

**“Holier-Than-Thou” Perception Bias Among
Professional Accountants: A Cross-Cultural Study**

Brian Millanta and Chris Patel

Department of Accounting and Finance
Division of Economic and Financial Studies
Macquarie University
Australia

Abstract

The increasing pace of globalisation, and the concomitant international harmonisation and standardisation of accounting practices, has intensified interest in cross-cultural differences in the attitudes and beliefs of preparers and users of financial information. Theoretical conceptions of culture in accounting research are controversial, ranging from highly deterministic, quantified and componential perspectives (such as Hofstede's five dimensional model) to those that suggest continual changes in cultural values brought about by forces of acculturation. Acculturation refers to cultural change that is initiated by the conjunction of two or more autonomous cultural systems. This paper makes a contribution to cross-cultural accounting research by examining the influence of competing theoretical perspectives of culture and acculturation on "holier-than-thou" perception bias. "Holier-than-thou" perception bias leads to individuals perceiving themselves as acting more ethically than comparable others when confronted with ethically uncertain work-related behaviours. This study contributes to cross-cultural accounting research by surveying Australian and Indian professional accountants from big four accounting firms. We firstly seek to establish the prevalence of "holier-than-thou" perception bias in both cultural settings. Secondly, we examine the differential and competing influences of culture and acculturation on perceptions of accountants from the two countries on measures of this bias. Data was collected through a survey questionnaire administered to samples of senior accountants from the big accounting firms in Australia and India. The questionnaire comprised an auditor-client conflict and two whistle-blowing scenarios and used two questions to measure the magnitude of the bias. The results show that "holier-than-thou" perception bias exists among accountants within each of the two countries. However, the magnitude of the bias was not significant between the countries. The results support the theory of acculturation in big accounting firms. Our findings have implications for accounting research where the presence of "holier-than-thou" perception bias needs to be considered in cases where respondents are questioned on socially sensitive issues. The findings may be useful to accounting researchers, managers of multinational enterprises in general, and big-four accounting firms in particular. Our conceptual framework applied in this study is innovative and provides a template for assessing current controversies in cross-cultural accounting research.

Key words: Socially desirable responding, "holier-than-thou" perception bias, cross-cultural, self-construals, acculturation.

Introduction

The increasing pace of globalisation, and the concomitant moves towards international standardisation of financial accounting and reporting practices has intensified interest in cross-cultural comparisons of the attitudes and beliefs of preparers and users of financial information. Globalisation of the business environment has created an increasingly complex set of relationships and the International Accounting Standards Board's decision to place professional judgement at centre stage of its accounting pronouncements has heightened interest in the ethical standards and cultural values of those charged with interpreting and applying those standards. There is an increased acceptance that a realisation of the benefits perceived to flow from this international standardisation of accounting practices will depend largely upon the manner in which professional judgement is exercised. The increasing concern with consistency and comparability in perceptions and judgments of professional accountants has resulted in a proliferation of cross-cultural accounting research and a simultaneous search for relevant cultural theories.

Importantly, theoretical conceptions of culture in accounting research are controversial, ranging from highly deterministic, quantified and componential perspectives (such as Hofstede's five dimensional model, and various theories related to construals of self) to those that suggest continual changes in cultural values brought about by forces of acculturation. In this context, acculturation refers to cultural changes that are initiated by the conjunction of two or more autonomous cultural systems.

This paper makes a contribution to cross-cultural accounting research by examining the influence of the two competing theoretical perspectives of culture and acculturation on

socially desirable responding. Using two opposing and competing theoretical perspectives on culture is important because cross-cultural accounting research has largely been dominated by Hofstede's five dimensional model of culture. For example, Patel (2006, p.45) reviewed 27 cross-cultural studies in financial accounting and auditing and concluded that, "This simplistic treatment of culture has tended to limit theoretical advances in cross-cultural accounting studies". Patel (2006) further concluded that such cultural theories, with their almost exclusive focus on measurement, quantification, simplification and categorisation, have resulted in a failure to examine other theoretical perspectives in an attempt to understand the richness and complexity of culture. Additionally, Baskerville (2003) in an appropriately entitled paper, "Hofstede Never Studied Culture" concluded that, "...the manner in which Hofstede established the dimensions of culture, and the subsequent reification of 'culture' as a variable in cross-national studies in accounting, led to dependence on cultural indices as an explanatory variable in accounting practices and behaviour" (p.2). In contrast, non-deterministic theories such as acculturation, which conceptualise culture as evolving, non-componential and non-quantifiable, have been largely ignored.

Our study contributes to cross-cultural studies by invoking these two opposing cultural theories and using the traditional mainstream methodological paradigm, namely the hypothetico-deductive methodology, to examine an important topic in accounting ethics, specifically, the "holier than thou" perception bias among professional accountants in Australia and India. "Holier-than-thou" perception bias refers to a tendency for respondents to perceive themselves as being more likely to behave ethically than their peers in morally challenging situations. We emphasise that it is not our objective to defend the application of the hypothetico-deductive paradigm in accounting research. Rather, we rigidly follow the main principles of this methodology to show the importance and relevance of the theory of

acculturation in cross-cultural studies of the perceptions of professional accountants, a theory which to date has been largely ignored.

The research on ethical behaviour by accountants and auditors has almost exclusively relied on data gathered through the use of questionnaires. While this reliance on questionnaires is partly attributable to the fact that they are relatively easy to use and inexpensive, their usage is also frequently necessitated by the fact that the variables of interest are unobservable constructs such as the respondent's attitudes, values or intentions. While researchers generally hope that a respondent's answers will be based on the substantive meaning of the items included in the questionnaire, it has also been recognised that responses are also susceptible to content-irrelevant factors called response biases. These are measurement errors introduced by some factor that has persistent directional effects on the characteristic being measured, or the process of measurement (Brownell 1995, p.43). This paper considers one such bias – socially desirable responding – and in particular, one of its components, "holier-than-thou" perception bias. Socially desirable responding threatens the validity of empirical findings by contaminating respondents' answers and is perhaps the most important systematic error that needs to be controlled in all behavioural research, particularly in cross-cultural studies (Rossi et al. 1983; Tyson 1992; Patel 2006). Socially desirable responding refers to a desire, at either a conscious or subconscious level, to deny socially undesirable traits or behaviours and to admit to socially desirable ones (Fernandes and Randell 1992, p.184; Watkins and Cheung 1995, p.490; Zerbe and Paulhus 1987).

Socially desirable responding is a complex and controversial concept with numerous layers of meaning. There is no general agreement regarding its definition, measurement, or consequences, and despite its potentially biasing effects, socially desirable responding has received little

attention in the international accounting literature. A review of the literature suggests that socially desirable responding is not seen as a major threat to validity because it is rarely mentioned and very little attention is paid to identifying its presence or to controlling its effect. It is not our intention in this paper to enter into a theoretical discussion of socially desirable responding or to explore all of its aspects or consequences. Rather, our aim is to focus on a narrow and clearly defined aspect of socially desirable responding, namely “holier-than-thou” perception bias.

As research into the ethical behaviour of accountants relies on information gathered through questionnaires and because the issues are of a sensitive nature, the risk that a respondent’s answers will conceal, either intentionally or unintentionally, their true attitudes or behaviours would appear to be substantial. Fisher (1993) observes that socially desirable responding has been found to occur across a broad range of self-report measures and in virtually all of the social science literatures. He concludes that research that does not recognise and compensate for this bias “may lead to unwarranted theoretical or practical conclusions about attitudes, intentions and behaviours” (p.303).

In an accounting context, Cohen et al. (1995; 1996), Cable and Patel (2000), and Patel (2003) examined various aspects of socially desirable responding. This study complements and extends this line of research by overcoming theoretical limitations of prior studies and by providing a focused examination of “holier-than-thou” ethical perceptions. Additionally, as shown later in the paper, a number of methodological limitations of prior cross-cultural accounting studies (such as the choice of countries and subjects, and validation of cultural values in the two cultures) are addressed to provide greater validation of the findings.

Our study investigates the cultural relativity of perceptions of ethical behaviour by surveying a sample of professional accountants in Australia and India. We examine whether evidence of “holier-than-thou” perception bias is present in the answers provided by professional accountants from these two countries and we relate any discernible difference in its level to relevant cultural perspectives in the two countries.

Specifically, we are interested in whether or not differences in the level of “holier-than-thou” perception bias can be explained by differences in the dominant concept of self found in Australia and India. Triandis (1994, p.1) states that culture is to society what memory is to individuals, encompassing “the way people have learned to look at that their environment and themselves, and their unstated assumptions about the way the world is and the way people should act. Hofstede (2005), who defines culture as “the collective programming of the mind that distinguishes the members of one group or category of people from others”, identifies values as being at the core of a society’s culture. He argues that values are broad tendencies to prefer certain states of affairs over others; they are feelings with a plus and minus side and deal with, amongst other things, the question of good versus evil. These comments suggest that to the extent that cultures differ, their members may display divergent beliefs about what constitutes ethical behaviour and that this, in turn, may impact upon attitudes towards unethical behaviour. While these deterministic cultural theories, with their focus on quantification and categorisation, have been extensively applied in cross-cultural accounting studies, researchers have largely failed to address their limitations.

A "holier-than-thou" perception bias results in individuals perceiving their peers as behaving less ethically than themselves when confronted with ethically uncertain work-related behaviours (Tyson 1990, p.715). Consistent with previous studies, "holier-than-thou" perception bias is

measured by asking respondents two questions, namely, whether they and their colleagues would make the same decision as the actors in various ethical contexts provided in scenarios. The difference between the two questions is a measure of the magnitude of any perception bias that may be present in the responses (Tyson, 1992; Cohen et al., 1995; 1996; Cable and Patel, 2000; Patel 2003).

An examination of "holier-than-thou" perception bias is important within accounting firms because this bias may foster an unethical organizational culture. Individuals may rationalize unethical behaviour as being necessary to successfully compete with others who they perceive as being far less principled (Tyson 1990, p.715). With respect to research, the presence of "holier-than-thou" perception bias may affect both the reliability and validity of any findings where accountants' attitudes or judgments are solicited. This problem is particularly serious in cross-cultural research because the comparative findings may be a result of "holier-than-thou" perception bias rather than the hypothesised cultural influences on the dependent variables. While many studies, for example, Harrison (1992; 1993), Pratt et al. (1993), Schultz et al. (1993) O'Connor (1995), Kachelmeir and Shehata (1997); Chow et al. (1994; 1999), Patel and Psaros (2000), and Chalos and O'Connor (2005), make valuable contributions to cross-cultural accounting research, they have generally failed to discuss the potentially confounding effects that "holier-than-thou" perception bias may have on their findings.

This study, which is part of a larger research project, seeks to contribute to cross-cultural accounting research by highlighting the potential presence of "holier-than-thou" perception bias in international accounting studies and to relate its presence and level to cultural differences between Australia and India. Accordingly, our first objective is to establish whether or not "holier-than-thou" perception bias is present in the responses of our sample of Australian and

Indian professional accountants employed by the big four accounting firms¹. The second objective is to examine the differential and competing influences of culture and acculturation on perceptions of accountants from the two countries on measures of "holier-than-thou" perception bias. We show that the obsession of mainstream cross-cultural accounting researchers with quantification, measurement, and categorisation is misdirected and suggest that theories such as acculturation, which countenance continual changes in cultural values, can provide important insights into the perceptions and attitudes of professional accountants.

The paper proceeds as follows. The next section explains why Australia and India were selected for examination. The third section is the theory development and hypotheses formulation. The fourth and fifth sections explain the research method and the results respectively. The final section is the conclusions of the study.

Selection of Countries

Australia and India are selected for examination for two reasons. First, the selection of Australia and India enhance the internal validity of the study because they belong to the British Commonwealth model of accounting development. Through the influence of colonialism, these countries inherited corporate legislation and accounting practices from the UK. The concept of a "true and fair" view of the financial affairs of an entity and the exercise of professional judgments are important aspects of accounting in these countries (Radebaugh & Gray, 1993, p.83). Additionally, in each country the objective of accounting is generally based on the concept of decision usefulness which is principally oriented towards the decision needs of investors. Importantly, in this cluster of countries the professional accounting bodies are well established, have almost similar codes of professional conduct and enjoy prestigious status.

Second, India and Australia have been shown to be differentiated on cultural characteristics that are hypothesized in this study as relevant to examining "holier-than-thou" perception bias.

Theory Development and Hypotheses Formulation

Two theoretical perspectives on self-construals, namely independent and inter-dependent construal of self and the influence of acculturation, are drawn on to formulate the hypotheses to examine "holier-than-thou" perception bias among Australian and Indian professional accountants from big accounting firms. Self-construal refers to what individuals in different cultures believe about the relationship between the self and "others", and especially the degree to which they see themselves as "separate" or as "connected" with others (Markus and Kitayama, 1991, p.225).

Theory development is based on self-construals for three reasons. First, evidence suggests that this concept 'must be ranked as one of the fundamental issues that has concerned social and personality psychologists' (Baumeister, 1987, p.163). And Roland (1988, p.4) aptly describes the concept of self as a "...supraordinate organizing principle of the psyche". Furthermore, evidence suggests that self-construals influence, and in many cases determine, the nature of individual experience including cognition, emotion and motivation (Markus and Kitayama, 1991; 1998). Second, this approach complements the work of Hofstede (1980); Hofstede and Bond (1988); Triandis (1988; 1994; 1995); Schwartz and Sagiv (1995) and Smith et al. (1996) in validating that the way individuals define themselves in relation to others largely determines the fundamental core cultural values of a society. Finally, self-construal is selected because of its theoretical relevance to the variables examined in this study.

“Holier-than-thou” Perception Bias Among Big-Four Accountants

Evidence shows that there are many similarities in organisational culture in “big” accounting firms (Kinney, 1986; Wheeler et al., 1987; Soeters & Schreuder, 1988; Pratt & Beaulieu, 1992; Ponemon, 1992; the Future of the Accounting Profession: Auditor Concentration, 2005). This is largely the result of self-selection and socialisation. Self-selection is the process by which individuals make themselves available for recruitment in organisations that are compatible with their organisational commitment, satisfaction, and aspirations. Socialisation refers to the process by which values of organisational members are made compatible with those of the organisation. For example, Ponemon (1992, p.244) notes that large multinational accounting firms have a similar organisational culture since they, “have an ‘up or out philosophy’ during the promotion process. Firm management may implicitly screen employees who do not share compatible traits, beliefs or ethical values. Accountants selected for promotion within the firm, therefore, will possess ethical reasoning capacities consistent with firm management.

Similarities in organisational culture arise largely because of the standardisation of activities such as the audit process, hiring and promotion criteria, and the implementation of a firm's code of professional conduct. Furthermore, empirical evidence from cross-sectional, longitudinal and experimental studies corroborates the existence of a similar socialisation phenomenon in big accounting firms (Soeters & Schreuder, 1988; Pratt & Beaulieu, 1992; the Future of the Accounting Profession: Auditor Concentration, 2005). New employees follow certain rites of passage. They are likely to be indoctrinated as to what is considered to be important in the organisation and what standards of conduct are upheld. Indeed, an examination of the reports emerging on the demise of Arthur Anderson and other scandals surrounding the big-four accounting firms clearly shows the power and influence of organizational culture on ethical reasoning abilities of organizational participants.

We argue that fierce competition among accountants in big-four firms for promotion is likely to foster an ethical culture which may lead to the development of “holier-than-thou”

perception bias. Performance evaluation systems firms are largely driven by differences in the rates charged by individual accountants and revenue generated from clients. Accountants who are aggressive in attracting and retaining important clients are rewarded and as such this develops an organisation culture where criteria for promotion are narrowly defined in terms of profits and creates a strong competition among accountants for promotion. Comparing performance with colleagues, obtaining information about their performance and attempting to understand colleagues' ethical reasoning abilities are likely to become important in such organisations. Based on these evidence and arguments we suggest that the organisational culture in big-four firms is likely to lead accountants to perceive themselves as being more likely to behave ethically than their peers in morally challenging situations. This suggests the following hypothesis:

H1: "Holier-than-thou" perception bias exists among big-four Australian and Indian professional accountants.

Independent and Inter-dependent Construal of the Self

While certain aspects of the private, inner aspects of the self are universal, many other aspects of the self are specific to a particular culture. Most of what we know about human nature is based on the so-called Western view of the individual as a self-contained and autonomous entity. This is referred to as the *independent* construal of the self. Other terms used in social sciences in describing the independent view of self include individualist, egocentric, bounded, separate, autonomous, idiocentric, and self-contained (Markus and Kitayama, 1991, 1998). Essentially, the study of the person in Western social sciences is based on the ontology of individualism (Ho, 1993; 1994; Triandis, 1994; 1995).

In contrast, Indian cultural values focus on self as *interdependent* (Bharati, 1985; Sinha and Sinha, 1990). This entails defining oneself to a large extent by the thoughts, feelings, and actions of others in the relationship. Interdependent construal of self has also been referred to as

“sociocentric, holistic, collective, allocentric, ensembled, constitutive, contextualist, connected, and relational” (Markus and Kitayama, 1991, p. 227). This approach to studying the person in many non-Western societies is based on the ontology of collectivism (Ho, 1993; 1994; Triandis, 1988; 1995). Empirical evidence is provided under the results section of this paper to validate that Australian culture is indeed high on measures of independence and Indian culture high on measures of interdependence.

It is recognized that there are certain aspects of the self that may not be easily classified as either independent or interdependent, and indeed a number of cultures may display characteristics of both. However, the purpose in this study is to highlight the degree to which the two cultural groups, namely the Australian compared with Indian, broadly differ on self-construals.

Instead of explaining personality in terms of characteristics that are inside the person and that significantly organize behaviour, the interdependent model of the person focuses on social structures and interpersonal frameworks such as families, work groups, social roles, positions, or relationships in defining the person (Markus and Kitayama, 1998, p.70). As such, one’s behaviour is determined, contingent on, and, to a large extent organized by what the individual perceives to be the thoughts, feelings, and actions of other relevant in-group members². In-group members are critical for social comparison and self-validation, and “other enhancement” is the basis of self-esteem attributes (Markus and Kitayama, 1991, pp.227 and 245). This importance of social relationship in defining the self is likely to lead individuals to believe that other members of the in-group share similar personality characteristics including believing that other members in the relationship are just as ethical (or unethical) as themselves. Indeed, empirical evidence suggests that:

Those with interdependent selves will typically not claim that they are better than others, will not express pleasure in the state of feeling superior to others, and indeed may not enjoy it. A strong, pervasive motive for self-enhancement..., and believing oneself to be better than average may be primarily a Western phenomenon” (Markus and Kitayama, 1991, p.245)

Importantly, evidence suggests that “self-enhancement” and “feeling superior to others” is primarily a feature of independent societies (Markus & Kitayma, 1998, 77-78). It is therefore likely that individuals from independent cultures such as Australia are likely to perceive that compared to their peers, they are more ethical. In contrast, interdependent cultures are likely to foster the belief that they share almost similar ethical values as other members of the work group. Indeed, in social comparisons, Asian cultures show an “other-enhancement” bias (Markus and Kitayama, 1991, pp. 227 and 245). Recall that self-deception ethical bias leads individuals to believe that they are more ethical than “comparable others” when confronted with ethically uncertain work-related behaviors (Tyson, 1992, p.707).

Consistent with the focus on self-enhancement in Australian culture, it is likely that Australians would believe that they are more ethical than their peers. In contrast, the focus in the interdependent culture on “other-enhancement” may foster the belief that they share almost similar ethical values as other members of the work group. This suggests the following hypothesis:

H2: Compared to Indian professional accountants, "holier-than-thou" perception bias is greater amongst Australian professional accountants.

Acculturation and Self-Deception Ethical Bias

It is important to note that culture is not a static entity: It evolves and changes over time. In many accounting studies (such as the 20 studies reviewed by Harrison and McKinnon, 1999 and the 23 studies evaluated by Patel, 2004), culture is mostly treated as an institutionalised group

phenomenon on the assumption that there is homogeneity within a given social group. Such homogeneity, however, may not exist. Regional characteristics, religion, occupation, socio-economic status and personal experience all contribute to a more interactive and creative relationship between individuals and their socio-cultural surroundings (Verma and Mallick, 1988; Taft, 1994; Berry 1997). In this emergent field, cross-cultural studies have been increasingly carried out with culturally pluralist societies, influencing each other, and being influenced in common by the many institutions that are widely shared such as education, professional qualifications and work ethics. Terms such as “acculturation psychology”, and in the French language tradition “psychologie interculturelle”, are used to describe this emerging field of cross-cultural psychology (Berry, 1997, p. xi)³. Ho (1994, p.11) argues that, “These phenomenon have not received the attention they deserve, but they do pose intellectual challenges to cross-cultural psychology”.

The forces of globalization and the proliferation of international, transnational and supranational institutions have contributed to greater acculturation. The concept of acculturation is defined as:

...culture change that is initiated by the conjunction of two or more autonomous cultural systems. Acculturative change may be the consequence of direct cultural transmission; it may be derived from non-cultural causes, such as ecological or demographic modification induced by an impinging culture...Its dynamics can be seen as the selective adaptation of value systems, the processes of integration and differentiated, the generation of developmental sequences, and the operation of role determinants and personality factors (Social Science Research Council, 1954, p.974 in Berry et al., 1986, p.292).

Acculturation is especially important in accounting because of the activities of regional and international standard setting and regulatory organizations, and the growth of the big accounting firms. Recall that we provided evidence which suggests that largely because of self-selection and socialization, the big accounting firms have a strong and distinct organizational culture. For example, an examination of the interaction between national and

organizational cultures of three of the big firms and three other local Dutch accounting firms, showed that self-selection of employees in addition to the rigorous selection policies, was the best explanation for their strong organizational culture (Soeters and Schreuder, 1988, p. 82). Additionally, Ponemon (1992) further provides evidence that accountants selected for promotion within these firms tend to possess ethical reasoning capacities consistent with those of firm management.

Studying acculturation is important in examining perceptions of professional accountants in big accounting firms because culture and acculturation lead to competing hypotheses. That is, cross-cultural research suggests that individuals from any particular cultural grouping have a tendency to think and act in specific ways that differ systematically from members of other culturally distinct groups. In contrast, acculturation leads to psychological transformation as a consequence of societal transformation and is reflected in convergence of societal values (Yang 1988; Berry et al. 1992). That is, the concept of acculturation states that peoples of modernizing societies are becoming more similar to each other in terms of their specific functional psychological characteristics (Yang, 1988; Berry et al., 1992). It is further suggested that acculturative changes are likely to have greater influence on professional accountants in big accounting firms because of their greater global interactions. Any perceptual cultural differences between accountants from independent and interdependent cultures are likely to disappear as accountants are promoted to senior ranks. The selection of only senior accountants in this study provides assurance of acculturative influences on their "holier-than-thou" perception bias. This suggests the following hypothesis.

H3: There is no difference between Indian and Australian professional accountants on the magnitude of "holier-than-thou" perception bias.

Research Method

Data to test the hypotheses were collected using a survey questionnaire administered to a sample of senior professional accountants from big four accounting firms in India and Australia. The selection of these countries on the basis of their classification as members of the British Commonwealth model of accounting development was discussed earlier as important in enhancing the internal validity of the study. Similarly, the choice of senior accountants (of the rank of supervisor or higher) from the big accounting firms in the three countries provide confidence that respondents had similar rank and would be broadly influenced by similar organizational culture. This is important in cross-cultural research because the results found in this study could be clearly attributed to cultural or acculturational factors rather than the confounding influences of differences in ranks of respondents or differences in organizational cultures. Selection of senior accountants from big-four firms in this study provides some control over this possible confounding variable.

The questionnaire comprised one auditor-client conflict and two whistle-blowing scenarios to measure self-deception ethical bias. Three scenarios are used because evidence suggests that such complex constructs as ethics must be tested in a variety of settings to confirm that the initial results are not related to a particular setting (Nunnally, 1978, p.94).

One approach recommended to minimise the potential for self-reporting biases in business ethics research using scenarios is to use third-person rather than first-person reporting in the scenarios (Ponemon and Gabhart, 1990; Arnold and Ponemon, 1991). The formulation of the scenario in the third-person is designed to free the individual respondent from the need to state his or her personal response or action in the scenario context, and thereby, to free the person from the felt pressure to engage in socially desirable responding. This study uses the third-person approach in

that each scenario poses the ethical situation for a third person and posits a decision or action taken by that person. The respondent is then asked to evaluate that person's decision or action.

The scenarios are shown in the appendix (the names of the companies and the actors were changed to reflect what would be considered typically indigenous names in Australia and India). A scenario approach is selected because it has been argued to provide a more realistic context for the respondent (Reidenbach and Robin, 1990, p. 643; Lampe and Finn, 1992; Shaub et al., 1993; Cohen et al., 1995), and to allow insight of the contextual dependencies on which professional accountant perceptions may rest (Thorne, 2000).

The first scenario is based on one developed by Knapp (1985) and subsequently used by Gul (1991) and Tsui and Gul (1996). The scenario describes a conflict which has arisen between the auditor-in-charge and the management of a large company over the materiality of certain unrecorded liabilities discovered during the audit. The auditor-in-charge eventually resolves the conflict by deciding that the unrecorded liabilities would be ignored for the purposes of financial statements as well as the auditor's report.

Two scenarios on whistle blowing are used because evidence suggests that the nature and extent of retaliation imposed by management against whistle blowers is one of the most significant determinants of behaviour (Greenberger et al., 1987; Near and Miceli, 1986). For this reason, it was considered desirable to include two levels of management retaliation in the whistle blowing scenarios. In one scenario, the potential whistle blower's chances of promotion could be greatly reduced if he questioned the general manager's authority and reported the questionable activity to the chairperson of the board of directors. In the other scenario, the potential whistle blower was told by the director of internal audit that he would be 'fired' if he decided to pursue the matter any further.

The first scenario on whistle blowing is based on an incident that was reported in the USA and was pilot tested in the USA, Norway and France by Schultz et al. (1993). The second scenario was developed by Meier and Rittenberg (1986) and was subsequently used by Arnold and Ponemon (1991).

Respondents were asked to evaluate the actions of the auditor-in-charge and the whistle-blowers through their responses on two questions. These are (i) whether they would make the same decision as the auditor and whistle-blowers in the scenarios, and (ii) whether their colleagues would make the same decision. Responses were captured on seven point Likert scale ranging from “highly probable” to “highly improbable”. The difference between the two questions is a measure of any "holier-than-thou" perception bias that might be present in the responses (Tyson, 1992; Cohen et al., 1995; 1996; Cable and Patel, 2000).

The survey instrument was pilot tested in a number of steps. The first involved administering the instrument to a number of accounting academics with professional accounting backgrounds and expertise in the area of the study. After incorporating feedback from this step, the instrument was then administered to eighteen Australian senior professional accountants and five professional accountants from India.

Another methodological improvement over previous studies on socially desirable responding includes measuring cultural values of accountants using Values Survey Module (1994) rather than assuming (as for example, Cohen et al. 1995; Cable and Patel, 2000; Al-Hayale & Lan., 2005; Lainez & Gasca, 2006) that Hofstede's (1980) and other measures of culture were still applicable to the sample of respondents during the period of study.

Results

Validation of Cultural Characteristics

The study used Hofstede's Values Survey Module (1994) to support the cultural characteristics of, and differences between, the nations that were drawn on in the theory. This instrument was used to measure the levels of independence and interdependence for each of the two country samples of professional accountants (Hofstede uses the term 'Individualism' and Collectivism). The results confirmed that the Australian sample scored as higher independence (+127) than the Indian (+86) samples (with higher scores representing higher independence). Using the individual respondent scores, the differences between the Australian professional accountants and Indians showed the differences to be significant at $p = 0.000$. This validation of cultural characteristics lends empirical support to the earlier discussion that the core cultural values of Indians are largely based on the ontology of and interdependence (collectivism), and those of Australians on independence (individualism).

Responses and descriptive statistics

Three of the big four firms in Mumbai and New Delhi provided 97 completed responses for an Indian response rate of 70%, and three firms in Australia from Sydney and Newcastle provided 90 completed responses for a response rate of 64%.

Statistical tests showed that there were no city effects on the dependent variables among respondents in Australia and India, and no firm effects in the two countries. Additionally, variations in categories of age, gender⁴, highest academic qualifications, years of professional experience, organisational position, and percentage of working time spent in the provision of management advisory services, did not significantly affect respondents' scores in either of the

two countries on the dependent variables⁵. As a result of these tests, the responses in each of the two countries were aggregated for the purpose of hypotheses testing.

Hypothesis 1: Presence of "holier-than-thou" perception bias

The descriptive statistics for each of the three scenarios are provided in Table 1A (the auditor-client conflict) and Table 1B (whistle blowing). Consistent with Tyson (1992) and Cohen et al. (1995; 1996), this study measured "holier-than-thou" perception bias through asking two questions of respondents in each of the three scenarios: the "you" question (If you were responsible for making the decision in the above case, what is the probability that you would make the same decision as the auditor-in-charge/Steve/Tim), and the "colleague" question (If your colleagues were responsible for making the decision in the above case, what is the probability that they would make the same decision as the auditor-in-charge/Steve/Tim). Responses were captured on a seven point Likert scale ranging from 1 (highly probable) to 7 (highly improbable). Tables 1A and 1B also show the "holier-than-thou" perception bias for each of the three scenarios.

(Place Tables 1A and 1B here).

The tables reveal in relation to each of the three scenarios in the two countries, that compared to the "you" question the mean scores were lower on the "colleague" question. These results show that accountants from both countries present themselves as acting more ethically than their colleagues. That is, compared to their own probability judgments, respondents attributed greater probability to the likelihood of their colleagues resolving audit conflicts by acceding to clients (scenario one). They also attributed greater probability to the likelihood that their colleagues were less likely to engage in whistle blowing. H1 is measured by comparing the

mean scores on “you” and “colleague” questions in each of the three cases *within* Australia, and India.

The results from T- tests for paired samples demonstrated that there were significant differences between the scores on “you” and “colleague” questions in each of the three cases within Australia and India (2-tailed $p = 0.000$ in all nine cases, three tests for each country).

(Place Table 2 here)

Additionally, the results of non-parametric Wilcoxon Matched-Pairs Signed tests are shown in Table 2. This table shows that the number of times the scores on “you” questions were greater than the scores on the “colleague” questions on each of the three cases was between 37 and 46. In contrast, the number of times the scores on the “colleague” questions were greater than “you” questions was between 3 and 5, and the number of same responses or ties on the two questions ranged from 40 to 55. These results are significant at $p = 0.000$ (2-tailed). Both the parametric and non-parametric tests support H1. That is, "holier-than-thou" perception bias exists among both Australian and Indian professional accountants⁶.

Since respondents in this study were assured complete anonymity, the cause of socially desirable responding is the result of "holier-than-thou" perception bias rather than impression management. Socially desirable responding among professional accountants due to "holier-than-thou" perception bias is a major problem because it continues to foster an unethical organization culture. Tyson (1990, p. 715) aptly states that:

If new managers choose less ethical behavioral alternatives in part because they assume more experienced others are acting unethically, a prisoner’s dilemma type problem may develop. Under this scenario, an unethical behavior becomes each

player's dominant strategy and the interaction of dominant behaviors is Pareto inferior.

Changing or at least diluting the unconscious "holier-than-thou" perception bias of employees is a long-term strategy that requires careful planning to change the way organizational members view each others' ethicality. Tyson (1990, p. 719) suggests that if trainers and senior staff can influence junior staff to see members of their work group and other colleagues more realistically, the prisoner's dilemma problem can be converted into a coordination problem.

Hypotheses H2 and H3: Culture and Acculturation

Recall that based on cultural differences, it was hypothesised that compared to Indian professional accountants, the magnitude of "holier-than-thou" perception bias is greater among Australian professional accountants (H2). Based on the competing theory of acculturation, H3 suggested that there is no difference between the two groups. In contrast to H1 which tested the *within* country differences, the objectives of H2 and H3 are to test whether there are differences *between* Australian and Indian accountants on "holier-than-thou" perception bias. Recall that consistent with previous studies, "holier-than-thou" perception bias is measured by asking respondents two questions, namely, whether they and their colleagues would make the same decision as the actors in various ethical contexts provided in scenarios. The difference between the two questions is a measure of the magnitude of any "holier-than-thou" perception bias that may be present in the responses (Tyson, 1992; Cohen et al., 1995; 1996; Cable and Patel, 2000). As such, only the mean differences between the two questions are used in the computations. The stating point of the responses is not important, only the difference between *you* and *colleague* questions measures "holier-than-thou" perception bias.

The tables show that, in all cases, compared to Australians, "holier-than-thou" perception bias was higher among Indian professional accountants. However, these scores are in not in the direction predicted in H2.

Results from one-way ANOVA based on the three scenarios showed that the magnitude of the difference between the "you" and "colleagues" questions was not significant between the countries ($p = 0.69, 0.11$ and 0.86 for scenarios one, two and three respectively). These results support the acculturation theory in big-four accounting firms.

In addition to the earlier discussion on acculturation, it is further suggested that the "up or out" policy for promotion in big four may foster a strong competition and survival of the fittest culture which may encourage the accountants in India to view their colleagues as members of the "out-group" rather than as "in-group". Evidence suggests that competition between in-group and out-group is deeply embedded in collectivist societies. Indeed, out-group members in interdependent cultures may be "rejected, defiled, undermined and resented" (Triandis, 1988, p.82). In contrast, in independent societies, competition and discrimination between in-group and out-group is not as intense (Triandis, 1988; 1994).

Conclusions:

This study examined whether "holier-than-thou" perception bias exists among Australian and Indian professional accountants from the big-four accounting firms (H1). The study drew on deterministic, quantified and componential cultural perspective based on construal of self and Hofstede's research to demonstrate possible differences between Indian and Australian cultures to formulate hypotheses as to how these cultural differences might influence perceptions related to resolving auditor-client conflict and of engaging in whistle blowing. It was hypothesised that

compared to Indian, the magnitude of "holier-than-thou" perception bias is greater among Australian professional accountants (H2). In addition, based on the competing theory of acculturation, H3 hypothesised that no such difference is likely to be found between the two groups.

The results of the study support H1 in relation to each of the three scenarios where accountants from the two countries presented themselves as being more ethical than their colleagues. That is, in comparison to their own judgments, accountants attributed greater probability that their colleagues were more likely to resolve audit conflicts by acceding to clients, and they also perceived that their colleagues were also less likely to engage in whistle-blowing. Since respondents in this study were assured complete anonymity, socially desirable responding is the result of "holier-than-thou" perception bias rather than impression management. As such, changing perceptions based on "holier-than-thou" perception bias is not an easy task particularly if these are deeply entrenched in the organizational culture. Intensive business ethics education and training may to some extent dispel the ethical misperceptions that accountants hold about their colleagues' ethicality.

The cultural hypothesis (H2) was not supported. That is, no difference on the magnitude of "holier-than-thou" perception bias was found between the countries. This provides support for the competing hypothesis formulated from the theory of acculturation (H3). Moreover, and contrary to H2, the results show that the magnitude of the bias was higher in India. Importantly, these results derived by applying the essential principles of the hypothetico-deductive methodology reveal that this obsession with deterministic theoretical perspectives in cross-cultural international accounting research may be misdirected. We are familiar with over 100 studies in accounting and business that have validated Hofstede and related theoretical

paradigms and this raises the question of why is there such strong empirical evidence based on these deterministic perspectives. We suggest that this may be the result of the journal review process and editorial decisions that strongly favour publishing only those papers which report statistically significant results. Indeed, there is an obsession common among those researchers who use the so-called scientific method to obtain significant results that support the hypotheses. It would be interesting to examine all unpublished cross-cultural studies which relied on deterministic theoretical perspectives and which failed to establish statistically significant results.

The results of the study have implications for within-country accounting research. The findings suggest that "holier-than-thou" perception bias exists among accountants within both countries; however, in a cross-cultural context acculturation eliminates this bias. While the issue of how the questions are posed may not affect cross-cultural studies, it is suggested that future within-country studies use research instruments which capture both respondents' perceptions of their colleagues as well as their own perceptions. This would provide some control over, and insight into, the magnitude of "holier-than-thou" perception bias. With respect to cross-cultural research, the issue to address is whether the form of questions produces different relationships with other variables, such as measures of moral reasoning. Future studies may also test whether employees' perceptions are changed by spending more time working for a given organization and whether employees' ranks influence their ethicality.

The findings may be useful to accounting researchers, managers of multinational enterprises in general, and big-four accounting firms in particular. Our conceptual framework applied in this study is innovative and provides a template for assessing current controversies in cross-cultural accounting research. Moreover, enterprises concerned with fostering an ethical organizational culture and in setting and attaining global codes of professional conduct need to

examine various factors that cause "holier-than-thou" perception bias. The findings also suggest that attention must be given to the underlying acculturative influences on organizational members' perceptions.

The usual limitations of survey research apply to this study. Future studies may measure "holier-than-thou" perception bias using various ethical contexts both within and between other selected countries. Additionally, greater insight into socially desirable reporting may be provided by other research methods such as conducting in-depth interviews with professional accountants from various countries.

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TABLE 1A

**Descriptive Statistics and Measures of "holier-than-thou" perception bias
for Auditor-Client Conflict Scenario**

| | India | | Australia | |
|--|--------------|-------------|------------------|-------------|
| | Mean | S.D. | Mean | S.D. |
| You would make the same decision | 4.62 | 1.70 | 5.28 | 1.69 |
| Your colleagues would make the same decision | 3.81 | 1.74 | 4.53 | 1.66 |
| "Holier-than-thou" perception bias | 0.81* | | 0.75* | |

* 2-tailed p = 0.000

TABLE 1B**Descriptive Statistics and Measures of "Holier-than-thou" perception bias for Whistle-Blowing Scenario One**

| | India | | Australia | |
|--|--------------|-------------|------------------|-------------|
| | Mean | S.D. | Mean | S.D. |
| You would make the same decision | 5.28 | 1.69 | 5.85 | 1.46 |
| Your colleagues would make the same decision | 4.35 | 1.68 | 5.01 | 1.54 |
| "Holier-than-thou" perception bias | 0.93* | | 0.84* | |

* 2-tailed p = 0.000

Whistle Blowing Scenario Two

| | India | | Australia | |
|--|--------------|-------------|------------------|-------------|
| | Mean | S.D. | Mean | S.D. |
| You would make the same decision | 4.92 | 1.72 | 5.66 | 1.49 |
| Your colleagues would make the same decision | 4.15 | 1.83 | 4.96 | 1.58 |
| "Holier-than-thou" perception bias | 0.77* | | 0.70* | |

* 2-tailed p = 0.000

Response scale ranged from 1 to 7 (where 1 refers to highly probable, and 7 to highly improbable).

TABLE 2B**Wilcoxon Signed Ranks Tests**

| | India | | | Australia | | |
|-----------------|--------------------|-------|--------|-----------|--------|--------|
| | Frequencies (N) | | | | | |
| | <u>Case Number</u> | | | | | |
| | 1 | 2 | 3 | 1 | 2 | 3 |
| You > Colleague | 38 | 46 | 38 | 45 | 37 | 43 |
| Colleague > You | 5 | 5 | 4 | 5 | 3 | 4 |
| Ties | 54 | 46 | 55 | 40 | 50 | 43 |
| Z | -4.53* | -5.16 | -4.60* | -4.98* | -4.56* | -4.94* |

* 2-tailed p = 0.000

Appendix

Scenario One

Jackson Manufacturing Ltd is a large publicly-owned producer of electronic equipment used in hospitals and medical laboratories.

In the current year's audit, a dispute has arisen between the auditor-in-charge and the management of Jackson over the materiality of certain unrecorded liabilities discovered during the audit. Jackson's Chief Financial Officer argues that the total amount of unrecorded liabilities is immaterial and therefore it is unnecessary to make adjusting entries in the financial statements. Jackson's management believes that it should know as well as anyone what financial statement readers would or would not deem to be material. The auditor-in-charge feels that the amount is material and that the financial statements should be adjusted accordingly.

But the auditor-in-charge also has to consider the fact that Jackson Manufacturing is an important client contributing significantly to the total audit revenue of the firm. Furthermore, the current audit market is characterised by a large number of auditing firms that are aggressively pursuing expansion programs.

After lengthy discussion with Jackson's management, the auditor-in-charge decides that the unrecorded liabilities will be ignored for purposes of the financial statements as well as the auditor's report.

How would you evaluate the decision made by the auditor-in-charge of Jackson Manufacturing Ltd? Please indicate your evaluation by marking a [X] on a specific point on each of the following scales.

If you were responsible for making the decision in the above case, what is the probability that you would make the same decision as the auditor-in-charge of the Jackson Ltd audit?

HIGHLY PROBABLE _____:_____:_____:_____:_____:_____:_____HIGHLY IMPROBABLE

If your colleagues were responsible for making the decision in the above case, what is the probability that they would make the same decision as the auditor-in-charge of the Jackson Ltd audit?

HIGHLY PROBABLE _____:_____:_____:_____:_____:_____:_____HIGHLY IMPROBABLE

Scenario Two

Steve English is an internal audit supervisor in BOSSIX Ltd., a large chemical company in Sydney. One routine part of Steve's job is reviewing expense accounts. When Henry Grant's expense reimbursement came to the top of the pile, Steve was intrigued as he knew that as manager of marketing, Grant has quite a reputation as a big spender. His interest quickly turned to consternation as he found reimbursement requests for items such as a moderately expensive necklace, and a bill for Mrs. Grant's personal secretary, with no real justification. He knew these items were not reimbursable according to company policy.

He decided to ask Grant about them. Grant was clearly upset about the inquiry and responded, "See R.J. Whitman's signature on those requests. What other document do you need? He knows I'm responsible for the success we have had in developing the Australian market."

On his way back to his office, Steve realised that the general manager, R.J. Whitman, was Grant's close friend and that Steve's promotion chances could be greatly reduced if he questioned the general manager's authority. Should Steve report the questionable activity to the next higher level of management, the chairperson of the board of directors of the company?

After thinking about the issue for a few days, Steve decided not to report the matter to the chairperson of the board.

How would you evaluate Steve's decision? Please indicate your evaluation of Steve's decision by marking a cross [X] on a specific point on each of the following scales.

If you were responsible for making the decision in the above case, what is the probability that you would make the same decision as Steve?

HIGHLY PROBABLE _____:_____:_____:_____:_____:_____:_____HIGHLY IMPROBABLE

If your colleagues were responsible for making the decision in the above case, what is the probability that they would make the same decision as Steve?

HIGHLY PROBABLE _____:_____:_____:_____:_____:_____:_____HIGHLY MPROBABLE

Scenario Three

Tim has been an internal auditor for seven years with an organisation that is a primary contractor for the Australian Government. Tim recently completed an audit of a subsidiary business unit (ABC plant) which is completing large contracts for various government agencies. The billings of the subsidiary have been audited previously and no major problems were detected. During the present audit, Tim discovered, within the subsidiary's billing system, a series of bogus (inflated or falsified) invoices to customers that had already been paid. Tim reported this finding to the director of internal audit. The director said that he would report it to authorities within the company. After a few days, the director told Tim, "Forget about it." Tim argued that further action should be taken but the director shouted, "If you pursue this, you will be fired."

Tim is aware that, with his qualifications, he is not likely to find another such well paid position in the current economic climate. After thinking about this for a few days, Tim decided not to report the matter to the next higher level of management.

How would you evaluate Tim's decision? Please indicate your evaluation of Tim's decision by marking a cross [X] on a specific point on each of the following scales.

If you were responsible for making the decision in the above case, what is the probability that you would make the same decision as Tim?

HIGHLY PROBABLE _____:_____:_____:_____:_____:_____:_____:_____HIGHLY IMPROBABLE

If your colleagues were responsible for making the decision in the above case, what is the probability that they would make the same decision as Tim?

HIGHLY PROBABLE _____:_____:_____:_____:_____:_____:_____:_____HIGHLY IMPROBABLE

¹ Professional accountants are defined as members of either the Australian Society of Certified Practising Accountants, the Institute of Chartered Accountants in Australia and the Institute of Chartered Accountants in India. The big four accounting firms include KPMG Peat Marwick, Ernst & Young, Deloitte Ross Tohmatsu and PricewaterhouseCoopers.

² In-group members are defined as others with whom one shares a common faith, such as family members or members of the same lasting social group, such as the work group. Out group members are viewed differently and are unlikely to benefit from the advantages of interdependence (Markus and Kitayama, 1991, p.229).

³ Enculturation is the process of learning one's first and original culture. That is, the socialization process that influences how we behave, think, and feel from early life. Acculturation, on the other hand, is generally considered to be the process of learning a second culture. In contrast to acculturation, assimilation is the abandonment of one's first culture in favor of a second culture (Korzenny 1998, p.2).

⁴ Note that gender differences did not exist in "holier-than-thou" perception bias.

⁵ Over 76% of respondents in each country were less than 35 years (mode was 25-29); males comprised 75% and 71% respectively in India and Australia respectively; 80% of all respondents had less than 12 years of work experience; 84% were below the rank of partner (they were either supervisors, seniors or managers); and approximately 78% spent less than 50% of their working time in provision of consulting services (management advisory services).

⁶ To rule out order-effect of questions as a possible reason in the existence of "Holier-than-thou" perception bias, additional data was collected in which a small sample of respondents received the same questionnaire with a change in the order of the two questions. That is, the "colleague" question was followed by the "you" question. Data was collected from 13 and 18 senior professional accountants from one of the big four firms in India and Australia respectively. The findings based on T-tests and Wilcoxon Matched Signed-Ranks showed the presence of "Holier-than-thou" perception bias. The number of times the score on the "you" question was greater than the "colleague" question ranged from 4 to 9; "colleague" question greater than "you" question ranged from 1 to 2, and ties ranged from 5 to 11.