies, and practices with moral consequences (Martin & Cullen, 2006). Specifically, organisational procedures, policies, and practices that focus on enhancing ethical behaviours lead to a shared perception of strong ethical climate (Bobek & Radtke, 2007). Evidence shows that a strong perceived ethical climate raises employees' awareness of moral obligation, which may not only prevent individuals from engaging in ethically questionable practices but also enhance their willingness to prevent, detect, and correct organisational wrongdoings (Martin & Cullen, 2006; Shafer, 2008).

Examining internal auditors' perceived ethical climate is particularly important because internal auditors play a dominant role in designing and evaluating organisational procedures, policies, and processes to protect the interests of diverse stakeholder groups in a manner consistent with ethical standards (Committee of Sponsoring Organizations of Treadway Commission (COSO), 2004). As stated in the *International Standards for the Professional Practice of Internal Auditing*, Section 2110.A1, "the internal audit activity must evaluate the design, implementation, and effectiveness of the organisation's ethics-related objectives, programs, and activities" (IIA, 2012c, p. 11).

Guanxi poses special challenges to Chinese internal auditors in fostering a strong ethical climate because they hold allegiance to both management and the internal audit profession. *Guanxi* creates intricate and pervasive networks interwoven by informal particularistic interpersonal relationships in the organisation whereby employees are bound by implicit social and psychological contracts to follow norms such as maintaining long-term harmonious relationships, mutual commitments, loyalty, obligation, assurance, and understanding (Park & Luo, 2001; Chen & Chen, 2004). In these intricate and pervasive networks, internal auditors, top management, supervisors, peers, subordinates and junior staff are bound together by an invisible, unwritten, and unspoken code of reciprocity (Park & Luo, 2001). Disregarding the reciprocity code substantially jeopardises the harmony of a cohesive group and damages the long-term prospects of the relationship (Hwang, 1987; Park & Luo, 2001; Lee & Dawes, 2005; Bedford, 2011). Specifically, failure to fulfil mutual commitment and obligation could result in social sanctions such as loss of reputation and credibility, ostracism from existing cohesive groups, and exclusion from future social and economic exchanges (Kiong & Kee, 1998). Internal auditors with stronger *guanxi* orientation are more motivated to maintain long-term harmonious pervasive networks, enlarge their existing cohesive groups, and consistently make attempts to develop new interpersonal relationships (Chung & Hamilton, 2001; Lu & Reve, 2011; Omar & Higgs, 2015). Therefore, internal auditors with stronger *guanxi* orientation are under greater pressure to display trustworthiness and dependability in fulfilling their mutual commitment and obligation (Leung & Wong, 2001; Fan, 2002; Zhang & Pimpa, 2012). The assurance of trustworthiness and dependability are likely to influence internal auditors in fulfilling their responsibilities of fostering a strong ethical climate.

For the purpose of this study, *guanxi* is categorised into three types, namely rent-seeking *guanxi*, favour-seeking *guanxi*, and supervisor–subordinate *guanxi*. It is important to note that there is considerable overlap among these three types of *guanxi*. As discussed earlier, empirical

evidence shows that individuals can have both strong rent-seeking and favour-seeking *guanxi*² (Fan et al., 2012b). Moreover, attributes of rent-seeking *guanxi* and favour-seeking *guanxi* have been commonly observed in supervisor–subordinate *guanxi* in Chinese organisations and overseas enterprises with Chinese employees³ (Su & Littlefield, 2001; Su et al., 2003). The categorisation of these three *guanxi* types enriches understandings of the influence of *guanxi* on perceived ethical climate. As discussed earlier, TABLE 3.1 provides a summary of key similarities and differences among rent-seeking, favour-seeking, and supervisor–subordinate *guanxi*.

4.1.1 Rent-seeking *guanxi* and perceived ethical climate

As discussed earlier, in rent-seeking *guanxi*, employees are mainly concerned with their own self-interest and are motivated to enhance their own economic and social benefit (Fan et al., 2012a; Fan et al., 2012b). Moreover, members with strong rent-seeking *guanxi* regard interpersonal relationships as instrumental tools to attain their self-interest (Hwang, 1987). Members with stronger rent-seeking *guanxi* place greater emphasis on developing and cultivating intricate and intensified interpersonal relationships with “the right people” to “get things done” (Su & Littlefield, 2001; Su et al., 2003). In a hybrid Chinese socialist market economy, rent-seeking *guanxi* reflects on institutional norms signifying social collusion based on power exchanges (Su & Littlefield, 2001; Su et al., 2003).

Evidence shows that the frequent and complex economic and social exchanges involved in rent-seeking *guanxi* imply unethical overtones to hide the instrumental nature of the

² The correlation between rent-seeking and favour-seeking *guanxi* is empirically tested in this study. Empirical evidence in the Results Chapter shows that rent-seeking *guanxi* and favour-seeking *guanxi* are significantly positively correlated.

³ This study develops two hypotheses in examining the association between rent-seeking *guanxi* and supervisor–subordinate *guanxi*, and favour-seeking *guanxi* and supervisor–subordinate *guanxi*. Empirical evidence in the Results Chapter shows that both the association between rent-seeking *guanxi* and supervisor–subordinate *guanxi* and the association between favour-seeking *guanxi* and supervisor–subordinate *guanxi* are significantly positive.

relationships (Ang & Leong, 2000). For example, a senior employee of a foreign joint venture company refused to see some of the venture's suppliers because the manager knew that once close *guanxi* was developed, it would be difficult for him to reject the suppliers' substandard components (Tsang, 1998, p. 67). Moreover, a manager of a British manufacturing company reported that "my people usually don't seem to think that this kind of hidden bribery, such as illicit payments, corruption, and the pursuit of self-interest, is strange or unjustifiable on ethical grounds. They think it is a common practice" (Millington et al., 2005, p. 261). This reasoning is further supported by evidence that employees with stronger rent-seeking *guanxi* place less importance on ethical issues (Ang & Leong, 2000). With specific reference to auditing, evidence shows that auditors with stronger rent-seeking *guanxi* are more likely to accept clients' suggestions to alter financial positions and reach compromises with clients (Fan et al., 2012a).

In summary, it is suggested that internal auditors with stronger rent-seeking *guanxi* are more motivated to engage in unethical practices to maximise their own economic and social benefit, are likely to place less importance on ethical issues, and are less likely to maintain objectivity and integrity when facing ethical dilemmas. This suggests internal auditors with stronger rent-seeking *guanxi* are likely to perceive ethical climate to be weaker. This leads to the following hypothesis:

H1a: There is a negative association between rent-seeking *guanxi* and internal auditors' perceived ethical climate.

4.1.2 Favour-seeking guanxi and perceived ethical climate

As discussed earlier, employees with stronger rent-seeking *guanxi* are more concerned with their own self-interest (Fan et al., 2012a; Fan et al., 2012b). In contrast, individual desires are heavily downplayed in favour-seeking *guanxi* (Park & Luo, 2001). Members with stronger favour-seeking *guanxi* are more concerned with belonging, fitting-in, and conformity and are

more motivated to protect the interests and reputation of the organisation and its members (Su & Littlefield, 2001; Su et al., 2003; Fan et al., 2012a). Favour-seeking *guanxi* has implicit roles for top management, supervisors, peers, subordinates and junior staff in rigid hierarchical structures (Hammond & Glenn, 2004). To maintain *harmony within hierarchy*, all members are bound by socially-constructed rules (Park & Luo, 2001). These socially-constructed rules have origins in Confucianism and are centred around truthfulness, loyalty, and commitment (Hammond & Glenn, 2004).

Favour-seeking *guanxi* is generally perceived to be socially acceptable and, therefore, ethical (Chan et al., 2002). Moreover, prior research suggests that the emotional intensity and intimacy in favour-seeking *guanxi* reduce the likelihood of unethical behaviours (Vetlesen, 1994; Fan et al., 2014). Evidence shows that in favour-seeking *guanxi*, interpersonal trust is likely to reduce fraud (Kiong & Kee, 1998). Specifically, a Singaporean manager reported that “(in favour-seeking *guanxi*) ...we all are honest. That’s why people like to come here to trade. They trust us. They know we will not cheat them” (Kiong & Kee, 1998, p. 86). With specific reference to auditing, evidence shows that auditors with stronger favour-seeking *guanxi* are more likely to engage in ethical practices in dealing with auditor–client conflicts (Fan et al., 2012a). Specifically, auditors with stronger favour-seeking *guanxi* are more likely to reject clients’ suggestions to alter financial positions, are more likely to comply with accounting and professional standards, and are more likely to maintain integrity in auditor–client conflicts (Fan et al., 2012a).

In summary, it is suggested that internal auditors with stronger favour-seeking *guanxi* are more likely to engage in ethical practices to protect the interests and reputation of the organisation and its members, are likely to place greater importance on ethical issues, and are more likely to maintain objectivity and integrity when facing ethical dilemmas. This suggests that internal

auditors with stronger favour-seeking *guanxi* are likely to perceive ethical climate to be stronger. This leads to the following hypothesis:

H1b: There is a positive association between favour-seeking *guanxi* and internal auditors' perceived ethical climate.

4.1.3 Supervisor–subordinate guanxi and perceived ethical climate

Organisational participants with stronger supervisor–subordinate *guanxi* are more concerned with mutual interest and benefit and are motivated to develop and maintain harmonious interpersonal relationships with their supervisors and subordinates (Babin & Boles, 1996; Law et al., 2000; Han & Altman, 2009; Zhang et al., 2015). Members with stronger supervisor–subordinate *guanxi* are more likely to regard harmonious interpersonal relationships as important in their organisation. Prior research suggests that it is difficult for Chinese employees to work in an organisation “in the absence of broad or far-reaching personal interactions” with their supervisors and subordinates (Law et al., 2000, p. 753). Supervisor–subordinate *guanxi* “determines the appropriate behaviours and treatment of supervisors and subordinates” (Chen & Tjosvold, 2006, p. 1730). Specifically, in stronger supervisor–subordinate *guanxi*, supervisors are under greater pressure to fulfil their commitment and obligation to support the overall welfare of their subordinates. Also, subordinates are under greater pressure to display unquestioning loyalty, submission, and obedience to their supervisors (Han & Altman, 2009; Ying & Patel, 2015). However, evidence of how supervisor–subordinate *guanxi* influences ethical decision making is conflicting and inconclusive.

Some prior studies suggest that stronger supervisor–subordinate *guanxi* leads to weaker ethical climate. For example, evidence shows that supervisors with stronger supervisor–subordinate *guanxi* are more likely to give their subordinates better job assignments, help their subordinates to gain promotion, and give their subordinates more attractive year-end bonuses (Law et al.,

2000). Also, in Han et al. (2012) study, Chinese employees reported that supervisor–subordinate *guanxi* leads to perceptions of procedural injustice, inappropriate treatment, and distributive injustice.

In contrast, other researchers show that stronger supervisor–subordinate *guanxi* may motivate supervisors and subordinates to act ethically (Han & Altman, 2009). For example, a male employee in a law firm reported that "If I'm viewed as a friend, my boss won't do something that is detrimental to me" (Zhang et al., 2014, p. 668). Additionally, a female employee of a foreign-owned manufacturing company reported that "I maintain strong *guanxi* with my boss. After he knew that my husband and I had to take care of our son by ourselves, I found that he gave me more freedom in terms of work time" (Zhang et al., 2014, p. 667). Emerging empirical evidence has shown that strong supervisor–subordinate *guanxi* facilitates collaboration between supervisors and subordinates, creates a harmonious work environment to improve work efficiency and effectiveness, and motivates supervisors and subordinates to share information and thoughts (Law et al., 2000; Han & Altman, 2009; Han et al., 2012; Zhang et al., 2014).

Given the inconclusive evidence from prior research, it is suggested that the relationship between supervisor–subordinate *guanxi* and perceived ethical climate is an empirical research question requiring further investigation. Therefore, the association between supervisor–subordinate *guanxi* and internal auditors' perceived ethical climate will be examined.

Research Question:

What is the influence of supervisor–subordinate *guanxi* on internal auditors' ethical climate?

4.2 Rent-seeking *guanxi* and supervisor–subordinate *guanxi*

As discussed earlier, organisational participants with stronger rent-seeking *guanxi* are more concerned with their own self-interest and are more motivated to enhance their own economic and social benefit (Fan et al., 2012a; Fan et al., 2012b). Moreover, members with stronger rent-seeking *guanxi* are likely to place greater emphasis on developing and cultivating intricate and intensified interpersonal relationships with “the right people” to “get things done” (Su & Littlefield, 2001; Su et al., 2003). Prior research suggests that employees treat their supervisors as “the right people” to enhance their own economic and social benefit (Babin & Boles, 1996; Law et al., 2000; Bolino, Varela, Bande, & Turnley, 2006; Zhang et al., 2015). Evidence shows that employees who have closer interpersonal relationships with their supervisors are likely to get better job assignment, obtain more promotions, and receive more attractive year-end bonuses (Law et al., 2000).

It is therefore suggested that in order to enhance their own economic and social benefit, employees with stronger rent-seeking *guanxi* are more motivated to consistently attempt to develop and strengthen interpersonal relationships with their supervisors. Specifically, Walder (1988) suggested that employees purposely cultivate a relationship with someone in a superior position through displaying unquestioning loyalty, submission, and obedience, giving small gifts, and performing favours, for the purpose of possible future advantages. In summary, it is suggested that staff with stronger rent-seeking *guanxi* are likely to develop and cultivate stronger supervisor–subordinate *guanxi*. This leads to the following hypothesis:

H2a: There is a positive association between rent-seeking *guanxi* and supervisor–subordinate *guanxi*.

4.3 Favour-seeking *guanxi* and supervisor–subordinate *guanxi*

Organisational participants with stronger favour-seeking *guanxi* are more concerned with belonging, fitting-in, and conformity and regard their organisations as *extended families* (Lin, 2001). Moreover, the one-child policy in the People’s Republic of China (in place since 1978) forces the new generation of employees with stronger favour-seeking *guanxi* to seek “brotherhood” and/or “sisterhood” at workplaces (Han & Altman, 2009). This contextual background further leads employees with stronger favour-seeking *guanxi* to regard other organisational members as extended family members (Han & Altman, 2009).

Regarding supervisors in the workplace as elder members of extended families, supervisors and subordinates with strong favour-seeking *guanxi* are bound by socially-constructed roles to maintain *harmony within hierarchy* (Park & Luo, 2001). Specifically, subordinates with strong favour-seeking *guanxi* are bound by filial piety to their supervisors (Hwang, 1999). Moreover, subordinates with stronger favour-seeking *guanxi* are under greater pressure to display unquestioning loyalty, submission, and obedience to their supervisors (Hau siu Chow, 2004). Additionally, supervisors with stronger favour-seeking *guanxi*, as the elder member of extended families, are under greater pressure to protect the overall welfare of their subordinates (Han & Altman, 2009; Han et al., 2012).

Therefore, as bound by their socially-constructed roles, employees and supervisors with stronger favour-seeking *guanxi* are more motivated to develop and cultivate closer interpersonal relationships with each other (Ashforth & Mael, 1989; Burroughs & Eby, 1998; Han & Altman, 2009). This leads to the following hypothesis:

H2b: There is a positive association between favour-seeking *guanxi* and supervisor–subordinate *guanxi*.

4.4 Regional marketisation differences and perceived ethical climate

As discussed earlier, marketisation refers to the degree of a region's market liberalisation and measures the extent to which the distribution of economic resources is determined by the market (Su et al., 2015). The *Marketisation Reform* was initiated in 1978 with the objective of transforming China's economy away from a planned economic system and toward a greater market-based economy (Jijun et al., 2007). Specifically, marketisation enables enterprises to operate as market-oriented firms by changing the legal environment in which they operate (Van der Hoeven & Sziraczki, 1997). While China has achieved substantial progress towards its market-oriented transformation and economic development at a national level, the country continues to be faced with problems of regional disparity (Fan et al., 2001). Moreover, Fan et al. (2001) suggest that development of legal frameworks for property rights protection and enforcement is particularly important for market-oriented reform. Prior research shows that regions that are more developed in marketisation are likely to have more effective and efficient compliance and enforcement systems (Wang et al., 2007).

A *Marketisation Index* provides useful quantitative information about regional economic and social development (Fan et al., 2001). This index has been extensively utilised in various economic and social research to examine regional disparity in legal environment and economic growth in China (Cai et al., 2002; Fan et al., 2005; Li et al., 2009; Ganga et al., 2011; Pan et al., 2013). Given the importance of legal frameworks in the development of a market economy, a *Marketisation Index* incorporates various indicators measuring effectiveness and efficiency of regional compliance and enforcement systems, such as the number of law firms, accounting offices, independent auditing offices, the number of property-rights violation cases, and the number of property-rights application and registration (Fan et al., 2001). A recent report, entitled *the Report of Eight-Years' Marketisation Progress in China, 2016*, shows that the Eastern region has the highest score in the *Marketisation Index*, followed by the Northeastern,

Central, and Western Regions⁴ (Wang et al., 2016). It is therefore suggested that the Eastern region has the most effective and efficient compliance and enforcement systems, followed by the Northeastern, Central, and Western Regions.

More effective and efficient compliance and enforcement systems impose greater accountability (Roberts, 2001; O'Dwyer & Boomsma, 2015). Specifically, when greater accountability is imposed, employees are answerable to superiors for performing up to the prescribed standards in fulfilling obligation, duties, and expectations (Hoffman & Patton, 1997; DeZoort, Harrison, & Taylor, 2006). Moreover, greater accountability poses more pressure on employees to justify their judgement, decisions, and actions (Hall, Bowen, Ferris, Royle, & Fitzgibbons, 2007).

Prior research suggests that the accountability mechanism is one of the fundamental factors in driving individual's ethical judgement and decision making (Hoffman & Patton, 1997; Hoogervorst et al., 2010). Moreover, evidence shows that greater accountability mechanisms result in a stronger perceived ethical climate (Hoffman & Patton, 1997; Hoogervorst et al., 2010). For example, Hoogervorst et al. (2010) provide evidence that accountability puts social pressure on supervisors to disapprove subordinates' unethical behaviour. With specific reference to the auditing profession, Hoffman and Patton (1997) provide empirical evidence that formal accountability results in auditors' more conservative fraud risk judgements.

In summary, a *Marketisation Index* provides useful insights into the effectiveness and efficiency of regional compliance and enforcement systems. Regions with a higher *Marketisation Index* focus more strongly on effective and efficient compliance and enforcement systems with greater accountability mechanisms. Internal auditors working in

⁴ Based on various socio-economic conditions, the NBSC categorises the country into four major economic regions, namely the Eastern, Central, Western, and Northeastern Regions (NBSC, 2011).

regions with a higher *Marketisation Index* are subject to stronger compliance, enforcement, and accountability mechanisms, and, therefore, are likely to perceive their organisational ethical climate to be stronger. This leads to the following hypothesis that:

H3: There is a positive association between regional marketisation and internal auditors' perceived ethical climate.

4.5 Perceived ethical climate and organisational deviant behaviour

ODB refers to employees' voluntary behaviours that violate organisational norms and values, and in doing so threatens the interests and reputation of an organisation and its members (Robinson & Bennett, 1995, p. 556). These deviant behaviours are generally considered to be unethical and to be driven by self-interest or perceived injustice (Vardaman et al., 2014). ODB is especially detrimental in the context of the audit profession (Dalton et al., 2014). Examples of ODB within the audit profession include exerting minimal effort on audit assignment, gathering insufficient evidence, and obstructing others' work (Dalton et al., 2014).

A stronger perceived ethical climate provides an environment for reducing counterproductive and deviant work behaviour in two ways (Martin & Cullen, 2006; Shafer, 2008; Dalton et al., 2014; Hsieh & Wang, 2016). First, a perceived stronger ethical climate raises employees' awareness of their moral obligation, prevents individuals from engaging in questionable practices, and also enhances their willingness to prevent, detect and correct organisational misbehaviour (Martin & Cullen, 2006; Simha & Cullen, 2012). Second, a stronger ethical climate facilitates closer psychological contracts between employees and their organisations. Employees often create a set of expectations about their workplace and tend to make psychological contracts with their organisations. What is critical in maintaining closer psychological contracts is to understand employees' perceptions (Chiu & Peng, 2008). In a weak perceived ethical climate, employees may perceive 'a psychological contract breach by

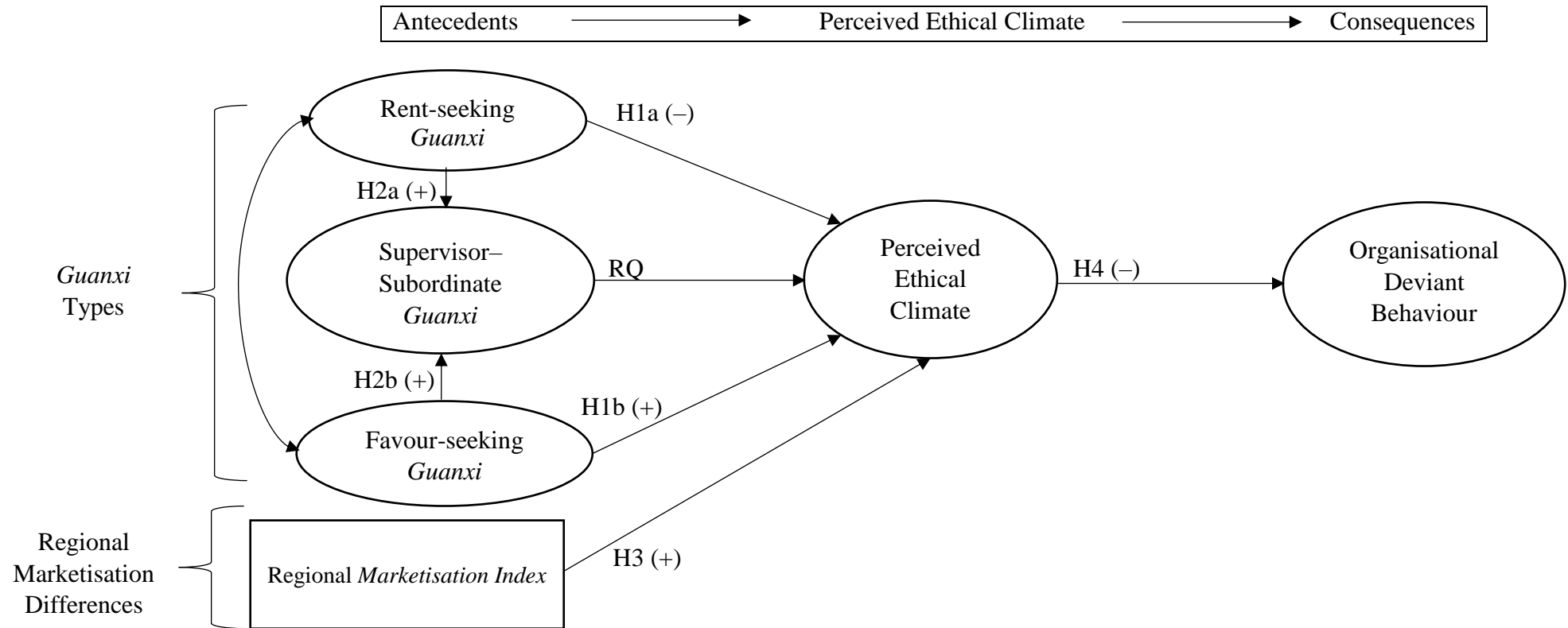
their employers' (Chiu & Peng, 2008, p. 426). This perceived breach of the psychological contract may lead to actual deviant behaviours. In conclusion, a stronger perceived ethical climate is likely to lead to less ODB (Hsieh & Wang, 2016).

Prior studies provide extensive evidence that a stronger perceived ethical climate results in less likelihood of engaging in deviant behaviours (Peterson, 2002; Booth & Schulz, 2004; Hsieh & Wang, 2016). For example, Peterson (2002) provides evidence that US employees with a stronger perceived emphasis on adherence to company rules are less likely to engage in deviant behaviour related to misuse of organisational property. Additionally, evidence in Taiwan shows that a stronger ethical climate in electronics companies resulted in less likelihood of engaging in deviant behaviours, such as "puts little effort into his or her work" or "intentionally worked slower than he or she could have" (Hsieh & Wang, 2016, p. 6). Moreover, Booth and Schulz (2004) provide evidence that US project managers who are subject to a stronger ethical climate are more likely to terminate a failing project compared to managers who perceive the ethical climate to be weaker. In summary, internal auditors with a stronger perceived ethical climate are likely to have stronger moral obligation and closer psychological contracts with their organisations, and, therefore, are less likely to engage in ODB. This leads to the following hypothesis:

H4: There is a negative association between internal auditors' perceived ethical climate and their likelihood of engaging in ODB.

The theoretical model that links rent-seeking *guanxi*, favour-seeking *guanxi*, supervisor–subordinate *guanxi*, and regional marketisation differences to perceived ethical climate and ODB is shown in FIGURE 4.1 Theoretical Model of Perceived Ethical Climate.

FIGURE 4.1 Theoretical Model of Perceived Ethical Climate



Chapter 5: Research Methodology

5.1 Participants

Data for testing the hypotheses were collected using a survey questionnaire administered to internal auditors who attended professional development training programs at a leading university in China.⁵ Internal auditors were selected because they play a dominant role in enhancing the ethical climate, as Chinese regulators place significant importance on internal auditors in preventing business wrongdoings and countering opportunist behaviour (Zheng & An, 2013). A strong ethical climate encourages internal auditors to behave ethically and safeguard the effectiveness and efficiency of internal control mechanisms (Committee of Sponsoring Organizations of Treadway Commission (COSO), 2013; Turner, 2015).

The questionnaire was developed and tested through a number of steps. To ensure the appropriateness of the research instrument design, extensive pilot tests were conducted in Australia and China before data collection, using 10 auditing academics and 10 professional auditors. They were asked to evaluate the questionnaire with the objective of improving its understandability. Based on their feedback, minor suggested amendments were incorporated into the questionnaire.

The research instruments to measure perceived ethical climate, rent-seeking, favour-seeking, and supervisor–subordinate *guanxi* (antecedents), and the likelihood of engaging in organisational deviant behaviour (consequence), were adapted from previous research and initially designed in English. An important step in the development of the research instrument design was to develop an equivalent version in the Chinese language. To ensure the accuracy of translation of the research instrument, the translation and back-translation method was used

⁵ This university has a very good reputation for the academic quality of its auditing degrees (Nanjing Audit University (NAU), 2013).

to confirm that the different language versions of the instrument were conceptually equivalent (Heidhues & Patel, 2012). The English version was translated into Simplified Chinese by an expert who is fluent in both Chinese and English. The Simplified Chinese version was then translated back into English by an independent auditing academic who is expert in both English and Simplified Chinese. The discrepancies between different versions of the instrument were discussed and modified, and this process was repeated until all discrepancies were eliminated. Further, the translation was also reviewed by two auditing bilingual experts who were given both the English and Chinese versions of the questionnaire. They further confirmed the accuracy, understandability, appropriateness, and semantic equivalence of the questionnaire. This procedure ensured the content equivalence of the questionnaire (Wang & Hsieh, 2013).

The research instrument that included a cover letter, a research questionnaire, and an envelope were distributed by investigators during professional development training programs after obtaining necessary ethics approval from relevant committees.⁶ Investigators collected all instruments after all participants left the room, to ensure confidentiality and anonymity. In total, 309 research instruments were randomly distributed. After excluding 41 incomplete questionnaires, a total of 268 usable responses was used for data analysis.

5.2 Measures examined

This study used existing scales where possible (see Appendix A). Higher scores are representative of higher levels for each of the variables used in this study. To ensure that all participants received the same information, all relevant instructions were provided in the same format.

⁶ The ethical aspects of this study have been approved by the Macquarie University Human Research Ethics Committee.

Given that all data were obtained from a single source at a single point in time, namely each participant completed all of the scales at once), this research used Harman's single factor test to assess whether common method bias, namely the extent to which variance is attributable to the measurement method as opposed to the actual variables of interest, was problematic for a study. Harman's single-factor test indicates that common method can be problematic if a single factor emerges from an unrotated factor analysis or if a single factor accounts for the majority of the covariance among the variables (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). Exploratory factor analysis resulted in nine factors with eigenvalues >1.0, and the first factor explained 21.49% of the total variance, indicating that common method bias did not significantly influence participants' responses. Individual measures are discussed next.

5.2.1 Rent-seeking *guanxi*

To measure rent-seeking *guanxi*, this study utilised the rent-seeking *guanxi* scale developed by Fan et al. (2012a). Three items were derived from three Chinese modern business practices identified in rent-seeking *guanxi*, namely (i) back-door deals, (ii) power exchange, and (iii) bureaucratic privilege. Accordingly, the three items are (i) "in business, back door deals are alright as long as everyone prospers", (ii) "power exchange relationships are normal in Chinese business", and (iii) "using bureaucratic privilege is common practice in business". In addition, Fan et al. (2012a) moved the *gift giving* item from the favour-seeking *guanxi* scale developed by Ang and Leong (2000) to the rent-seeking *guanxi* scale. Virtuous *gift giving* derived from traditional rituals, for example, the exchange of mooncakes during the Mid-Autumn Festival is found to be more associated with corruption (Szto, 2016). Consistent with the adoption by Fan et al. (2012a), the factor loadings of all the four items measuring rent-seeking *guanxi* exceeded 0.50. The Cronbach's alpha for rent-seeking *guanxi* was 0.79, suggesting acceptable internal consistency.

5.2.2 Favour-seeking *guanxi*

To measure favour-seeking *guanxi*, this study utilised the *guanxi* scale developed by Fan et al. (2012a). This scale has been utilised widely in previous studies and was found to be a stable measure consistently showing acceptable internal reliability, construct validity, and predictive validity (Su et al., 2003; Leung, Lai, Chan, & Wong, 2005; Ho & Redfern, 2010; Abbott, Daugherty, Parker, & Peters, 2015; Li, Rose, Rose, & Tang, 2015). Two items were removed for low factor loadings (<0.50): (i) “Doing business involves knowing the right people” (factor loading = 0.46); (ii) “one must always build and maintain social relations with others in case they are needed in the future” (factor loading = 0.46). After removing these two items, Cronbach’s alpha for favour-seeking *guanxi* equalled 0.71, indicating acceptable reliability.

5.2.3 Supervisor–subordinate *guanxi*

To measure supervisor–subordinate *guanxi*, this study utilised the scale developed by Law et al. (2000) because extensive studies have shown that the supervisor–subordinate *guanxi* scale developed by them is applicable and validated in *guanxi* studies in China (Wong, Wong, Hui, & Law, 2001; Gelfand, Erez, & Aycan, 2007; Zhang et al., 2015). Example items include “during holidays or after office hours, I would call my supervisor or visit him/her” and “my supervisor invited me to his/her home for lunch or dinner”. In this research, two items were removed because of low factor loadings: (i) “I always actively share with my supervisor about my thoughts, problems, needs and feelings” (factor loading = 0.49), and (ii) “when there are conflicting opinions, I will stand on my supervisor’s side” (factor loading = 0.26). Cronbach’s alpha for supervisor–subordinate *guanxi* was 0.81, indicating good internal consistency.

5.2.4 Perceived ethical climate

To measure perceived ethical climate, this study used the ethical environment scale developed by Bobek and Radtke (2007). Example items include “My organisation has effective ethics

training programs” and “Other individuals within my organisation adhere to the organisation’s code of ethics”. The scales developed by Bobek and Radtke (2007) has been tested for reliability and validity among auditors, tax professionals, accounting professionals (Bobek & Radtke, 2007; Bobek, Hageman, & Radtke, 2010; Dalton et al., 2014; Bobek et al., 2015). The factor loadings for all items exceeded the 0.50 level, and Cronbach’s alpha for ethical climate was 0.94, indicating excellent internal consistency.

5.2.5 Regional marketisation differences

The NBSC categorises China into four major economic regions, namely the Eastern, Central, Western, and Northeastern Regions (NBSC, 2011). Each region is composed of several provinces. Internal auditors participating in this study came from three of the four major economic regions. To measure regional marketisation differences, this study used the *Marketisation Index* developed by Fan et al. (2001). The *Marketisation Index* shows one region’s relative position in the progress towards a market economy compared to other provinces (Fan et al., 2001). This index has been extensively utilised widely in economic and social research to examine regional disparity in legal environment and economic growth in China (Cai et al., 2002; Fan et al., 2005; Li et al., 2009; Ganga et al., 2011; Pan et al., 2013). Specifically, according to the report, entitled *Report of Eight-Years’ Marketisation Progress in China* by Wang et al. (2016), this study calculated each province’s average *Marketisation Index* from 2008 to 2014. Then, this study calculated regional *Marketisation Index* by taking the average of its provinces’ average from 2008 to 2014. Specifically, the *Marketisation Index* for the Eastern, Central and Western Regions are 5.96, 6.02, and 7.59 respectively.

5.2.6 Organisational deviant behaviour

To measure ODB, this study utilised the organisational deviance scale adapted by Dalton et al. (2014). Specifically, this research removed the following two items that are not applicable to

China, given an overtime rate is not commonly paid by Chinese organisations: How often have you (i) “taken an additional or longer break than is acceptable at your workplace”, and (ii) “dragged out work in order to get overtime”. Furthermore, this study removed the following four scale items for low factor loadings (<0.50): How often have you (i) “spent too much time daydreaming instead of working” (factor loading = 0.33), (ii) “falsified a receipt to get reimbursed for more money than you spent on business expenses” (factor loading = 0.41), (iii) “come in late to work without permission” (factor loading = 0.45), and (iv) “littered your work environment” (factor loading = 0.43). The Cronbach’s alpha for ODB scale equalled 0.86, indicating good reliability.

5.3 Structural Equation Modelling (SEM)

SEM refers to a diverse set of mathematical models, computer algorithms, and statistical methods that represent dependency relations in multivariate data in the behavioural and social sciences (Anderson & Gerbing, 1988; McDonald & Ho, 2002; Byrne, 2013). This study utilises SEM to analyse data because this methodology for data analysis is of particular relevance to this study for two reasons. First, SEM provides holistic insights into the links among antecedents, the main issue, and consequences, which is consistent with this study’s objective of empirically testing the linkages among *guanxi*, regional marketisation differences, perceived ethical climate, and ODB (Byrne, 2013). Specifically, compared with regression analysis, SEM is used to analyse the associations among several variables inter-related by a group of linear equations. In SEM, the rules become more complex, and the calculations are more difficult, but the underlying concept remains the same as in regression analysis of single linear relationships, namely analysing whether variables are interrelated through a set of linear relationships by examining the variances and covariances of the variables (McDonald & Ho, 2002). Second, most of the variables in this study, namely favour-seeking *guanxi*, rent-seeking *guanxi*, supervisor–subordinate *guanxi*, perceived ethical climate and ODB are latent variables,

and can only be measured by observable items. SEM is often used to assess unobservable “latent” constructs. Use of SEM is commonly justified in the social sciences because of its ability to impute relationships between unobserved constructs, or latent variables, from observable items (McDonald & Ho, 2002). Therefore, SEM is a suitable data analysis methodology in this research.

There is no general consensus on the appropriate method for determining adequate sample size for SEM. Most prior researchers recommend a subject-to-parameter ratio of at least 4:1 to 6:1 for SEM (Bentler & Chou, 1987; Hoyle, 1991). In this study, the theoretical model estimates 40 free parameters. The sample size of this study is 268, resulting in a subjects-to-parameter ratio of 6.70:1, which exceeds the recommended 6:1 ratio. Therefore, the results of SEM are not overly sensitive to issues related to sample size.

Chapter 6: Results

6.1 Descriptive statistics

Completed responses were received from 268 of the 309 internal auditors to whom questionnaires were distributed, representing a response rate of 87%. The demographic details of the respondents are shown in TABLE 6.1. Overall, approximately 33% of the respondents were in the age group of 40 to 49 years, 52% were males, 62% were junior internal auditors, and 32% were supervisors. Of the respondents, 54% had more than 12 years internal auditing experience, while 66% of the respondents were from small enterprises with less than 250 employees. Additionally, 49% of respondents were from the region with the highest *Marketisation Index*.

TABLE 6.1 Demographic Statistics (n=268)

Age	
Less than 20	0.0%
20–24	3.4%
25–29	11.6%
30–34	12.7%
35–39	21.6%
40–49	32.8%
50–59	17.9%
60 or over	0.0%
Gender	
Male	51.5%
Female	48.5%
Current Position	
Junior	62.3%
Supervisor	32.1%
Senior Supervisor	2.6%
Manager	1.9%
Senior Manager	1.1%
Professional Experience	
Less than 1 year	2.6%
1–3 years	13.1%
4–6 years	13.8%
7–9 years	6.7%
10–12 years	10.1%
Greater than 12 years	53.7%
Company Size	
Small (less than 250 employees)	66.0%
Medium (more than or equal to 250 employees, and less than 500 employees)	7.5%
Large (more than or equal to 500 employees)	18.7%
Not sure	7.8%
Region*	
Eastern Region	42.9%
Central Region	37.7%
Western Region	19.4%

* The Eastern Region has the highest *Marketisation Index*, followed by the Central and Western Regions.

6.2 Correlation matrix

TABLE 6.2 reports the correlation matrix with means, standard deviation, and reliability statistics for the variables used in this study. To examine whether data analysis should include

any control variables, the correlation matrix also includes several demographic variables (*EXP*, *SIZE*, *AGE*, *GEN*, and *POS*) besides regional *Marketisation Index*. Regarding the demographic variables, this study notes that internal auditors employed by larger enterprises and more senior internal auditors have weaker rent-seeking *guanxi*. Additionally, male internal auditors have stronger supervisor–subordinate *guanxi* compared to female internal auditors. Perceived ethical climate and ODB are not significantly correlated with any of the demographic variables. Therefore, to preserve statistical power, this study did not include other demographic variables (*EXP*, *SIZE*, *AGE*, *GEN*, and *POS*) as control variables within SEM.

TABLE 6.2 Pearson Correlation Coefficients and Reliability Statistics of Variables

	<u>Mean</u>	<u>Std Dev.</u>	<u>RGX</u>	<u>FGX</u>	<u>SSGX</u>	<u>PEC</u>	<u>ODB</u>	<u>EXP</u>	<u>SIZE</u>	<u>AGE</u>	<u>GEN</u>	<u>POS</u>	<u>REG</u>
<i>RGX</i>	13.90	5.50	0.79										
<i>FGX</i>	32.96	4.60	0.41**	0.71									
<i>SSGX</i>	14.47	4.82	0.28**	0.36**	0.81								
<i>PEC</i>	42.46	7.64	-0.20**	0.07	0.08	0.94							
<i>ODB</i>	4.40	2.68	0.16**	-0.09	-0.07	-0.29**	0.86						
<i>EXP</i>	4.70	1.63	-0.07	0.03	0.05	-0.03	-0.08	NA					
<i>SIZE</i>	1.68	1.03	-0.14*	-0.07	-0.04	-0.06	-0.03	0.12	NA				
<i>AGE</i>	5.23	1.38	-0.13*	0.02	0.02	0.10	-0.12	0.75**	0.19**	NA			
<i>GEN</i>	1.49	0.50	-0.03	0.06	-0.18**	0.00	-0.09	-0.15*	0.18**	-0.14*	NA		
<i>POS</i>	1.47	0.74	-0.07	0.01	0.01	-0.11	-0.07	0.39**	0.14*	0.40**	-0.19**	NA	
<i>REG</i>	6.30	0.64	0.46	-0.01	-0.01	0.10	-0.12	-0.12*	-0.20**	-0.21**	0.05	-0.10	NA

*, ** Significant at the $p < 0.05$ and $p < 0.01$ levels, respectively.

Bold statistics on the diagonal represent Cronbach alpha coefficients.

Variable Definitions:

RGX = rent-seeking *guanxi*;

FGX = favour-seeking *guanxi*;

SSGX = supervisor–subordinate *guanxi*;

PEC = perceived ethical climate;

ODB = organisational deviant behaviour;

EXP = professional internal auditing experience; 1 for participants with professional internal auditing experience less than 1 year, 2 for participants with professional internal auditing experience from 1 to 3 years; 3 for participants with professional internal auditing experience from 4 to 6 years, 4 for professional internal auditing experience from 7 to 9 years, 5 for participants with professional internal auditing experience from 10 to 12 years, and 6 for participants with professional internal auditing experience more than 12 years;

SIZE = company size; 1 for participants employed in small enterprises (less than 250 employees), 2 for participants employed in medium enterprises (more

than or equal to 250 employees, and less than 500 employees), and 3 for participants employed in large enterprises (more than 500 employees);

AGE = age; 1 for participants in the age group less than 20, 2 for participants in the age group of 20 to 24 years, 3 for participants in the age group of 25 to 29 years, 4 for participants in the age group of 30 to 34 years, 5 for participants in the age group of 35 to 39 years, 6 for participants in the age group of 40 to 49 years, 7 for participants in the age group of 50 to 59 years, and 8 for participants in the age group of 60 years and over;

GEN = gender; 1 for males, and 2 for females;

POS = current position; 1 for junior internal auditors, 2 for supervisors, 3 for senior supervisors, 4 for managers and 5 for senior managers

REG = regional *Marketisation Index*.

Regarding the variables of interest in this study, it is shown that the correlation between rent-seeking *guanxi* and favour-seeking *guanxi* is significantly positive. Rent-seeking *guanxi* and favour-seeking *guanxi* are both positively associated with supervisor–subordinate *guanxi*. Rent-seeking *guanxi* is negatively associated with perceived ethical climate. Favour-seeking *guanxi* is positively associated with perceived ethical climate. However, supervisor–subordinate *guanxi* and regional *Marketisation Index* are not significantly associated with perceived ethical climate. Finally, as expected, perceived ethical climate is negatively associated with ODB.

6.3 Descriptive analysis of perceived ethical climate

To examine perceived ethical climate among internal auditors in China, TABLE 6.3 presents descriptive statistics for individual questions measuring perceived ethical climate. As shown in TABLE 6.3, 71.64% of internal auditors agree that “superiors within my organisation clearly support all organisational efforts to encourage ethical behaviour”. Further, 64.93% of internal auditors believe their colleagues within the organisation act ethically. Additionally, 63.81% of Chinese internal auditors agree or strongly agree with the statement that “superiors within my organisation act ethically”. Taken together, the results in TABLE 6.3 suggest that a majority percentage of internal auditors perceive their organisational ethical climate to be strong.

TABLE 6.3 Descriptive Statistics of Individual Questions Measuring Perceived Ethical Climate

	Mean	Agree or Strongly Agree
Unethical behaviour is severely punished within my organisation	3.57	56.72%
My organisation has effective ethics training programs	3.22	39.55%
As a whole, my organisation has strong ethical values that reinforce ethical decision making.	3.46	53.36%
Other individuals within my organisation adhere to the organisation's code of ethics	3.59	63.06%
Special recognition is given to individuals who demonstrate ethical behaviour within my organisation	3.53	55.22%
Superiors within my organisation act ethically.	3.60	63.81%
Individuals within my organisation strongly identify with the organisation	3.58	58.58%
Colleagues within my organisation act ethically	3.68	64.93%
My organisation is greatly concerned with ethical behaviour	3.60	61.19%
Superiors within my organisation clearly support all organisational efforts to encourage ethical behaviour	3.75	71.64%
My organisation's ethics training programs focus on practical issues and encourage ethical decision making	3.52	55.22%
My organisation emphasises ethics over profitability.	3.37	47.01%

Scale Items: 1 = strongly disagree, 2 = disagree, 3 = neither agree or disagree, 4 = agree, 5 = strongly agree.

6.4 Descriptive analysis of rent-seeking *guanxi*

To examine Chinese internal auditors' rent-seeking *guanxi*, TABLE 6.4 presents descriptive statistics for individual questions measuring rent-seeking *guanxi*. The study found that 45.90% of participants believe that "using bureaucratic privilege is common practice in business". Moreover, 26.87% of Chinese internal auditors agree that "power exchange relationships are normal in Chinese business". In addition, 29.48% of participants consider "gift giving" as "an important aspect in business success". Finally, 15.30% of respondents believe "back door deals are alright as long as everyone prospers" in business. Therefore, it is shown that, in China, internal auditors have strong rent-seeking *guanxi*.

TABLE 6.4 Descriptive Statistics of Individual Questions Measuring Rent-seeking *Guanxi*

	Mean	Somewhat Agree, Mostly Agree or Strongly Agree
Gift giving is an important aspect in business success.	3.72	29.48%
In business, back door deals are alright as long as everyone prospers.	2.94	15.30%
Power exchange relationships are normal in Chinese business.	3.22	26.87%
Using bureaucratic privilege is common practice in business.	4.01	45.90%

Scale Items: 1 = strongly disagree, 2 = mostly disagree, 3 = somewhat disagree, 4 = neither agree nor disagree, 5 = somewhat agree, 6 = mostly agree, 7 = strongly agree.

6.5 Descriptive analysis of favour-seeking *guanxi*

To examine the extent of favour-seeking *guanxi* among Chinese internal auditors, TABLE 6.5, presents descriptive statistics in relation to individual questions measuring favour-seeking *guanxi*. It shows that 99.25% of Chinese internal auditors somewhat agree, mostly agree, or strongly agree with the statement that “in business, it is important to maintain a good network of relationships”. Furthermore, 95.15% of Chinese internal auditors agree that “developing the right contacts helps in the smooth running of business”. 75.75% of Chinese internal auditors consider “maintaining good relationships” as “the best way to enhance business”. Additionally, 65.57% of Chinese internal auditors believe “returning favour for favour is part of doing business”. Taken together, the majority of internal auditors have strong favour-seeking *guanxi*.

TABLE 6.5 Descriptive Statistics of Individual Questions Measuring Favour-seeking *Guanxi*

	Mean	Somewhat Agree, Mostly Agree or Strongly Agree
In business, it is important to maintain a good network of relationships.	6.38	99.25%
Developing the right contacts helps in the smooth running of a business.	6.29	95.15%
Being in the ‘inside’ circle helps in obtaining preferential treatment.	5.32	75.00%
Returning favour for favour is part of doing business.	4.79	61.57%
Frequent cooperation reduces problems in business relationships.	4.88	64.93%
Maintaining good relationships is the best way to enhance business.	5.29	75.75%

Scale Items: 1 = strongly disagree, 2 = mostly disagree, 3 = somewhat disagree, 4 = neither agree nor disagree, 5 = somewhat agree, 6 = mostly agree, 7 = strongly agree.

6.6 Descriptive analysis of supervisor–subordinate *guanxi*

To examine supervisor–subordinate *guanxi* among Chinese internal auditors, TABLE 6.6 presents descriptive statistics for individual questions measuring supervisor–subordinate *guanxi*. It shows that 39.93% of Chinese internal auditors have been treated specially by their supervisors by being invited to lunch or dinner at their supervisors’ home. Of those responding to the questionnaire, 29.48% Chinese internal auditors “care about and have a good understanding of” their supervisor’s family and work conditions”. In addition, 22.39% of participants express that they will definitely visit their supervisors and send gifts on special occasions, such as their supervisors' birthday. Taken together, the results in TABLE 6.6 show that Chinese internal auditors have strong supervisor–subordinate *guanxi*.

TABLE 6.6 Descriptive Statistics of Individual Questions Measuring Supervisor–subordinate *Guanxi*

	Mean	Somewhat Agree, Mostly Agree or Strongly Agree
During holidays or after office hours, I would call my supervisor or visit him/her	3.35	22.01%
My supervisor invites me to his/her home for lunch or dinner.	3.99	39.93%
On special occasions such as my supervisor's birthday, I would definitely visit my supervisor and send him/her gifts.	3.43	22.39%
I care about and have a good understanding of my supervisor's family and work conditions.	3.71	29.48%

Scale Items: 1 = strongly disagree, 2 = mostly disagree, 3 = somewhat disagree, 4 = neither agree nor disagree, 5 = somewhat agree, 6 = mostly agree, 7 = strongly agree.

6.7 Structural Equation Modelling (SEM) results

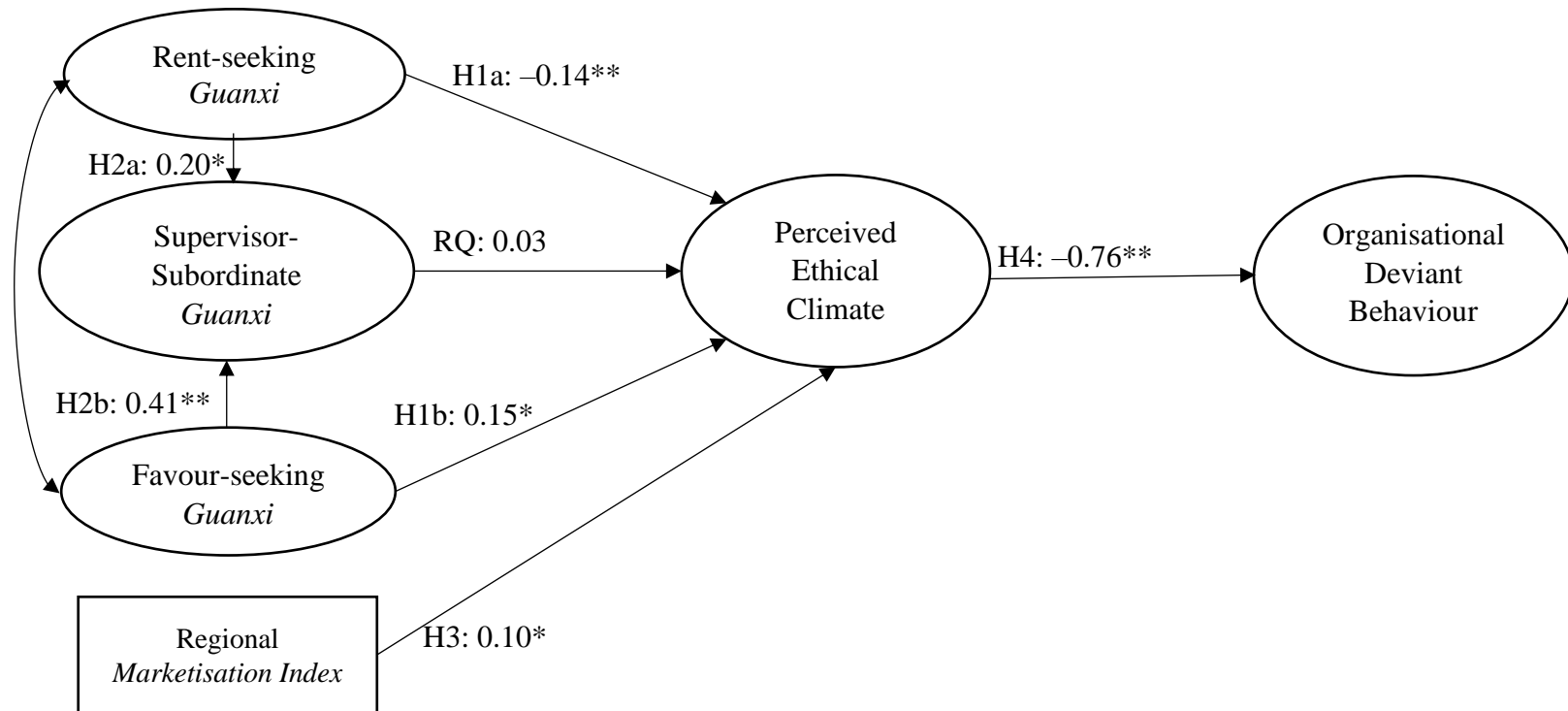
To test the hypotheses, this study uses the AMOS software program with the maximum likelihood estimation technique. Following modelling recommendations, this study estimates the structural equation model in two stages (Kline, 2015). In the first stage, this study uses Confirmatory Factor Analysis (CFA) to estimate the measurement model. The objective of CFA is to test whether the data fit a hypothesised measurement model. In this study, the five key model fit indices indicated that the measurement model had an acceptable fit. Specifically, RMSEA is a model error term related to the difference between the actual sample data and the expected data derived from the model (Byrne, 2013). A lower value of RMSEA indicates a better fit of the model (Byrne, 2013). In this study, RMSEA (0.05) is below the recommended 0.08 level (Browne & Cudeck, 1992). Chi-square value is a measure of the difference between the actual relationships in the sample and the expected relationship based on the model (Byrne, 2013). The Chi-square value must be interpreted in terms of its degrees of freedom (Byrne, 2013). If a model represents the actual relationships in the sample well, the ration of Chi-square to degree of freedom will be close to 1 (Byrne, 2013). In this study, the Chi-square to degrees of freedom ratio of 1.55 is below the recommended 2-to-1 ratio (Carmines & McIver, 1981).

Comparative Fit Index (CFI), Tucker-Lewis Index (TLI), and Incremental Fit Index (IFI) are three indices representing the extent to which the hypothesised model is better than the null model where all variables are uncorrelated (Byrne, 2013). CFI, TLI, and IFI values that approach 1 show acceptable fit (Byrne, 2013). The CFI, TLI, and IFI of the theoretical model in this study is 0.95, 0.94, and 0.95, demonstrating acceptable levels of fit (Bentler, 1992; Hu & Bentler, 1999).⁷

In the second stage of analysis, this study uses path analysis to describe the directed dependencies, namely coefficients, among a set of variables. As shown in FIGURE 6.1 Results of Structural Equation Modelling, the structural equation model demonstrates adequate level of fit (CFI = 0.95, NNFI = 0.94, IFI = 0.95, RMSEA = 0.05, and Chi-square/df = 1.56). The majority of the proposed hypotheses are supported by significant path coefficients displayed in FIGURE 6.1.

⁷ For both the CFI and the IFI, values greater than 0.90 represent adequate levels of fit (Bentler, 1992; Byrne, 2013). Further, Hu and Bentler (1999) indicate that NNFI values close to 0.95 are indicative of good fit.

FIGURE 6.1 Results of Structural Equation Modelling (SEM)



*, ** Denote $p < 0.05$, and $p < 0.01$, respectively.

CFI (> 0.90) = 0.95

NNFI or TLI (close to 0.95) = 0.94

IFI (> 0.90) = 0.95

RMSEA (< 0.08) = 0.05

Chi-square/df ($< 2:1$) = 1.56

H1a proposes that stronger internal auditors' rent-seeking *guanxi* will be negatively associated with perceived ethical climate. Consistent with H1a, results show that Chinese internal auditors with stronger rent-seeking *guanxi* are likely to perceive ethical climate to be weaker ($\beta = -0.14$, $p < 0.01$). H1b predicts that stronger internal auditors' favour-seeking *guanxi* will be positively associated with perceived ethical climate. H1b is supported by a significant, positive path between favour-seeking *guanxi* and perceived ethical climate ($\beta = 0.15$, $p = 0.04$), indicating that Chinese internal auditors with stronger favour-seeking *guanxi* are likely to perceive ethical climate to be stronger. With respect to the research question of the association between supervisor–subordinate *guanxi* and perceived ethical climate, evidence shows that the association between supervisor–subordinate *guanxi* and ethical climate is not significant ($\beta = 0.03$, $p = 0.44$). Taken together, these results show that rent-seeking *guanxi* and favour-seeking *guanxi* have significant influences on internal auditors' perceived ethical climate.

H2a and H2b predict that strong rent-seeking *guanxi* and strong favour-seeking *guanxi* are positively associated with supervisor–subordinate *guanxi*. FIGURE 6.1 shows significant positive relationships between rent-seeking *guanxi* and supervisor–subordinate *guanxi* ($\beta = 0.20$, $p = 0.05$), and between favour-seeking *guanxi* and supervisor–subordinate *guanxi* ($\beta = 0.41$, $p < 0.01$). Therefore, the results support both H2a and H2b. Taken together, these results suggest significant interrelations among different types of *guanxi*.

H3 posits that regional *Marketisation Index* will be positively associated with perceived ethical climate. This hypothesis is supported by the significant, positive path between the *Marketisation Index* and perceived ethical climate ($\beta = 0.10$, $p = 0.02$). Results show that internal auditors working in the Eastern Region with the highest *Marketisation Index* perceive ethical climate to be the strongest, followed by internal auditors working in the Central and Western Regions.

Regarding the consequences of perceived ethical climate, H4 predicts that perceived ethical climate will be negatively associated with organisational deviant behaviour (ODB). FIGURE 6.1 shows a significant, negative association between ethical climate and ODB ($\beta = -0.76$, $p < 0.01$). Therefore, the result supports H4. Specifically, the results suggest that internal auditors perceiving ethical climate to be stronger are less likely to engage in ODB. TABLE 6.7 summarises the results.

TABLE 6.7 Tabular Results for Theoretical Model

Dependent Variable	Predictor Variable	Prediction	Path Coefficient	p-value
<i>PEC</i>	<i>RGX</i>	H1a, –	–0.14	<0.01
<i>PEC</i>	<i>FGX</i>	H1b, +	0.15	0.04
<i>PEC</i>	<i>SSGX</i>	RQ	0.03	0.44
<i>SSGX</i>	<i>RGX</i>	H2a, +	0.20	0.05
<i>SSGX</i>	<i>FGX</i>	H2b, +	0.41	<0.01
<i>PEC</i>	<i>REG</i>	H3, +	0.10	0.02
<i>ODB</i>	<i>PEC</i>	H4, –	–0.76	<0.01

Variable Definitions:

PEC = perceived ethical climate;

RGX = rent-seeking *guanxi*;

FGX = favour-seeking *guanxi*;

SSGX = supervisor–subordinate *guanxi*;

ODB = organisational deviant behaviour;

REG = regional *Marketisation Index*.

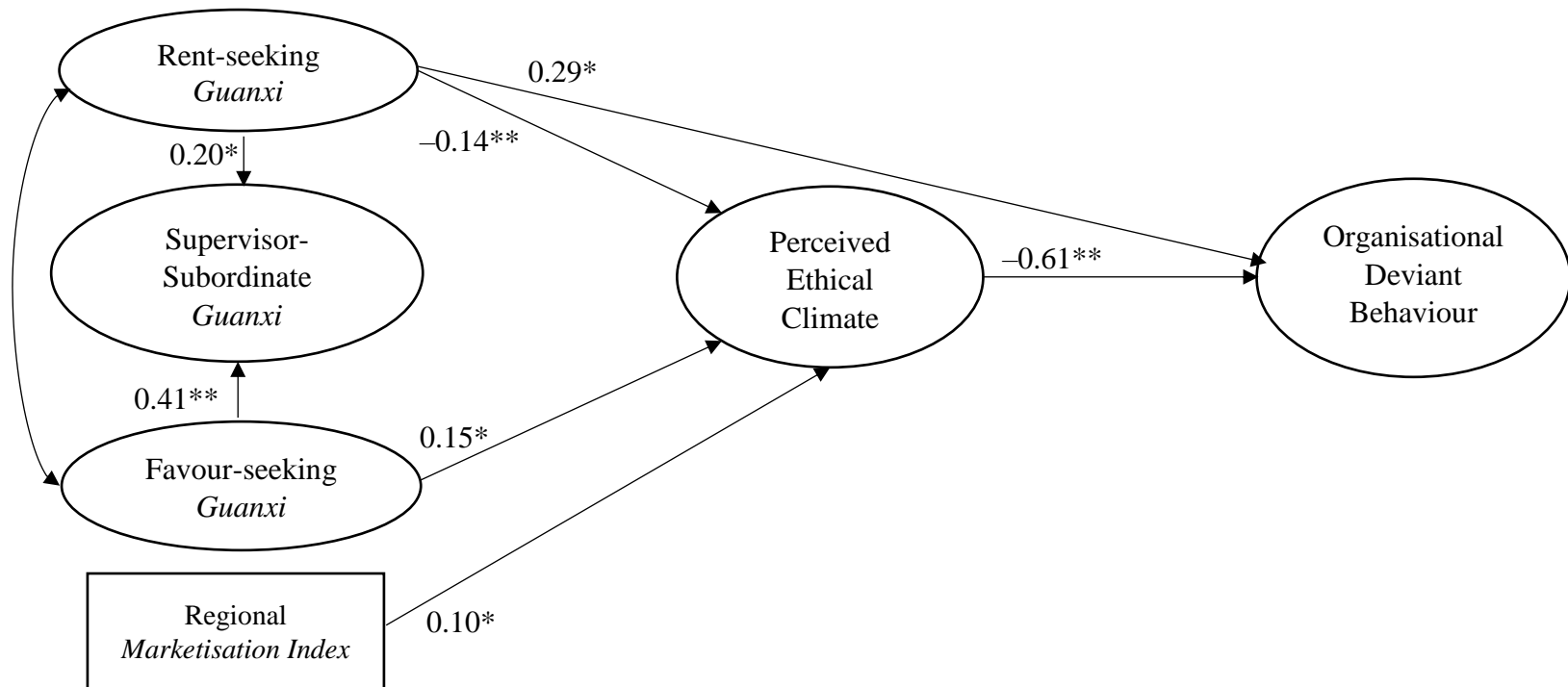
6.8 Additional analysis

While the results show that the antecedent factors, namely rent-seeking *guanxi*, favour-seeking *guanxi*, and regional *Marketisation Index* have indirect effects on ODB through perceived ethical climate, the study also seeks to understand whether these antecedent factors have direct effects on ODB. To investigate this possibility, the study tested an additional model that includes direct paths from each of the antecedent variables in addition to all of the paths from the preceding model.

To provide a clearer perspective of the underlying relationships, FIGURE 6.2 presents a trimmed model that includes both significant direct paths and significant indirect paths through ethical climate. The structural equation model shown in FIGURE 6.2 indicates acceptable levels of fit (CIF = 0.95, NNFI = 0.94, IFI = 0.95, RMSEA = 0.05, and Chi-square/df = 1.55). Consistent with earlier analysis, results show that rent-seeking *guanxi* is negatively associated with perceived ethical climate, which, in turn, is positively associated with ODB.

FIGURE 6.2 Additional Analysis of Model with Direct and Indirect Effects shows that rent-seeking *guanxi* has a direct effect on ODB, providing further support for the importance of *guanxi* in understanding ethical climate and ODB. More specifically, rent-seeking *guanxi* is positively associated with ODB ($\beta = 0.29$, $p=0.02$), indicating that internal auditors with stronger rent-seeking are more likely to engage in voluntary anti-social behaviours aimed at their organisations.

FIGURE 6.2 Additional Analysis of Model with Direct and Indirect Effects



*, ** Denote $p < 0.05$, and $p < 0.01$, respectively.

CFI (> 0.90) = 0.95

NNFI or TLI (close to 0.95) = 0.94

IFI (> 0.90) = 0.95

RMSEA (< 0.08) = 0.05

Chi-square/df ($< 2:1$) = 1.55

Chapter 7: Conclusions

This study makes an original contribution to the literature by developing and empirically testing a theoretical model that links *guanxi* and regional marketisation differences to perceived ethical climate and organisational deviant behaviour (ODB) among Chinese internal auditors. As discussed earlier, perceived ethical climate is conceptually different from actual ethical climate. Researchers argue that individual perceptions of organisational ethical climate do not necessarily correspond to the organisation's actual ethical climate. However, extensive prior studies suggest that perceived ethical climate plays a dominant role in employee's ethical judgement and decision making (Herndon Jr et al., 1999; Weeks et al., 2004; Shafer, 2008; Shafer & Simmons, 2011; Karatepe & Agbaim, 2012). China has been selected because of its growing global economic influences. Moreover, improving ethical climate is a matter of great concern to China (Tsang, 1998; Millington et al., 2005; Shafer, 2008, 2015; Shafer et al., 2016). Most theoretical models pertaining to ethical climate are developed and empirically tested in Anglo-American countries driven by cultural values of individualism and independence. This study suggests that such models may not be applicable to collectivist and interdependent societies such as China, where dominant cultural values include implicit mutual obligation, reciprocity, and *harmony within hierarchy*. These dominant cultural values are embedded in *guanxi*. Of particular relevance to this study, *guanxi* is selected because it permeates interpersonal relationships in every aspect of organisational and social life in contemporary China. Internal auditors have been selected because they play a dominant role in enhancing ethical climate, as Chinese regulators place significant importance on internal auditors in designing internal control systems centred around preventing business wrongdoings and countering opportunist behaviour (Zheng & An, 2013). Moreover, *guanxi* poses special challenges to Chinese internal auditors because they hold allegiance to both management and the internal audit profession.

This theoretical model incorporates three types of *guanxi*, namely favour-seeking, rent-seeking, and supervisor-subordinate *guanxi* and regional marketisation differences as key antecedents to perceived ethical climate. This model also incorporates an important consequence of perceived ethical climate, namely ODB. This study uses SEM to test the theoretical model because SEM provides holistic insights into linkages among antecedents, the main issue, and consequences. SEM has five criteria in assessing the model, namely Comparative Fit Index (CFI), Non-Normed Fit Index (NNFI), the Incremental Fit Index (IFI), Root Mean Square Error of Approximate (RMSEA), and ratio of Chi-square to degree of freedom. The theoretical model is supported by each one of the criteria. The overall findings show the importance of *guanxi* and regional marketisation differences in improving ethical climate and mitigating ODB in China.

Specifically, based on the literature, it is suggested that internal auditors with stronger rent-seeking *guanxi* are more motivated to engage in unethical practices to maximise their own economic and social benefit, are likely to place less importance on ethical issues, and are less likely to maintain objectivity and integrity when facing ethical dilemmas. In this study, findings show that internal auditors with stronger rent-seeking *guanxi* perceive ethical climate to be weaker. Additionally, the literature also shows that internal auditors with stronger favour-seeking *guanxi* are more likely to engage in ethical practices to protect the interests and reputation of the organisation and its members, are likely to place greater importance on ethical issues, and are more likely to maintain objectivity and integrity when facing ethical dilemmas. Evidence in this study extends prior findings by showing that internal auditors with stronger favour-seeking *guanxi* perceive ethical climate to be stronger. With respect to the influence of supervisor-subordinate *guanxi* on ethical climate, prior evidence is inconclusive. It is suggested that the relationship between supervisor-subordinate *guanxi* and ethical climate is an empirical

research question which requires further investigation. In this study, the results show that, overall, supervisor-subordinate *guanxi* does not influence perceived ethical climate.

The theoretical model also provides useful insights into the associations among rent-seeking, favour-seeking, and supervisor-subordinate *guanxi*. Prior studies suggest that in order to enhance their own economic and social benefit, staff members with stronger rent-seeking *guanxi* are more motivated to consistently make all attempts to develop and strengthen interpersonal relationships with their supervisors. Results show that internal auditors with stronger rent-seeking *guanxi* are likely to have stronger supervisor-subordinate *guanxi*. Researchers also suggest that, as bound by the socially constructed roles, staff members and supervisors with stronger favour-seeking *guanxi* are more motivated to develop and cultivate closer interpersonal relationships with each other (Ashforth & Mael, 1989; Burroughs & Eby, 1998; Han & Altman, 2009). Evidence in this study shows that internal auditors with stronger favour-seeking *guanxi* are likely to have stronger supervisor-subordinate *guanxi*.

To measure regional marketisation differences, the *Marketisation Index* provides useful insights into effectiveness and efficiency of regional compliance and enforcement systems. Previous studies suggest that internal auditors working in regions with a higher *Marketisation Index* are subject to stronger compliance, enforcement, and accountability mechanisms, and, therefore, are likely to perceive their organisational ethical climate to be stronger. Evidence based on SEM supports the hypothesis by showing that internal auditors working in the region (the Eastern Region) with the highest *Marketisation Index* perceive ethical climate to be strongest, followed by those working in regions (the Central and Western Regions) with the second and third highest *Marketisation Index*.

Finally, prior studies suggest that internal auditors with stronger perceived ethical climate are likely to have stronger moral obligation and closer psychological contracts with their

organisations, and, therefore, are less likely to engage in ODB. The result further validates the hypothesis by showing that internal auditors perceiving stronger ethical climate are less likely to engage in ODB.

These findings provide holistic insights into linkages among *guanxi*, regional marketisation difference, ethical climate, and ODB, and thus make four contributions to prior research. First, prior research has examined antecedents and consequences of perceived ethical climates as isolated variables (Deshpande et al., 2000; Kim & Miller, 2008; Bulutlar & Öz, 2009). There is a lack of understanding of the mediating role of perceived ethical climate in explaining how antecedents of perceived ethical climate lead to its consequences. It is suggested that investigating linkages among antecedents and consequences in models, rather than as isolated variables, provides more holistic insights (Martin & Cullen, 2006). Martin and Cullen (2006) argue that theoretical models are especially essential in understanding complex issues such as ethical climate. By developing and empirically testing a theoretical model that links perceived ethical climate to its antecedents and consequences, this study demonstrates the direct effects of *guanxi* and regional marketisation differences on perceived ethical climate, and their indirect effects on ODB through the mediating role of perceived ethical climate. These findings better reflect the complex associations among *guanxi*, regional marketisation differences, perceived ethical climate, and ODB.

Second, this study contributes to the literature by developing and empirically testing a theoretical model of perceived ethical climate in the Chinese cultural context. Particularly, the findings of this study show the importance of *guanxi* in understanding perceived ethical climate and ODB in China. Prior models pertaining to perceived ethical climate have predominantly been developed and empirically tested in Anglo-American countries. Responding to the need to understand auditor's JDM in countries where cultural values differ significantly from those

in Anglo-American countries (Nolder & Riley, 2013), this study examines the influence of *guanxi* on perceived ethical climate and ODB in the Chinese context. As discussed earlier, *guanxi* permeates interpersonal relationships in every aspect of their organisational and social life. China provides an important and relevant national setting because of its collective and interdependent cultural values, which emphasise implicit mutual obligation, reciprocity, and *harmony within hierarchy* (Patel et al., 2002; Patel, 2003, 2006). These dominant cultural values as embedded in *guanxi* differ significantly from individualistic cultural values in Anglo-American countries (Kashima et al., 1995; Gardner et al., 1999; Cohen et al., 2016). This study contributes to prior research by demonstrating the influence of *guanxi* on internal auditors' perceived ethical climate in China.

Third, the findings also contribute to prior studies by showing that three types of *guanxi* have different influences on perceived ethical climate and ODB. Previous findings of the influence of *guanxi* on ethical judgement and decision making are conflicting (Leung & Wong, 2001; Li & Madsen, 2011; Zhan, 2012). Some studies have associated *guanxi* with unethical practices, such as backdoor deals, nepotism, and corruption (Schramm & Taube, 2003; Braendle et al., 2005). However, other evidence suggests that *guanxi* is not unethical (Buttery & Wong, 1999; Leung & Wong, 2001). This study provides further insights into the different influences of three types of *guanxi* on perceived ethical climate by showing that (i) stronger rent-seeking *guanxi* leads to a weaker perceived ethical climate and greater ODB, (ii) stronger favour-seeking *guanxi* leads to a stronger perceived ethical climate and less ODB, and (iii) supervisor–subordinate *guanxi* has no significant influence on perceived ethical climate or ODB. These findings reflect the importance of examining various types of *guanxi* in understanding their different influences on perceived ethical climate and ODB.

Fourth, extensive cross-national studies have been used to investigate ethical climate in various cultural contexts. This study contributes to the literature by examining the influence of regional marketisation differences on perceived ethical climate and ODB. While China has achieved substantial progress towards the market-oriented transformation and economic development at national level, regional disparity continues to be a problem faced by the country (Fan et al., 2001). A recent report, entitled the *Report of Eight-Years' Marketisation Progress in China, 2016*, shows that the Eastern region is the most advanced in marketisation, followed by the Northeastern, Central, and Western Regions (Wang et al., 2016). Specifically, this study uses the *Marketisation Index* to measure regional marketisation differences across three major economic regions. The *Marketisation Index* encompasses indicators measuring effectiveness and efficiency of regional compliance, enforcement, and accountability mechanisms. The findings in this study demonstrate that it is crucial to take into account the importance of regional marketisation differences in understanding perceived ethical climate and ODB.

7.1 Implications

The findings in this study have a number of implications for global standard-setters and Chinese regulators. The theoretical model and evidence will also interest local Chinese firms, multinational enterprises operating in China, and international organisations with Chinese employees. First, the findings have implications for global standard-setters, such as the Institute of Internal Auditors (IIA). Given the international convergence of accounting and auditing standards and code of ethics, the rapid pace of globalisation poses special challenges to standard-setters to possess a more sophisticated “global mindset” to understand internal audit in various cultural contexts (Ramamoorti, 2012). However, the IIA has paid very limited attention to cultural contexts associated with internal auditors’ judgement and decision making. This study stresses the importance of understanding Chinese internal auditors’ perceived ethical climate and their likelihood of engagement in ODB in relation to salient cultural

variables such as *guanxi*. It is therefore suggested that standard-setters need to take into account the unique cultural context of countries in order to address the challenges that arise in enhancing ethical climate and mitigating ODB.

The findings also have implications for Chinese regulators including the Ministry of Finance, the Chinese Securities Regulatory Commission, and China Institute of Internal Auditors (CIIA). As discussed earlier, strong ethical climate plays a dominant role in preventing, detecting, and correcting organisational wrongdoings (Treviño et al., 1998; Martin & Cullen, 2006; Valentine et al., 2006; Shafer, 2008). To tackle increasingly prevalent ethical issues such as corruption and business misconduct, Chinese regulators have placed emphasis on improving ethical climate (Xi, 2015a; Yu & Zhang, 2015; Zhao & Peng, 2015). In particular, President Jinping Xi of the People's Republic of China has strongly emphasised the importance of improving ethics at a national level and fostering a strong ethical climate to enforce legislation (Xi, 2015b). Understanding the importance of *guanxi* and regional marketisation differences in influencing internal auditors' perceived ethical climate and their likelihood of engagement in ODB is vital in making policies and developing strategies to foster a strong ethical climate. Findings show that rent-seeking *guanxi* results in weak perceived ethical climate, while favour-seeking *guanxi* results in strong perceived ethical climate. Moreover, perceived ethical climate in regions with a higher *Marketisation Index* is stronger. These findings may assist Chinese regulators in making policies and developing strategies that promote favour-seeking *guanxi*, constrain rent-seeking *guanxi*, and stress the importance of effective and efficient compliance, enforcement, and accountability mechanisms in enhancing ethical climate.

Finally, the findings may benefit Chinese firms, multinational enterprises operating in China, and international organisations with Chinese employees, by showing that a comprehensive understanding of the influence of Chinese core cultural values, as embedded in *guanxi*, is

particularly important in enhancing ethical climate. Additionally, the findings suggest that it is important to take into account the different influence of three types of *guanxi* in mitigating ODB. Specifically, the results show that internal auditors' stronger favour-seeking *guanxi* leads to stronger perceived ethical climate and less ODB, and internal auditors' rent-seeking *guanxi* leads to weaker perceived ethical climate and greater ODB. Internal audit is an important component of an organisation's internal control system with the objective of preventing wrongdoings and enhancing ethical practices. Therefore, greater attention should be paid to improving internal auditors' favour-seeking *guanxi* and constrain their rent-seeking *guanxi*. The findings of this study may interest audit committee, human resources department, and managers. It is suggested to be aware of different influences of various types of *guanxi* on perceived ethical climate and ODB. Such awareness may be useful in improving the effectiveness and efficiency of internal control systems.

7.2 Limitations

The findings of this study must be considered in light of its limitations. Measurements of rent-seeking, favour-seeking, supervisor–subordinate *guanxi*, perceived ethical climate, and ODB in this study are based on previous research instruments which have been tested for validity and reliability. However, other research instruments may be used to provide additional insights. Moreover, as with most empirical studies, a limited number of factors have been examined. It is acknowledged that perceived ethical climate and auditors' judgement and decision making are likely to be influenced by a combination of numerous interrelating factors. Future research may develop more comprehensive models to examine other contextual factors that may influence perceived ethical climate and auditors' ethical judgement and decision making.

References

- Abbey, A., & Dickson, J. W. (1983). R&D work climate and innovation in semiconductors. *Academy of Management Journal*, 26(2), 362-368.
- Abbott, L. J., Daugherty, B., Parker, S., & Peters, G. F. (2015). Internal audit quality and financial reporting quality: The joint importance of independence and competence. *Journal of Accounting Research*.
- Anderson, J. C., & Gerbing, D. W. (1988). Structural equation modeling in practice: A review and recommended two-step approach. *Psychological bulletin*, 103(3), 411.
- Ang, S. H., & Leong, S. M. (2000). Out of the mouths of babes: Business ethics and youths in Asia. *Journal of Business Ethics*, 28(2), 129-144.
- Arnold Sr, D. F., Dorminey, J. W., Neidermeyer, A., & Neidermeyer, P. E. (2013). Internal and external auditor ethical decision-making. *Managerial Auditing Journal*, 28(4), 300-322.
- Ashforth, B. E., & Mael, F. (1989). Social identity theory and the organization. *Academy of management review*, 14(1), 20-39.
- Babin, B. J., & Boles, J. S. (1996). The effects of perceived co-worker involvement and supervisor support on service provider role stress, performance and job satisfaction. *Journal of retailing*, 72(1), 57-75.
- Bedford, O. (2011). Guanxi-building in the workplace: A dynamic process model of working and backdoor guanxi. *Journal of Business Ethics*, 104(1), 149-158.
- Beeri, I., Dayan, R., Vigoda Gadot, E., & Werner, S. B. (2013). Advancing ethics in public organizations: The impact of an ethics program on employees' perceptions and behaviors in a regional council. *Journal of Business Ethics*, 112(1), 59-78.
- Bennett, R. J., & Robinson, S. L. (2003). The past, present, and future of workplace deviance research.
- Bentler, P. M. (1992). On the fit of models to covariances and methodology to the Bulletin. *Psychological bulletin*, 112(3), 400.
- Bentler, P. M., & Chou, C. P. (1987). Practical issues in structural modeling. *Sociological Methods & Research*, 16(1), 78-117.
- Bobek, D. D., Hageman, A. M., & Radtke, R. R. (2010). The ethical environment of tax professionals: Partner and non-partner perceptions and experiences. *Journal of Business Ethics*, 92(4), 637-654.
- Bobek, D. D., Hageman, A. M., & Radtke, R. R. (2015). The influence of roles and organizational fit on accounting professionals' perceptions of their firms' ethical environment. *Journal of Business Ethics*, 126(1), 125-141.
- Bobek, D. D., & Radtke, R. R. (2007). An experiential investigation of tax professionals' ethical environments. *Journal of the American Taxation Association*, 29(2), 63-84.

- Bolino, M. C., Varela, J. A., Bande, B., & Turnley, W. H. (2006). The impact of impression-management tactics on supervisor ratings of organizational citizenship behavior. *Journal of organizational behavior*, 27(3), 281-297.
- Booth, P., & Schulz, A. K. D. (2004). The impact of an ethical environment on managers' project evaluation judgments under agency problem conditions. *Accounting, Organizations and Society*, 29(5-6), 473-488. doi:[http://dx.doi.org/10.1016/S0361-3682\(03\)00012-6](http://dx.doi.org/10.1016/S0361-3682(03)00012-6)
- Braendle, U. C., Gasser, T., & Noll, J. (2005). Corporate governance in China—is economic growth potential hindered by guanxi? *Business and Society Review*, 110(4), 389-405.
- Branson, L., Chen, L., & Anderson, L. (2015). The implementation of international codes of ethics among professional accountants: do national cultural differences matter? *International Journal of Business & Public Administration*, 12(1).
- Browne, M. W., & Cudeck, R. (1992). Alternative ways of assessing model fit. *Sociological Methods & Research*, 21(2), 230-258.
- Bulutlar, F., & Öz, E. Ü. (2009). The effects of ethical climates on bullying behaviour in the workplace. *Journal of Business Ethics*, 86(3), 273-295.
- Burroughs, S. M., & Eby, L. T. (1998). Psychological sense of community at work: A measurement system and explanatory framework. *Journal of community psychology*, 26(6), 509-532.
- Burton, F. G., Emett, S. A., Simon, C. A., & Wood, D. A. (2012). Corporate Managers' Reliance on Internal Auditor Recommendations. *Auditing: A Journal of Practice & Theory*, 31(2), 151-166.
- Buttery, E. A., & Wong, Y. H. (1999). The development of a Guanxi framework. *Marketing Intelligence & Planning*, 17(3), 147-155.
- Byrne, B. M. (2013). *Structural equation modeling with AMOS: Basic concepts, applications, and programming*: Routledge.
- Cai, F., Wang, D., & Du, Y. (2002). Regional disparity and economic growth in China: The impact of labor market distortions. *China Economic Review*, 13(2), 197-212.
- Carmines, E. G., & McIver, J. P. (1981). Analyzing models with unobserved variables: Analysis of covariance structures. *Social measurement: Current issues*, 65-115.
- Center for China and Globalization (CCG). (2015). *Chinese International Migration Report 2015*. Retrieved from <http://world.people.com.cn/n/2015/0319/c1002-26719369.html>
- Chan, A. (2006). *The Chinese concepts of Guanxi, Mianzi, Renqing and Bao: Their interrelationships and implications for international business*. Paper presented at the Australian and New Zealand Marketing Academy Conference. Brisbane, Queensland.
- Chan, K. H., Lin, K. Z., & Mo, P. L. L. (2003). An empirical study on the impact of culture on audit-detected accounting errors. *Auditing: A Journal of Practice & Theory*, 22(2), 281-295.

- Chan, R. Y., Cheng, L. T., & Szeto, R. W. (2002). The dynamics of guanxi and ethics for Chinese executives. *Journal of Business Ethics*, 41(4), 327-336.
- Chen, C. H. (1996). Regional determinants of foreign direct investment in mainland China. *Journal of economic studies*, 23(2), 18-30.
- Chen, X. P., & Chen, C. C. (2004). On the intricacies of the Chinese guanxi: A process model of guanxi development. *Asia Pacific Journal of Management*, 21(3), 305-324.
- Chen, Y. F., & Tjosvold, D. (2006). Participative leadership by American and Chinese managers in China: The role of relationships. *Journal of Management Studies*, 43(8), 1727-1752.
- China Institute of Internal Auditors (CIIA). (2013). Specific Standards for Internal Auditing Section 2305, *Interpersonal Relationships*.
- Chiu, S. F., & Peng, J. C. (2008). The relationship between psychological contract breach and employee deviance: The moderating role of hostile attributional style. *Journal of Vocational Behavior*, 73(3), 426-433.
- Chuang, C., & Gallano, C. M. (2011). A Study Of Ethical Work Climates Between Filipino And Taiwanese Accountants. *International Business & Economics Research Journal (IBER)*, 7(8), 33-46.
- Chung, W. K., & Hamilton, G. G. (2001). Social logic as business logic: Guanxi, trustworthiness, and the embeddedness of Chinese business practices. *Rules and networks: The legal culture of global business transactions*, 325-346.
- Cohen, A. B., Wu, M. S., & Miller, J. (2016). Religion and Culture Individualism and Collectivism in the East and West. *Journal of Cross-Cultural Psychology*, 47(9), 1236-1249.
- Committee of Sponsoring Organizations of Treadway Commission (COSO). (2004). *Enterprise risk management: integrated framework*.
- Committee of Sponsoring Organizations of Treadway Commission (COSO). (2013). Integrated Framework: Executive Summary, Framework and Appendices, and Illustrative Tools for Assessing Effectiveness of a System of Internal Control *Control Environment: AICPA*.
- Cooper, B., Leung, P., Dellaportas, S., Ahmad, Z., & Taylor, D. (2009). Commitment to independence by internal auditors: the effects of role ambiguity and role conflict. *Managerial Auditing Journal*, 24(9), 899-925.
- Dalton, D. W., Cohen, J. R., Harp, N. L., & McMillan, J. J. (2014). Antecedents and consequences of perceived gender discrimination in the audit profession. *Auditing: A Journal of Practice & Theory*, 33(3), 1-32.
- De Waegeneer, E., Van De Sompele, J., & Willem, A. (2015). Ethical Codes in Sports Organizations: Classification Framework, Content Analysis, and the Influence of Content on Code Effectiveness. *Journal of Business Ethics*, 1-12.

- Deshpande, S. P., George, E., & Joseph, J. (2000). Ethical climates and managerial success in Russian organizations. *Journal of Business Ethics*, 23(2), 211-217.
- Deshpande, S. P., & Joseph, J. (2009). Impact of emotional intelligence, ethical climate, and behavior of peers on ethical behavior of nurses. *Journal of Business Ethics*, 85(3), 403-410.
- DeZoort, F. T., & Harrison, P. D. (2016). Understanding Auditors' Sense of Responsibility for Detecting Fraud Within Organizations. *Journal of Business Ethics*, 1-18.
- DeZoort, T., Harrison, P., & Taylor, M. (2006). Accountability and auditors' materiality judgments: The effects of differential pressure strength on conservatism, variability, and effort. *Accounting, Organizations and Society*, 31(4), 373-390.
- Douglas, P., & Schwartz, B. (1999). Values as the foundation for moral judgment: theory and evidence in an accounting context. *Research on Accounting Ethics*, 5(3), 20.
- Eberhard, W. (2013). *A history of China*: Routledge.
- Fan, G., Wang, X., & Zhang, L. (2001). Annual report 2000: Marketization index for China's provinces. *China & World Economy* (5).
- Fan, J. P., Wong, T., & Zhang, T. (2005). The emergence of corporate pyramids in China. *Available at SSRN 686582*.
- Fan, Y. (2002). Questioning guanxi: definition, classification and implications. *International business review*, 11(5), 543-561.
- Fan, Y. H., Woodbine, G., & Scully, G. (2012a). Guanxi and its influence on the judgments of Chinese auditors. *Asia Pacific Business Review*, 18(1), 83-97.
- Fan, Y. H., Woodbine, G., & Scully, G. (2014). Guanxi, a two-edged sword! How Australian accounting professionals view the process within a moral framework. *Managerial Auditing Journal*, 29(8), 695-716.
- Fan, Y. H., Woodbine, G., Scully, G., & Taplin, R. (2012b). Accounting students' perceptions of guanxi and their ethical judgments. *Journal of Business Ethics Education*, 9, 27-50.
- Field, R. G., & Abelson, M. A. (1982). Climate: A reconceptualization and proposed model. *Human Relations*, 35(3), 181-201.
- Ford, R., & Richardson, W. (1994). Ethical decision making: A review of the empirical literature. *Journal of Business Ethics*, 13(3), 205-221. doi:10.1007/BF02074820
- Fortin, M., Nadisic, T., Bell, C. M., Crawshaw, J. R., & Cropanzano, R. (2015). Beyond the Particular and Universal: Dependence, Independence, and Interdependence of Context, Justice, and Ethics. *Journal of Business Ethics*, 1-9.
- Fox, M. (1987). Marketing/advertising research: In China, "Guanxi" is everything. *Advertising Age*, 58(47), 12-14.

- Friedlander, F., & Margulies, N. (1969). Multiple impacts of organizational climate and individual value systems upon job satisfaction. *Personnel Psychology*, 22(2), 171-183.
- Fu, W., & Deshpande, S. P. (2012). Factors impacting ethical behavior in a Chinese state-owned steel company. *Journal of Business Ethics*, 105(2), 231-237.
- Ganga, F., Xiaolua, W., & Guangrongb, M. (2011). Contribution of Marketization to China's Economic Growth [J]. *Economic Research Journal*, 9, 002.
- Gardner, W. L., Gabriel, S., & Lee, A. Y. (1999). "I" value freedom, but "we" value relationships: Self-construal priming mirrors cultural differences in judgment. *Psychological Science*, 10(4), 321-326.
- Gelfand, M. J., Erez, M., & Aycan, Z. (2007). Cross-cultural organizational behavior. *Annu. Rev. Psychol.*, 58, 479-514.
- Griffith, E. E., Kadous, K., & Young, D. (2015). How Insights from the "New" JDM Research Can Improve Auditor Judgment: Fundamental Research Questions and Methodological Advice. *Auditing: A Journal of Practice and Theory*.
- Hall, A. T., Bowen, M. G., Ferris, G. R., Royle, M. T., & Fitzgibbons, D. E. (2007). The accountability lens: A new way to view management issues. *Business Horizons*, 50(5), 405-413.
- Hammond, S. C., & Glenn, L. M. (2004). The ancient practice of Chinese social networking: Guanxi and social network theory. *EMERGENCE-MAHWAH-LAWRENCE ERLBAUM*-, 6(1/2), 24.
- Han, Y., & Altman, Y. (2009). Supervisor and subordinate guanxi: A grounded investigation in the People's Republic of China. *Journal of Business Ethics*, 88(1), 91-104.
- Han, Y., Peng, Z., & Zhu, Y. (2012). Supervisor-subordinate guanxi and trust in supervisor: A qualitative inquiry in the People's Republic of China. *Journal of Business Ethics*, 108(3), 313-324.
- Hau siu Chow, I. (2004). The impact of institutional context on human resource management in three Chinese societies. *Employee Relations*, 26(6), 626-642.
- Heidhues, E., & Patel, C. (2012). *Globalisation and Contextual Factors in Accounting: The Case of Germany: The Case of Germany* (Vol. 23): Emerald Group Publishing.
- Henle, C. A., Giacalone, R. A., & Jurkiewicz, C. L. (2005). The role of ethical ideology in workplace deviance. *Journal of Business Ethics*, 56(3), 219-230.
- Hennart, J. F. (2015). Leveraging Asian institutions to deepen theory: A transaction cost perspective on relational governance. *Asian Business & Management*, 14(4), 257-282.
- Herndon Jr, N., Ferrell, O., LeClair, D., & Ferrell, L. (1999). Relationship of individual moral values and perceived ethical climate to satisfaction, commitment, and turnover in a sales organization. *Research in Marketing*, 15, 25-48.

- Higgins, A., Power, C., & Kohlberg, L. (1984). The relationship of moral atmosphere to judgments of responsibility. *Morality, moral behavior, and moral development*, 74-106.
- Ho, C., & Redfern, K. A. (2010). Consideration of the role of guanxi in the ethical judgments of Chinese managers. *Journal of Business Ethics*, 96(2), 207-221.
- Ho, R., Kwock, B., & James, M. (2015). Cultural Implications on Chinese Accounting Students' Professional Skepticism. *Journal of Business Studies Quarterly*, 7(2), 274.
- Hoffman, V. B., & Patton, J. M. (1997). Accountability, the dilution effect, and conservatism in auditors' fraud judgments. *Journal of Accounting Research*, 35(2), 227-237.
- Hoogervorst, N., De Cremer, D., & van Dijke, M. (2010). Why leaders not always disapprove of unethical follower behavior: It depends on the leader's self-interest and accountability. *Journal of Business Ethics*, 95(1), 29-41.
- Hoyle, R. H. (1991). Evaluating measurement models in clinical research: Covariance structure analysis of latent variable models of self-conception. *Journal of Consulting and Clinical Psychology*, 59(1), 67.
- Hsieh, H. H., & Wang, Y. D. (2016). Linking perceived ethical climate to organizational deviance: The cognitive, affective, and attitudinal mechanisms. *Journal of Business Research*.
- Hu, L. t., & Bentler, P. M. (1999). Cutoff criteria for fit indexes in covariance structure analysis: Conventional criteria versus new alternatives. *Structural equation modeling: a multidisciplinary journal*, 6(1), 1-55.
- Hui, C., & Graen, G. (1998). Guanxi and professional leadership in contemporary Sino-American joint ventures in mainland China. *The leadership quarterly*, 8(4), 451-465.
- Hwang, K. k. (1987). Face and favor: The Chinese power game. *American journal of Sociology*, 944-974.
- Hwang, K. K. (1999). Filial piety and loyalty: Two types of social identification in Confucianism. *Asian Journal of Social Psychology*, 2(1), 163-183.
- Jijun, K., Zongyi, Z., & Yunying, F. (2007). China's Economic Transformation and Growth [J]. *Management World*, 1, 7-17.
- Joyce, W. F., & Slocum, J. W. (1979). Climates in organizations. *Organizational behavior*, 317, 333.
- Karatepe, O. M., & Agbaim, I. M. (2012). Perceived ethical climate and hotel employee outcomes: an empirical investigation in Nigeria. *Journal of Quality Assurance in Hospitality & Tourism*, 13(4), 286-315.
- Kashima, Y., Yamaguchi, S., Kim, U., Choi, S. C., Gelfand, M. J., & Yuki, M. (1995). Culture, gender, and self: a perspective from individualism-collectivism research. *Journal of personality and social psychology*, 69(5), 925.

- Khelil, I., Hussainey, K., & Noubbigh, H. (2016a). Audit committee–internal audit interaction and moral courage. *Managerial Auditing Journal*, 31(4/5), 403-433.
- Khelil, I., Khelil, I., Hussainey, K., Hussainey, K., Noubbigh, H., & Noubbigh, H. (2016b). Audit committee–internal audit interaction and moral courage. *Managerial Auditing Journal*, 31(4/5), 403-433.
- Kidwell, R., Martin, C. L., Kidwell, R., & Martin, C. (2005). The prevalence (and ambiguity) of deviant behavior at work. *Managing organizational deviance*, 1-21.
- Kim, N. Y., & Miller, G. (2008). Perceptions of the ethical climate in the Korean tourism industry. *Journal of Business Ethics*, 82(4), 941-954.
- Kiong, T. C., & Kee, Y. P. (1998). Guanxi bases, Xinyong and Chinese business networks. *British Journal of Sociology*, 75-96.
- Kline, R. B. (2015). *Principles and practice of structural equation modeling*: Guilford publications.
- Kuah Pearce, K. E. (2016). Migrant women entrepreneurs in the garment industry in modern China: embedding translocality and feminised Guanxi networks. *International Journal of Business and Globalisation*, 16(3), 335-349.
- Kwan, M. P., Chai, Y., & Tana. (2014). Reflections on the similarities and differences between Chinese and US cities. *Asian Geographer*, 31(2), 167-174.
- Law, K. S., Wong, C. S., Wang, D., & Wang, L. (2000). Effect of supervisor–subordinate guanxi on supervisory decisions in China: An empirical investigation. *International Journal of Human Resource Management*, 11(4), 751-765.
- Lee, D. Y., & Dawes, P. L. (2005). Guanxi, trust, and long-term orientation in Chinese business markets. *Journal of international marketing*, 13(2), 28-56.
- Lefkowitz, J. (2009). Individual and organizational antecedents of misconduct in organizations: What do we (believe that we) know, and on what bases do we (believe that we) know it. *Research companion to corruption in organizations*, 60-91.
- Leung, T., Lai, K. h., Chan, R. Y., & Wong, Y. (2005). The roles of xinyong and guanxi in Chinese relationship marketing. *European Journal of Marketing*, 39(5/6), 528-559.
- Leung, T. K., & Wong, Y. (2001). The ethics and positioning of guanxi in China. *Marketing Intelligence & Planning*, 19(1), 55-64.
- Li, J., & Madsen, J. (2011). Business ethics and workplace guanxi in Chinese SOEs: a qualitative study. *Journal of Chinese Human Resources Management*, 2(2), 83-99.
- Li, K., Yue, H., & Zhao, L. (2009). Ownership, institutions, and capital structure: Evidence from China. *Journal of comparative Economics*, 37(3), 471-490.
- Li, S., Park, S. H., & Li, S. (2003). The great leap forward: The transition from relation-based governance to rule-based governance. *Organizational Dynamics*, 33(1), 63-78.

- Li, Y., Rose, A. M., Rose, J. M., & Tang, F. (2015). The Effects of Guanxi and Compensation Structure on the Objectivity of Chinese Internal Auditors *Advances in Accounting Behavioral Research* (pp. 99-124): Emerald Group Publishing Limited.
- Li, Y., & Wei, Y. D. (2010). The spatial-temporal hierarchy of regional inequality of China. *Applied Geography*, 30(3), 303-316.
- Lin, N. (2001). Guanxi: A conceptual analysis. *Contributions in Sociology*, 133, 153-166.
- Liu, J., Wang, Y., & Wu, L. (2011). The effect of guanxi on audit quality in China. *Journal of Business Ethics*, 103(4), 621-638.
- Liu, M. (2013). Effect of guanxi and ethical orientations on Chinese auditors' ethical reasoning. *Managerial Auditing Journal*, 28(9), 815-837.
- Lopez, T. B., Babin, B. J., & Chung, C. (2009). Perceptions of ethical work climate and person–organization fit among retail employees in Japan and the US: A cross-cultural scale validation. *Journal of Business Research*, 62(6), 594-600.
- Lu, R., & Reve, T. (2011). Guanxi, structural hole and closure. *Journal of Strategy and Management*, 4(3), 275-288.
- Lu, X., & Perry, E. J. (1997). *Danwei: The changing Chinese workplace in historical and comparative perspective*: Me Sharpe.
- Luo, J. D. (2011). Guanxi revisited: An exploratory study of familiar ties in a Chinese workplace. *Management and Organization Review*, 7(2), 329-351.
- Ma'Ayan, Y., & Carmeli, A. (2015). Internal Audits as a Source of Ethical Behavior, Efficiency, and Effectiveness in Work Units. *Journal of Business Ethics*, 1-17.
- Markus, H. R., & Kitayama, S. (1991). Culture and the self: Implications for cognition, emotion, and motivation. *Psychological review*, 98(2), 224.
- Martin, K. D., & Cullen, J. B. (2006). Continuities and extensions of ethical climate theory: A meta-analytic review. *Journal of Business Ethics*, 69(2), 175-194.
- Martin, K. D., Johnson, J. L., & Cullen, J. B. (2009). Organizational change, normative control deinstitutionalization, and corruption. *Business Ethics Quarterly*, 19(01), 105-130.
- McDonald, R. P., & Ho, M. H. R. (2002). Principles and practice in reporting structural equation analyses. *Psychological methods*, 7(1), 64.
- Millington, A., Eberhardt, M., & Wilkinson, B. (2005). Gift giving, guanxi and illicit payments in buyer–supplier relations in China: Analysing the experience of UK companies. *Journal of Business Ethics*, 57(3), 255-268.
- Mo, S., & Shi, J. (2015). Linking Ethical Leadership to Employee Burnout, Workplace Deviance and Performance: Testing the Mediating Roles of Trust in Leader and Surface Acting. *Journal of Business Ethics*, 1-11.

- Nanjing Audit University (NAU). (2013). About NAU. Retrieved from <http://english.nau.edu.cn/s/34/t/10/p/1/c/225/d/249/list.htm>
- Nolder, C., & Riley, T. J. (2013). Effects of differences in national culture on auditors' judgments and decisions: A literature review of cross-cultural auditing studies from a judgment and decision making perspective. *Auditing: A Journal of Practice & Theory*, 33(2), 141-164.
- O'Dwyer, B., & Boomsma, R. (2015). The co-construction of NGO accountability: Aligning imposed and felt accountability in NGO-funder accountability relationships. *Accounting, Auditing & Accountability Journal*, 28(1), 36-68.
- Omar, S. S., & Higgs, M. (2015). NETWORK CHANGE AND DEVELOPMENT OF BUMIPUTERA ENTREPRENEURS: THE STUDY OF MULTIPLE-CASES OF SMALL BUSINESSES IN THE SOUTHERN REGION OF MALAYSIA. *Journal of Technology Management and Business*, 2(1).
- Pan, H., Zhang, H., & Zhang, X. (2013). China's provincial industrial energy efficiency and its determinants. *Mathematical and Computer Modelling*, 58(5), 1032-1039.
- Parboteeah, K. P., Cullen, J. B., Victor, B., & Sakano, T. (2005). National culture and ethical climates: A comparison of US and Japanese accounting firms. *MIR: Management International Review*, 459-481.
- Parboteeah, K. P., Martin, K. D., & Cullen, J. B. (2010). An International Perspective on Ethical Climate. In N. M. Ashkanasy, C. P. M. Wilderom, & M. F. Perterson (Eds.), *The Handbook of Organizational Culture and Climate* (pp. 600-616). Thousand Oaks, California: SAGE Publications, Inc. (Reprinted from: 2).
- Park, S. H., & Luo, Y. (2001). Guanxi and organizational dynamics: Organizational networking in Chinese firms. *Strategic management journal*, 22(5), 455-477.
- Patel, C. (2003). Some cross-cultural evidence on whistle-blowing as an internal control mechanism. *Journal of International Accounting Research*, 2(1), 69-96.
- Patel, C. (2006). *A comparative study of professional accountants' judgements*: Emerald Group Publishing.
- Patel, C., Harrison, G. L., & McKinnon, J. L. (2002). Cultural influences on judgments of professional accountants in auditor-client conflict resolution. *Journal of International Financial Management & Accounting*, 13(1), 1-31.
- Patel, C., & Psaros, J. (2000). PERCEPTIONS OF EXTERNAL AUDITORS' INDEPENDENCE: SOME CROSS-CULTURAL EVIDENCE. *The British Accounting Review*, 32(3), 311-338.
- People's Daily. (2016, 31/08/2016). Firmly Implement the Comprehensive Deepening Reform. *People's Daily Overseas Edition*. Retrieved from http://paper.people.com.cn/rmrbhwb/html/2016-08/31/content_1708492.htm
- Peterson, D. K. (2002). Deviant workplace behavior and the organization's ethical climate. *Journal of Business and Psychology*, 17(1), 47-61.

- Podsakoff, P. M., MacKenzie, S. B., Lee, J. Y., & Podsakoff, N. P. (2003). Common method biases in behavioral research: a critical review of the literature and recommended remedies. *Journal of applied psychology*, 88(5), 879.
- Pritchard, R. D., & Karasick, B. W. (1973). The effects of organizational climate on managerial job performance and job satisfaction. *Organizational behavior and human performance*, 9(1), 126-146.
- Pye, L. W. (1992). *Chinese negotiating style: Commercial approaches and cultural principles*: Praeger Pub Text.
- Ramamoorti, S. (2012). Towards a global Code of Ethics for a global internal auditing profession.
- Reynolds, M. A. (2000). Professionalism, ethical codes and the internal auditor: A moral argument. *Journal of Business Ethics*, 24(2), 115-124.
- Roberts, J. (2001). Trust and control in Anglo-American systems of corporate governance: The individualizing and socializing effects of processes of accountability. *Human Relations*, 54(12), 1547-1572.
- Robinson, S. L., & Bennett, R. J. (1995). A typology of deviant workplace behaviors: A multidimensional scaling study. *Academy of Management Journal*, 38(2), 555-572.
- Roussy, M. (2013). Internal auditors' roles: from watchdogs to helpers and protectors of the top manager. *Critical perspectives on accounting*, 24(7), 550-571.
- Roussy, M., Brivot, M., & Parker, L. (2016). Internal audit quality: a polysemous notion? *Accounting, Auditing & Accountability Journal*, 29(5).
- Sarens, G., De Beelde, I., & Everaert, P. (2009). Internal audit: A comfort provider to the audit committee. *The British Accounting Review*, 41(2), 90-106.
- Sawyer, L. B. (1996). *Sawyer's internal auditing: The practice of modern internal auditing*.
- Schacter, D., Gilbert, D., & Wegner, D. (2011). Sensation and Perception. *Charles Linsmeiser Psychology Worth Publishers p*, 158, 159.
- Schneider, B. (1975). Organizational climates: An essay1. *Personnel Psychology*, 28(4), 447-479.
- Schramm, M., & Taube, M. (2003). The Institutional Economics of legal institutions, Guanxi, and Corruption in the PR China. *Fighting Corruption in Asia: Causes, Effects, and Remedies*, 271-296.
- Shafer, W. E. (2008). Ethical climate in Chinese CPA firms. *Accounting, Organizations and Society*, 33(7), 825-835.
- Shafer, W. E. (2015). Ethical climate, social responsibility, and earnings management. *Journal of Business Ethics*, 126(1), 43-60.

- Shafer, W. E., & Simmons, R. S. (2011). Effects of organizational ethical culture on the ethical decisions of tax practitioners in mainland China. *Accounting, Auditing & Accountability Journal*, 24(5), 647-668.
- Shafer, W. E., Simmons, R. S., & Yip, R. W. (2016). Social responsibility, professional commitment and tax fraud. *Accounting, Auditing & Accountability Journal*, 29(1), 111-134.
- Simha, A., & Cullen, J. B. (2012). Ethical climates and their effects on organizational outcomes: Implications from the past and prophecies for the future. *The Academy of Management Perspectives*, 26(4), 20-34.
- Singelis, T. M., Bond, M. H., Sharkey, W. F., & Lai, C. S. Y. (1999). Unpackaging culture's influence on self-esteem and embarrassability the role of self-construals. *Journal of Cross-Cultural Psychology*, 30(3), 315-341.
- Spira, L. F., & Page, M. (2003). Risk management: The reinvention of internal control and the changing role of internal audit. *Accounting, Auditing & Accountability Journal*, 16(4), 640-661.
- Stewart, J., & Subramaniam, N. (2010). Internal audit independence and objectivity: emerging research opportunities. *Managerial Auditing Journal*, 25(4), 328-360.
- Su, C., & Littlefield, J. E. (2001). Entering guanxi: a business ethical dilemma in mainland China? *Journal of Business Ethics*, 33(3), 199-210.
- Su, C., Mitchell, R. K., & Sirgy, M. J. (2007). Enabling guanxi management in China: A hierarchical stakeholder model of effective guanxi. *Journal of Business Ethics*, 71(3), 301-319.
- Su, C., Sirgy, M. J., & Littlefield, J. E. (2003). Is guanxi orientation bad, ethically speaking? A study of Chinese enterprises. *Journal of Business Ethics*, 44(4), 303-312.
- Su, K., Wan, R., & Feng, T. (2015). Government control structure and allocation of credit: evidence from government-owned companies in China. *Investment Analysts Journal*, 44(2), 151-170.
- Suizzo, M. A. (2007). Parents' goals and values for children dimensions of independence and interdependence across four US ethnic groups. *Journal of Cross-Cultural Psychology*, 38(4), 506-530.
- Sweeney, B., Arnold, D., & Pierce, B. (2010). The impact of perceived ethical culture of the firm and demographic variables on auditors' ethical evaluation and intention to act decisions. *Journal of Business Ethics*, 93(4), 531-551.
- Szto, M. (2016). Chinese Gift-Giving, Anti-Corruption Law, and the Rule of Law and Virtue. *Fordham Int'l LJ*, 39, 591-753.
- Taylor, G., Fan, Y. H., & Tan, Y. (2015). Employee views of corporate tax aggressiveness in China: The effects of guanxi and audit independence. *eJournal of Tax Research*, 13(3), 716-739.

- the Central Committee of the Communist Party of China, & the State Council of P.R. China. (2015). *the Guidance for Furthering SOEs Reform*. Retrieved from http://news.xinhuanet.com/politics/2015-09/13/c_1116547305.htm.
- The Institute of Internal Auditors (IIA). (2009). Code of Ethics — Principles.
- The Institute of Internal Auditors (IIA). (2012a). International Standards for the Professional Practice of Internal Auditing *Introduction to the International Standards*.
- The Institute of Internal Auditors (IIA). (2012b). International Standards for the Professional Practice of Internal Auditing *Glossary*
- The Institute of Internal Auditors (IIA). (2012c). International Standards for the Professional Practice of Internal Auditing *2110 - Governance*.
- The Institute of Internal Auditors (IIA). (2012d). Practice Guide: Evaluation Ethics-related Programs and Activities *Responsibilities for Ethics Climate* (pp. 1).
- The Institute of Internal Auditors (IIA). (2016a). About the IIA. Retrieved from <https://global.theiia.org/about/about-the-iiia/Pages/About-The-Institute-of-Internal-Auditors.aspx>
- The Institute of Internal Auditors (IIA). (2016b). Definition of Internal Auditing. Retrieved from <https://global.theiia.org/standards-guidance/mandatory-guidance/Pages/Definition-of-Internal-Auditing.aspx>
- The Institute of Internal Auditors (IIA). (2016c). Standards & Guidance — International Professional Practices Framework (IPPF)®. Retrieved from <https://global.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx?source=https://global.theiia.org/standards-guidance>
- The United Nations Conference on Trade and Development (UNCTAD). (2016). *World Investment Report 2016*. Retrieved from
- Thomas, P., Adapa, S., & Joyce, B. K. (2015). Innovation Landscape within Family Services Integration: Evidence from Australia. *Contemporary Management Research*, 11(3), 249.
- Tollison, R. D. (1982). Rent seeking: A survey. *Kyklos*, 35(4), 575-602.
- Treviño, L. K., Butterfield, K. D., & McCabe, D. L. (1998). The ethical context in organizations: Influences on employee attitudes and behaviors. *Business Ethics Quarterly*, 8(03), 447-476.
- Tsang, E. W. (1998). Can guanxi be a source of sustained competitive advantage for doing business in China? *The Academy of Management Executive*, 12(2), 64-73.
- Tsui, A. S., Farh, J. L., & Xin, K. R. (2000). Guanxi in the Chinese context *Management and organizations in the Chinese context* (pp. 225-244): Springer.

- Turner, B. (2015). Preserving the organization's moral landscape: by assessing integrity and ethics safeguards, internal audit can help the organization protect against fraud and other wrongdoing. *Internal Auditor*, 72(5), 51-56.
- Valentine, S., Greller, M. M., & Richtermeyer, S. B. (2006). Employee job response as a function of ethical context and perceived organization support. *Journal of Business Research*, 59(5), 582-588.
- Van der Hoeven, R., & Sziraczki, G. (1997). *Lessons from privatization: labour issues in developing and transitional countries*: International Labour Organization.
- Vardaman, J. M., Gondo, M. B., & Allen, D. G. (2014). Ethical climate and pro-social rule breaking in the workplace. *Human Resource Management Review*, 24(1), 108-118.
- Vardi, Y., & Weitz, E. (2003). *Misbehavior in organizations: Theory, research, and management*: Psychology Press.
- Vetlesen, A. J. (1994). Perception, empathy, and judgment: An inquiry into the preconditions of moral performance.
- Victor, B., & Cullen, J. B. (1987). A theory and measure of ethical climate in organizations. *Research in corporate social performance and policy*, 9(1), 51-71.
- Victor, B., & Cullen, J. B. (1988). The Organizational Bases of Ethical Work Climates. *Administrative Science Quarterly*, 33(1), 101-125. doi:10.2307/2392857
- Vinten, G., & Van Peursem, K. (2005). Conversations with internal auditors: The power of ambiguity. *Managerial Auditing Journal*, 20(5), 489-512.
- Walder, A. G. (1988). *Communist neo-traditionalism: Work and authority in Chinese industry*: Univ of California Press.
- Wang, G., & Yan, H. (2010). 中国内部审计准则与国际内部审计准则的比较与借鉴.
- Wang, X., Fan, G., & Zhu, H. (2007). Marketisation in China, progress and contribution to growth. *China: Linking markets for growth*, 30-44.
- Wang, X., Yu, J., & Fan, G. (2016). Report of Eight-Years' Marketisation Progress in China. *Caijing*.
- Wang, Y.-D., & Hsieh, H.-H. (2013). Organizational ethical climate, perceived organizational support, and employee silence: A cross-level investigation. *Human Relations*, 66(6), 783-802.
- Wang, Y. D., & Hsieh, H. H. (2012). Toward a better understanding of the link between ethical climate and job satisfaction: A multilevel analysis. *Journal of Business Ethics*, 105(4), 535-545.
- Weeks, W. A., Loe, T. W., Chonko, L. B., Martinez, C. R., & Wakefield, K. (2006). Cognitive moral development and the impact of perceived organizational ethical climate on the search for sales force excellence: A cross-cultural study. *Journal of Personal Selling & Sales Management*, 26(2), 205-217.

- Weeks, W. A., Loe, T. W., Chonko, L. B., & Wakefield, K. (2004). The effect of perceived ethical climate on the search for sales force excellence. *Journal of Personal Selling & Sales Management*, 24(3), 199-214.
- Wei, Y. D., & Fan, C. C. (2000). Regional inequality in China: a case study of Jiangsu province. *The Professional Geographer*, 52(3), 455-469.
- Wong, C. S., Wong, Y. t., Hui, C., & Law, K. S. (2001). The significant role of Chinese employees' organizational commitment: Implications for managing employees in Chinese societies. *Journal of World Business*, 36(3), 326-340.
- Wu, H., & Patel, C. (2015). *Adoption of Anglo-American Models of Corporate Governance and Financial Reporting in China* (Vol. 29): Emerald Group Publishing.
- Wu, Y. (2013). 上博 (四)《多薪》诗旨及其《诗经》学意义. *文学遗产*(6), 49-54.
- Xi, J. (2015a). 人民有信仰民族有希望国家有力量. *党建*(4), 1-1.
- Xi, J. (2015b). 加快建设社会主义法治国家. *杭州: 周刊*(1), 3-8.
- Xing, F. (1995). The Chinese cultural system: Implications for cross-cultural management. *SAM Advanced Management Journal*, 60(1), 14.
- Xing, L. (2016). Understanding China's Economic Success: "Embeddedness" with Chinese Characteristics. *Asian Culture and History*, 8(2), 18.
- Yang, C. F. (2000). Psychocultural foundations of informal groups: The issues of loyalty, sincerity, and trust. *Informal Politics in East Asia*, 85-105.
- Yang, M. M.-h. (1994). *Gifts, favors, and banquets: The art of social relationships in China*: Cornell University Press.
- Ying, X., & Patel, C. (2015). *The Influence of Partners' Views on Chinese Auditors' Judgments Related to Professional Scepticism*. Retrieved from
- Yu, W., & Zhang, X. (2015). 论 “不敢腐” “不能腐” “不想腐” ——兼谈以习近平为总书记党中央的反腐思想与实践. *辽宁行政学院学报*, 6, 003.
- Zeng, R., & Greenfield, P. M. (2015). Cultural evolution over the last 40 years in China: Using the Google Ngram Viewer to study implications of social and political change for cultural values. *International Journal of Psychology*, 50(1), 47-55.
- Zhan, J. V. (2012). Filling the gap of formal institutions: the effects of Guanxi network on corruption in reform-era China. *crime, law and social change*, 58(2), 93-109.
- Zhang, J., & Pimpa, N. (2012). Embracing guanxi: the literature review. *Advancing Technologies for Asian Business*, 85-93.
- Zhang, L., Deng, Y., & Wang, Q. (2014). An exploratory study of Chinese motives for building supervisor-subordinate guanxi. *Journal of Business Ethics*, 124(4), 659-675.

- Zhang, X. a., Li, N., & Harris, T. B. (2015). Putting non-work ties to work: The case of guanxi in supervisor–subordinate relationships. *The leadership quarterly*, 26(1), 37-54.
- Zhao, B., & Peng, X. (2015). 习近平反腐倡廉思想研究. *北京师范大学学报: 社会科学版* (5), 122-133.
- Zhao, H. (2008). 浅析《礼记》中庸思想及其启示. *新西部: 理论版*(12), 11-11.
- Zheng, S., & An, J. (2013). A Constructive Audit Outline: Socialist Government Audit with Chinese Characteristics [J]. *Journal of Audit & Economics*, 4, 003.

Appendix 1: Research Instrument (English Version)



An Investigation of Contextual Factors in the Auditing Profession in China

Dear Participant

My name is Qirong Song and I would like to invite you to participate in this survey. The purpose of this questionnaire survey is to investigate contextual factors in the auditing profession in China. Specifically, the aim of this research is to extend internal auditors' judgement and decision making research by developing and empirically testing a theoretical model which links Chinese core cultural value of interpersonal ties, or "guanxi", organisational culture, and organisational behaviour.

The questionnaire consists of four parts and takes about 25 minutes to complete. Part one includes questions on "guanxi" orientation. Part two is about organisational culture. Part three is about organisational behaviour. Part four is about demographic information.

Please note that participation in this survey is voluntary and questionnaires are anonymous. You are not obligated to participate. If you do not agree to participate, simply do not complete the questionnaire. Both completed and uncompleted questionnaires should be placed in the locked box. Completion and return of the questionnaire will denote your consent to participate. Any information you provide will be treated in strict confidence. The data will be analysed in aggregate form and will be used only for research purposes. Any information gathered in the course of this study is for research purposes, and no attempt will be made to identify any individuals or institutions. Also, your responses to the survey will not be considered as being representative of any organisations. Participants may also request a summary of the results directly from me. Thank you very much for your time and cooperation in this study. For any more details of this study, please do not hesitate to contact us.

The study will be conducted by Ms. Qirong Song (qirong.song@students.mq.edu.au) to meet the requirements of the Master of Research, under the supervision of Professor Chris Patel, contact phone number; 02 9850 7825, email address; chris.patel@mq.edu.au, of Department of Accounting and Corporate Governance, Faculty of Business and Economics, Macquarie University, NSW 2109, Australia.

Yours sincerely

Qirong Song

Email: qirong.song@students.mq.edu.au
Faculty of Business and Economics, Department of
Accounting and Corporate Governance
Macquarie University
NSW 2109, Australia

Prof. Chris Patel (Chief investigator and MRes
supervisor of Ms. Qirong Song)

Email: chris.patel@mq.edu.au
Faculty of Business and Economics, Department of
Accounting and Corporate Governance
Macquarie University
NSW 2109, Australia

The ethical aspects of this study have been approved by the Macquarie University Human Research Ethics Committee. If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Committee through the Director, Research Ethics & Integrity (telephone (02) 9850 7854; email ethics@mq.edu.au). Any complaint you make will be treated in confidence and investigated, and you will be informed of the outcome.

PART I. "Guanxi" Orientation

Statements that people use to describe themselves are given below. Please tick the response that indicates how you *generally* feel. There are no right or wrong answers. Do not spend too much time on any one statement.

Please indicate to what extent do you agree with the following statements? (Please put only one "✓" in each row across)

	Strongly Disagree	Mostly Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Mostly Agree	Strongly Agree
In business, it is important to maintain a good network of relationships.							
Doing business involves knowing the right people.							
Developing the right contacts helps in the smooth running of a business.							
One must always build and maintain social relationships with others in case they are needed in the future.							
Being in the 'inside' circle helps in obtaining preferential treatment.							
Returning favour for favour is part of doing business.							
Frequent cooperation reduces problems in business relationships.							
Maintaining good relationships is the best way to enhance business.							
Gift giving is an important aspect in business success.							
In business, back door deals are alright as long as everyone prospers.							
Power exchange relationships are normal in Chinese business.							
Using bureaucratic privilege is common practice in business.							
During holidays or after office hours, I would call my supervisor or visit him/her.							
My supervisor invites me to his/her home for lunch or dinner.							

	Strongly Disagree	Mostly Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Mostly Agree	Strongly Agree
On special occasions such as my supervisor's birthday, I would definitely visit my supervisor and send him/her gifts.							
I always actively share with my supervisor about my thoughts, problems, needs and feelings.							
I care about and have a good understanding of my supervisor's family and work conditions.							
When there are conflicting opinions, I will stand on my supervisor's side.							

PART III. ORGANISATIONAL CULTURE

We would like to ask you some questions about the organisational culture in your organisation. Please answer the following in terms of **how it really is in your organisation, not how you would prefer it to be**. Please be as candid as possible; remember all your responses will remain strictly anonymous.

Please indicate to what extent are the following statement true about your organisation? (Please put only one "✓" in each row across)

	Strongly Disagree	Disagree	Neither Agree or Disagree	Agree	Strongly Agree
Unethical behaviour is severely punished within my organisation.					
My organisation has effective ethics training programs.					
As a whole, my organisation has strong ethical values that reinforce ethical decision making.					
Other individuals within my organisation adhere to the organisation's code of ethics.					
Special recognition is given to individuals who demonstrate ethical behaviour within my organisation.					
Superiors within my organisation act ethically.					

	Strongly Disagree	Disagree	Neither Agree or Disagree	Agree	Strongly Agree
Individuals within my organisation strongly identify with the organisation.					
Colleagues within my organisation act ethically.					
My organisation is greatly concerned with ethical behaviour.					
Superiors within my organisation clearly support all organisational efforts to encourage ethical behaviour.					
My organisation's ethics training programs focus on practical issues and encourage ethical decision making.					
My organisation emphasises ethics over profitability.					

PART V. ORGANISATIONAL BEHAVIOUR

We would like to ask you some questions about the organisational behaviour in your organisation. Please answer the following in terms of **how it really is about your colleagues, not how you would prefer it to be**. Please be as candid as possible; remember all your responses will remain strictly anonymous.

How often do you engage in the following behaviours? There are no right or wrong answers. (Please put only one "✓" in each row across.)

	Never	Once a year	Twice a year	Several times a year	Monthly	Weekly	Daily
Spent too much time daydreaming instead of working.							
Falsified a receipt to get reimbursed for more money than actually spent on business expenses.							
Taken an additional or longer break than is acceptable at your workplace.							
Come in late to work without permission.							
Littered your work environment.							
Neglected to follow your boss's instructions.							

	Never	Once a year	Twice a year	Several times a year	Monthly	Weekly	Daily
Intentionally worked slower than you could have.							
Put little effort into your work.							
Dragged out work in order to get overtime.							

PART VII. DEMOGRAPHIC INFORMATION

Please provide the following information about yourself by checking the appropriate boxes or providing relevant details.

What type of organisation are you working for?	
<input type="checkbox"/> State-Owned Enterprise	<input type="checkbox"/> Multinational Enterprise
<input type="checkbox"/> Private Enterprise	<input type="checkbox"/> Others (Please Specify) _____
What industry do you work in?	
<input type="checkbox"/> Agriculture, forestry, livestock farming, fishery industries	<input type="checkbox"/> Extractive industries
<input type="checkbox"/> Manufacturing industries	<input type="checkbox"/> Energy industries (electricity, gas and water)
<input type="checkbox"/> Construction industries	<input type="checkbox"/> Transportation and storage industries
<input type="checkbox"/> Information Technology industries	<input type="checkbox"/> Retail and wholesale industries
<input type="checkbox"/> Finance, banking and insurance industries	<input type="checkbox"/> Real estate industries
<input type="checkbox"/> Social and community services industries	<input type="checkbox"/> Communications media and printing industries
<input type="checkbox"/> Administrative and public units	<input type="checkbox"/> Other industries (Please Specify) _____
What is your organisation size? (in term of number of employees)	
<input type="checkbox"/> Small (less than 250 employees)	<input type="checkbox"/> Medium (Less than 500 employees)
<input type="checkbox"/> Large (More than 500 employees)	<input type="checkbox"/> Not sure
Does your organisation have a Code of Ethics?	
<input type="checkbox"/> Yes	<input type="checkbox"/> No <input type="checkbox"/> Not sure
Does your organisation provide alternative work arrangements (flexible scheduling, part-time work, or telecommuting etc.)?	
<input type="checkbox"/> Yes	<input type="checkbox"/> No <input type="checkbox"/> Not sure
How many years/months experience do you have in the current organisation?	
_____ years	_____ months
How many years of professional work experience do you have?	
<input type="checkbox"/> Nil	<input type="checkbox"/> 1-3 years <input type="checkbox"/> 4-6 years
<input type="checkbox"/> 7-9 years	<input type="checkbox"/> 10-12 years <input type="checkbox"/> Greater than 12 years
What is your age?	
<input type="checkbox"/> Under 20	<input type="checkbox"/> 20-24 <input type="checkbox"/> 25-29 <input type="checkbox"/> 30-34
<input type="checkbox"/> 35-39	<input type="checkbox"/> 40-49 <input type="checkbox"/> 50-59 <input type="checkbox"/> 60 or over
What is your gender?	
<input type="checkbox"/> Male	<input type="checkbox"/> Female

What the gender of your immediate supervisor?				
<input type="checkbox"/> Male		<input type="checkbox"/> Female		
What is your highest academic qualification?				
<input type="checkbox"/> High School Certificate		<input type="checkbox"/> Diploma		<input type="checkbox"/> Bachelor
<input type="checkbox"/> Master		<input type="checkbox"/> PhD		<input type="checkbox"/> Other (Please specify) _____
What is your organisational position?				
<input type="checkbox"/> None	<input type="checkbox"/> Supervisor	<input type="checkbox"/> Senior	<input type="checkbox"/> Manager	<input type="checkbox"/> Partner
What is your nationality?				
<input type="checkbox"/> Chinese			<input type="checkbox"/> Other (Please specify) _____	
In which country were you born?				
<input type="checkbox"/> China			<input type="checkbox"/> Other (Please specify) _____	

Thank you for your time.

Total time used: _____ minutes

Thank you for taking time to complete this survey. Your assistance is very important to the success of the project and is greatly appreciated. All answers will be treated in strict confidence. If there is anything else relating to contextual factors in the auditing profession in China, or if there are any other comments you would like to make, please do so in the space provided below.

Thank you for your participation.

Research Instrument (Chinese Version)



中国审计行业背景因素调查问卷

尊敬的先生/女士：

您好，

我是宋其容，很荣幸能够邀请您参与本次问卷调查。本次问卷调查的目的是研究中国审计行业背景因素。这个调查研究是在麦考瑞大学教授 Chris Patel [chris.patel@mq.edu.au]的指导下进行的。本次研究的目的是，为了拓展内部审计师决策判断的研究，构建和检测联系关系文化，企业文化价值，和组织行为的理论模型。

本次问卷共包括四部分，大概需要您用 25 分钟来完成。第一部分是关于人际交往的问题；针对企业文化价值；第三部分关于组织行为；第四部分收集受访者的背景统计信息。

本次调查研究完全保持自愿和匿名的原则。如果您不同意参加本次调查研究，不填写问卷即可。请将填写完毕或未填写完毕的问卷放入信箱中。填写并归还问卷的行为代表您同意参加本次研究。您所提供的任何信息都将被严格保密。收集的数据只做整体分析，而且该分析结果仅用于学术研究。调查结果将会包含在我的论文中，也可能在相关学术刊物和学术交流会议上发表。同时，您在本次调查研究中的回复不代表任何组织。您也可以联系我索取调查结果。

非常感谢您的积极参与。如果您对本次研究如有任何疑问，或者想要了解更多关于这个研究项目的信息，请您随时联系我。

本次研究是宋其容女士为了获取研究型硕士学位而进行的(qirong.song@students.mq.edu.au)。宋其容女士在 Chris Patel 教授的指导下进行该研究项目。Chris Patel 教授的具体联系方式如下，电话: 02 9850 782，电子邮箱：chris.patel@mq.edu.au，麦考瑞大学商业与经济学院会计与企业治理系，澳大利亚新南威尔士州，2109。

祝好

宋其容

商业与经济学院会计与企业治理系
麦考瑞大学
新南威尔士州 2109，澳大利亚
电子邮箱：qirong.song@students.mq.edu.au

Chris Patel（本次研究主要负责人，宋其容女士的导师）

商业与经济学院会计与企业治理系
麦考瑞大学
新南威尔士州 2109，澳大利亚
电子邮箱：chris.patel@mq.edu.au

本研究的道德方面已经被麦瑞大学（Macquarie University）批准。如果您就参与本研究有任何意见和疑虑，请通过研究伦理与学术道德方面的负责人与我们联系（电话+61 [02] 9850 7854，电子邮箱：ethics@mq.edu.au）。我们将在严格保密的前提下调查您反馈的问题，并通知您相关结果。

第一部分 人际交往

我们希望能够向您询问部分涉及人际交往的问题。在回答过程中，请尽量保持真实，您的回答是绝对匿名的。(请在每一横排对应选项下打一个“√”。)

	强烈反对	基本反对	可能反对	既不同意也不反对	可能同意	基本同意	强烈同意
在商业活动中，保持良好的人际关系网很重要。							
进行商业活动要求结识正确的人。							
发展正确的关系网有助于企业的顺利运转。							
一个人应当建立并维持良好的社会关系，以备未来之需。							
融入“圈子内部”有助于获得优待。							
还人情是商业活动的一部分。							
频繁的合作能减少商业关系中的问题。							
维护良好的关系是提升企业的最佳手段。							
想获取商业成功，送礼是一个重要方面。							
在商业活动中，只要每个人都受益，走后门就是合理的。							
权钱交易在商业活动中很正常。							
商业活动中，利用官僚特权是一个普遍行为。							
在假期，或是下班后，我会打电话联系我的上级，或是去拜访他/她。							
我的上级邀请我到他/她家中共进午餐/晚餐。							
在特别的日子，比如我的上级的生日，我一定会拜访他/她，并送给他/她礼物。							
我经常积极主动地和我的上级分享我的想法、问题、需求和感受。							
我很关心并很了解我的上级的家庭和工作条件。							
当冲突意见出现时，我会站在我上级的立场。							

第三部分 组织文化价值

我们希望能够向您询问部分涉及您所在单位文化价值的问题。请根据您单位中的**实际情况**回答下列问题。该部分**不是**询问您希望单位应有的状态。在回答过程中，请尽量保持真实，您的回答是绝对匿名的。(请在每一横排对应选项下打一个“√”。)

	强烈反对	反对	既不同意也不反对	同意	强烈同意
不道德的行为在我们单位中会受到严惩。					
我们单位有高效的道德方面的培训项目。					
整体来说，我们单位有强烈的道德氛围，并会在决策过程中更多地考虑道德方面的因素。					
我们单位的其他人遵守单位内部的道德准则。					

	强烈 反对	反对	既不同意 也不反对	同意	强烈 同意
在我们单位，遵循行为道德准则的同事会被特别表扬。					
我们单位的领导恪守道德准则。					
单位内部员工对于单位有强烈的认同感。					
我们单位的同事恪守道德准则。					
我们单位很关注行为道德规范。					
我们单位的领导明确支持所有能鼓励道德行为的组织工作。					
我们单位的道德方面的培训项目关注实际问题，并提倡在决策过程中考虑道德因素。					
我们单位强调道德准则甚于利益。					

第五部分 组织行为

我们希望能够向您询问部分涉及您在单位里个人的组织行为的问题。请根据您的**实际情况**回答下列问题。该部分**不是询问您希望应有的状态**。在回答过程中，请尽量保持真实，您的回答是绝对匿名的。

您是否曾经经历以下描述的情景。(请在每一横排对应选项下打一个“√”。)该问题没有正确或错误的答案。

	从未	一年 一次	一年 两次	一年 几次	每月	每周	每天
花太多时间在白日梦上，而不是实际具体的工作。							
伪造收据以获得比实际商业花费更多的报销金额。							
休假时间比工作岗位允许的时间长。							
未经允许上班迟到。							
在工作环境中乱扔垃圾。							
不遵从上级指示。							
故意低效工作。							
工作不怎么付出努力。							
拖延工作，故意加班。							

第七部分 基本统计信息

请提供下列关于您的基本统计信息。请在相应方框中打一个“√”或提供相关细节。

您在什么类型的单位工作？	
<input type="checkbox"/> 国有企业	<input type="checkbox"/> 国际企业
<input type="checkbox"/> 私人企业	<input type="checkbox"/> 其他（请说明）_____
您在什么行业工作？	
<input type="checkbox"/> 农业、林业、畜牧业、渔业	<input type="checkbox"/> 矿业
<input type="checkbox"/> 制造业	<input type="checkbox"/> 能源业（电力、天然气或水力等）
<input type="checkbox"/> 建筑业	<input type="checkbox"/> 交通运输业
<input type="checkbox"/> 信息技术业	<input type="checkbox"/> 零售批发业
<input type="checkbox"/> 金融、银行或保险业	<input type="checkbox"/> 房地产业

<input type="checkbox"/> 社区服务业	<input type="checkbox"/> 通信传媒业
<input type="checkbox"/> 公共行政业	<input type="checkbox"/> 其他行业（请说明）_____
贵单位的规模有多大？（以员工人数计）	
<input type="checkbox"/> 小型（少于 250 名员工）	<input type="checkbox"/> 中型（少于 500 名员工）
<input type="checkbox"/> 大型（多于 500 名员工）	<input type="checkbox"/> 不确定
贵单位是否有道德准则规范？	
<input type="checkbox"/> 有	<input type="checkbox"/> 没有 <input type="checkbox"/> 不确定
贵单位是否提供灵活工作制度（例如，弹性工作时间表，在家远程办公，或非全日制工作）？	
<input type="checkbox"/> 有	<input type="checkbox"/> 没有 <input type="checkbox"/> 不确定
您在单位工作多久了？	
_____ 年 _____ 月	
您有多少年执业经验？	
<input type="checkbox"/> 没有	<input type="checkbox"/> 1-3 年 <input type="checkbox"/> 4-6 年
<input type="checkbox"/> 7-9 年	<input type="checkbox"/> 10-12 年 <input type="checkbox"/> 多于 12 年
您是否拥有下列资格证书？	
<input type="checkbox"/> 会计从业资格证书	<input type="checkbox"/> 中国注册会计师证书 <input type="checkbox"/> 没有 <input type="checkbox"/> 其他（请说明）_____
请问您的年纪是？	
<input type="checkbox"/> 不到 20	<input type="checkbox"/> 20-24 <input type="checkbox"/> 25-29 <input type="checkbox"/> 30-34
<input type="checkbox"/> 35-39	<input type="checkbox"/> 40-49 <input type="checkbox"/> 50-59 <input type="checkbox"/> 60 或以上
请问您的性别是？	
<input type="checkbox"/> 男性	<input type="checkbox"/> 女性
请问您的直属领导的性别是？	
<input type="checkbox"/> 男性	<input type="checkbox"/> 女性
请问您的最高学历是？	
<input type="checkbox"/> 高中毕业	<input type="checkbox"/> 专科 <input type="checkbox"/> 本科学士
<input type="checkbox"/> 硕士	<input type="checkbox"/> 博士 <input type="checkbox"/> 其他（请说明）_____
请问您在单位中的职位是？	
<input type="checkbox"/> 一般员工	<input type="checkbox"/> 主管 <input type="checkbox"/> 高级主管 <input type="checkbox"/> 经理 <input type="checkbox"/> 合伙人
请问您的国籍是？	
<input type="checkbox"/> 中国	<input type="checkbox"/> 其他（请说明）_____
请问您在哪个国家出生？	
<input type="checkbox"/> 中国	<input type="checkbox"/> 其他（请说明）_____

感谢您的宝贵时间。

共用时间：_____ 分钟

非常感谢您完成这份问卷。您的帮助对本次研究项目至关重要。我们将按照严格保密原则处理所有答案。如果您有关于中国审计行业背景因素的其他事宜，或者其它相关意见，请填写在在以下方框中。

非常感谢您的参与。

Appendix 2: Ethics Approval

Office of the Deputy Vice-Chancellor
(Research)

Research Office
Research Hub, Building C5C East
Macquarie University
NSW 2109 Australia
T: +61 (2) 9850 4459
<http://www.research.mq.edu.au/>
ABN 90 952 801 237



MACQUARIE
University
SYDNEY • AUSTRALIA

10 June 2016

Dear Professor Patel

Reference No: 5201600248

Title: *Influence of Personalised Network (Guanxi) on Ethical Climate and Organisational Deviant Behaviour Among Internal Auditors in China*

Thank you for submitting the above application for ethical and scientific review. Your application was considered by the Macquarie University Human Research Ethics Committee (HREC (Human Sciences & Humanities)).

I am pleased to advise that ethical and scientific approval has been granted for this project to be conducted by:

- Macquarie University

This research meets the requirements set out in the *National Statement on Ethical Conduct in Human Research* (2007 – Updated May 2015) (the *National Statement*).

Standard Conditions of Approval:

1. Continuing compliance with the requirements of the *National Statement*, which is available at the following website:

<http://www.nhmrc.gov.au/book/national-statement-ethical-conduct-human-research>

2. This approval is valid for five (5) years, subject to the submission of annual reports. Please submit your reports on the anniversary of the approval for this protocol.

3. All adverse events, including events which might affect the continued ethical and scientific acceptability of the project, must be reported to the HREC within 72 hours.

4. Proposed changes to the protocol and associated documents must be submitted to the Committee for approval before implementation.

It is the responsibility of the Chief investigator to retain a copy of all documentation related to this project and to forward a copy of this approval letter to all personnel listed on the project.

Should you have any queries regarding your project, please contact the Ethics Secretariat on 9850 4194 or by email ethics.secretariat@mq.edu.au

The HREC (Human Sciences and Humanities) Terms of Reference and Standard Operating Procedures are available from the Research Office website at:

http://www.research.mq.edu.au/for/researchers/how_to_obtain_ethics_approval/human_research_ethics

The HREC (Human Sciences and Humanities) wishes you every success in your research.

Yours sincerely



Dr Karolyn White

Director, Research Ethics & Integrity,

Chair, Human Research Ethics Committee (Human Sciences and Humanities)

This HREC is constituted and operates in accordance with the National Health and Medical Research Council's (NHMRC) *National Statement on Ethical Conduct in Human Research* (2007) and the *CPMP/ICH Note for Guidance on Good Clinical Practice*.

Details of this approval are as follows:

Approval Date: 10 June 2016

The following documentation has been reviewed and approved by the HREC (Human Sciences & Humanities):

Documents reviewed	Version no.	Date
Macquarie University Ethics Application Form		Revised version received 09/06/2016
Macquarie University Appendix B: Research to be Undertaken Outside Australia		Received 28/03/2016
Response addressing the issues raised by the HREC		Received 20/05/2016 & 09/06/2016
Participant Information and Consent Form (English and Chinese versions)	1	09/06/2016
Participant Questionnaires (English and Chinese versions)	1	09/06/2016
Email Invitation (English and Chinese versions)	1	09/06/2016

***If the document has no version date listed one will be created for you. Please ensure the footer of these documents are updated to include this version date to ensure ongoing version control.**