



The Impact of Cultural Values on Chinese Accounting Standards and Its Practice

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Abstract

In today's world, the idea of multiculturalism is essential for business corporations going global. By hiring people from different cultural backgrounds, it brings the corporations unique ideas and feedback. At the same time, multiculturalism helps businesses open a broader market worldwide. Customers in local countries can speak with someone who understands their language and knows their expectations. Not only does it benefit the corporations themselves, but job seekers also see diversity as an important factor when considering employment opportunities.

As accountants, following ethical standards is critical for business and the reputation of a corporation since it requires accounting professionals to comply with the laws and regulations that govern their jurisdictions and their bodies of work. However, people make decisions based on their culture and personal values. Different cultural backgrounds may shape an individual's definition of right or wrong. Because of the increasing globalization of the accounting profession, Ethics issues are receiving growing attention. This research will focus on how affects accounting ethics and working environments in China, compare the difference between working in Chinese and the US accounting industry, what are the factors that influence people's financial decision making, and solutions for potential ethical issues in multicultural corporations.

What is Ethics?

Ethics vs Morality :

According to the Oxford English Dictionary, ethics are "moral principles that govern a person's behavior or the conduct of an activity." In the Collins English Dictionary, ethics are moral beliefs and rules about right and wrong. The definition of ethics has always been linked to the word "moral" or "morality." When people conduct research, they often get confused about those two words and use them interchangeably. However, there are minor differences that distinguish them from each other.

Ethics are rules set by the society for a particular group or culture trying to answer the question "what should I do?" (External)

Morals are trying to answer the same question, but they are principles, habits, or one's belief to tell right and wrong. (Internal)

Q: "Why did you do this?"

A(Ethics): "Because the society says it is right."

A(Morals): "I did this because I believe it is right."

Why is Ethics Important in Accounting?

Importance of accounting and its responsibilities:

- Accountants deal with the intimate financial details of individuals and organizations. Some execute million-dollar transactions, and others assist with safeguarding the retirement funds of cab drivers and social workers.

Importance of Ethics Code:

- Ethics codes: "A distinguishing mark of the accountancy profession is its acceptance of the *responsibility to act in the public interest*. Therefore, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest, a professional accountant should observe and comply with the ethical requirements of this Code" (IFAC, 2005, 100.1)
- Ethical codes are the fundamental principles that accounting professionals choose to abide by to enhance their profession, maintain public trust, and demonstrate honesty and fairness. People who join organizations and secure the credentials to present themselves to the public as CPAs or IAs strive to protect the reputation of the profession.

Not every situation is covered in the code of conduct...

- In 1999, the AICPA required ethics as part of the 150-hour program recommendation.
- Students must have "the educational balanced, objective perspective, and ethical backbone to enable them to recognize questionable situations and have the courage to make the right call even when it is the difficult call" (PWC, 2003).

Not everyone who works in the accounting field is trustworthy. Daily violations of public and private trust occur. Resolving ethical dilemmas doesn't always end favorably. There are actions and activities that are legal and have a negative (unethical) effect while there are activities that although unethical are not considered illegal, so the overall success of an organization depends on the strength of its business ethics. Codes of professional ethics play a key role in maintaining the quality of the work itself.

Code of Conducts

China V.S. US

	Integrity	Objectives	Competence	Due Care	Confidentiality	Professional conduct	Independence	Righteous	Responsibility	Public Interest	Scope and Nature of Services
AICPA	X	X	X	X			X		X	X	X
IFAC	X	X	X	X	X	X					
CICPA	X	X	X	X	X	X	X	X			

By comparing the guidelines of AICPA and CICPA, it is not difficult to find that the main contents are almost the same, including integrity, objectivity, professional competence, due care, etc. But they all have their own characteristics: the AICPA covers the principle of responsibility and public interest, including the independence, scope, and nature of service into the basic principle; The CICPA covers the principle of confidentiality and righteousness.

Culture

Culture is considered an essential environmental factor that affects the accounting system of a country but also influences the way an individual processes accounting information. A group's culture is what makes them unique; it is the factors that separate them from another group. It is the unconscious code of conduct found within everything from a small group of two to an entire ethnic population. Culture influences the norms, values, and interactions within and across social systems and forms an individual's worldview, the way in which everything in life is seen right or wrong, beautiful or ugly, and true or false.

Chinese Culture vs American Culture

Chinese culture— Challenge to stay professional independent

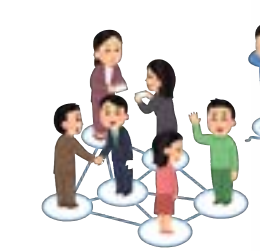
Chinese Collectivism and Relationalism:

One of the most significant features of Chinese culture is its emphasis on a harmonious society and the appropriate arrangement of interpersonal relationships. In social interaction, *Confucianism* puts weight on "harmony but not sameness," "harmony without mindlessly following others," and "harmonization of various kinds of people by observing rituals of propriety," under the influence of which Chinese interpersonal relationships are characterized an emphasis on group orientation (Hwang, 2006).

Guanxi 关系 (social connection)

The term guanxi describes social connections based on concrete, reciprocal exchange of favors and goods among family members and others. In a sense, guanxi is the way people organize relationships outside the family, transforming strangers into kin by extending them favors and incurring obligations.

In Chinese society, a lot of success depends as much on having a well-connected family and having attended school with the right people as it does on hard work and initiative.



Renqing 人情 (favor) & Reciprocity

The reciprocal communicative principle is called renqing in Chinese, which has two meanings:

- A resource that can be used to repay others;
- A social norm that teaches people how to have a good relationship with others.

People in a guanxi network should maintain their harmonious relationships by mutual gift giving, greeting, and visiting at normal times and by doing a favor willingly in an emergency or returning a favor consciously afterward.



Mianzi 面子 (face)

It originally appeared in the phrase "to save one's face" in the English community in China and conveyed a meaning of "one's credit, good name, reputation (Ma, 2008).

In China, Mianzi denotes an individual's social status and prestige, gained by successfully performing one or more specific social roles that are well recognized by others (Hwang, 2006).

One popular Chinese saying goes, "A man needs a face, and a tree needs bark."

Do I know someone?

Do I owe someone a favor?

I don't want to turn people down

Western culture (Specific U.S.)

American Individualism:

The United States has one of the most individualistic cultures in the world. According to Hofstede's Cultural Dimensions Theory, individualism indicates that there is a greater importance placed on attaining personal goals. A person's self-image in this category is defined as "I." People from individualistic cultures like the United States, "are highly independent and have strong feelings of autonomy within the group"(Hofstede's cultural dimensions theory 2020).

Meaning of Pride

Americans are highly individualistic and so they value personal achievement above collective achievement. They value personal identity far more than they value collective identity.

CPA Requirements

China V.S. US

U.S. (California)

- A bachelor's degree;
- 150 semester units (or 225 quarter units) of education: 24 semester units in accounting-related subjects; 24 semester units in business-related subjects;
- Passing the Uniform CPA Exam;
- Passing the **Professional Ethics Exam** for CPAs;

- Most states require candidates to take an ethics exam covering topics from the AICPA Code of Professional Conduct **as part of their CPA license requirements** (usually with a score of at least 90% within a year or two of passing the CPA Exam).

- One year of general accounting experience supervised by a CPA with an active license.

China (Mainland)

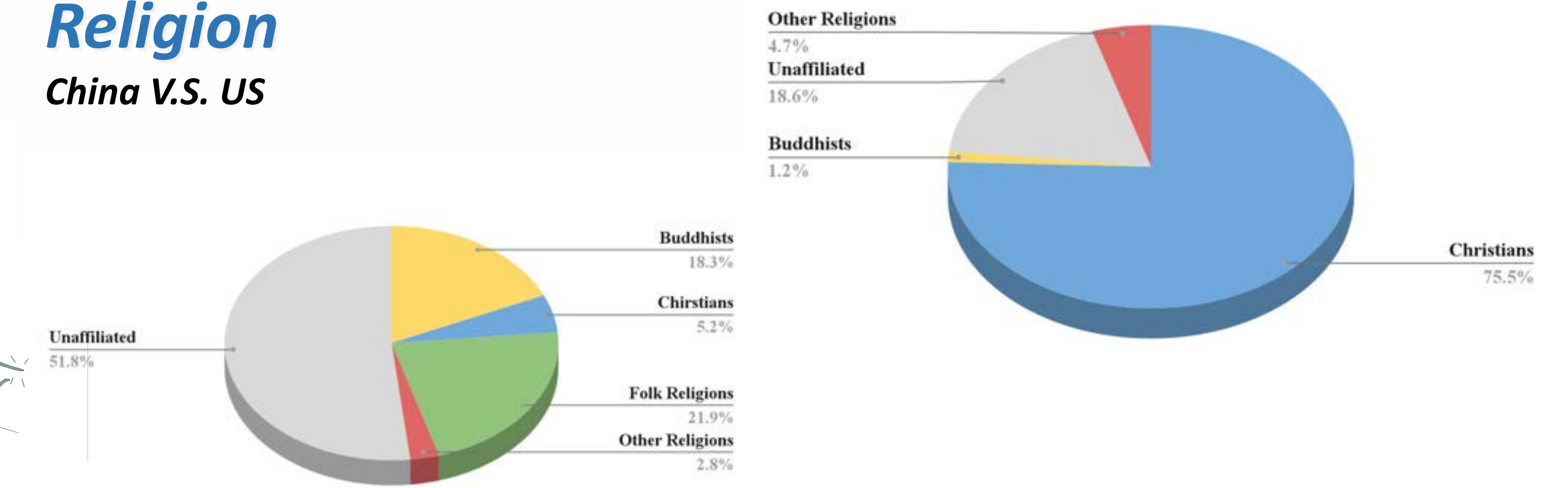
- Chinese citizens who meet one of the following conditions may register for the examination:
 - Meet one Graduated from college or above;
 - Accounting or related majors (related majors refer to auditing, statistics, economics). Intermediate or above professional title.
- Passing the National Uniform CPA Examination;
- Have engaged in auditing service in China mainland for more than two years
- Being qualified for CPAs in accordance with laws or assessments .

No Professional Ethics Exam for CPAs

V.S.

Religion

China V.S. US



According to a cross-cultural comparative study, a study finds that accounting students' ethical sensitivity, ethical development, and ethical intention are significantly positively related to religious beliefs. **Students with religious beliefs have higher ethical sensitivity, higher moral reasoning abilities, and less intention to perform questionable behavior than those who do not have a religious orientation** (Ho, 2007).

Extracurricular religious activities on campus can help students develop their religious beliefs. By participating in these activities, students can understand more about the ethical tenets of a religion. Also, as interaction with diverse peers appears to develop students' growth in post-conventional moral reasoning (Pascarella and Terenzini, 2005).

Conclusion

I. Understand and Appreciate the differences

- Accounting students from different cultural backgrounds are likely to make ethical decisions differently due to their differences in ethical perceptions. Therefore, it is crucial for higher education institutions, public policymakers, and international businesses to appreciate these differences, and thus provide appropriate interventions or assistance to enhance the ethics of these future accountants.

II. Implications for Higher Education Institutions

- Ethics course itself doesn't make a significant difference on students' behavior
 - The ethical values of accounting students were significantly higher than other business majors regardless of the school. The result might be influenced by accounting students required to take an ethics course in their curriculum. However, researchers examined the effects of students taking or not taking an ethics course and found persuasive evidence that no significant influencing senior students regardless of school. This result calls to question the effectiveness of an ethics course in influencing a senior students' behavior (Burks, 2008).

Instead, our students should focus on "practicing" ethics through activities, service learning, etc

For institutional practices, Pascarella and Terenzini provide substantial syntheses on how colleges affect students' cognitive moral development. Without relying exclusively on ethics courses, Pascarella and Terenzini suggest that **other educational interventions such as integrating ethics in the curriculum or designing curricula with diversity-issues discussions are possible interventions that may affect students' principled moral reasoning. Moreover, participating in extracurricular activities, service-learning courses, and interaction with faculty members all are found to have a positive influence on students' moral development** (Lange, 2014).

III. Promoting study abroad experience

- Since Chinese culture has been rooted in many Chinese families for hundreds and thousands of years, it is hard to change the culture, especially renqing, mianzi, and guanxi are critical in Chinese people's relationship with others. In addition to that, each culture has its unique value that represents its history which people should remember. Therefore, **instead of changing or expecting one's culture be changed, companies can provide study abroad opportunities for newly admitted accountants. Schools, at the same time, can provide student one-year study abroad or exchange programs to help students learn more about other cultures.** By doing so, students can have a more objective opinion towards both cultures, both pros and cons. Like the ideas in Confusion, people should always learn from others. By understanding other cultures, people establish new ways of thinking, approaching, and solving problems. Accountants should use their professional judgment and make the right decisions to act in the public interest at all stages.