The Influence of Construal of Self on Internal Auditors’ Judgments on Whistle-Blowing: Evidence from China

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The Influence of Construal of Self on Internal Auditors’ Judgments on Whistle-Blowing: Evidence from China

ABSTRACT

Our paper contributes to the audit literature by examining whether internal auditors’ personal values measured by construal of self systematically influence their acceptance and likelihood of engaging in whistle-blowing. China provides a particularly appropriate national context for our study because evidence shows that the traditional internal control systems have largely failed to achieve their objective of preventing wrongdoings. Internal auditors have been selected as subjects because of the importance placed on them by regulators and enterprises in designing and implementing whistle-blowing systems. Construal of self has been selected for examination because it captures complex moral, cognitive processes experienced by individuals at both cultural and personality levels. This study develops and finds support for the hypotheses that, compared to independents, interdependent internal auditors are less accepting and less likely to engage in whistle-blowing. The results also show the presence of “holier-than-thou” perception bias among internal auditors. The findings may benefit local and multinational enterprises, regulators, and researchers who are interested in designing and developing more compatible whistle-blowing policies and procedures.

Keywords: Internal auditors’ judgments, construal of self, multidimensional ethics measure, “holier-than-thou” perception bias.

Data Availability: Data used in this study are available from the first author upon request.
1. INTRODUCTION
The objective of this paper is to examine whether internal auditors’ personal values measured by construal of self systematically influence their acceptance and likelihood of engaging in whistle-blowing. Largely as a result of globalization, national culture has been recognized as an important variable that influences auditors’ judgment and decision making (Heinz, Patel, & Hellmann, 2013; Nolder & Riley, 2014; Patel, 2006). Prior research such as Alleyne, Haniffa, and Hudaib (2016), Jubb (2000) and Wilson, McNellis, and Latham (2018) have been conducted predominantly in Anglo-American countries, and there have been calls in the literature to examine auditors’ judgment in other cultural settings (Nolder & Riley, 2014; Nelson & Tan, 2005). As suggested by Nolder and Riley (2014) and Ying and Patel (2016), more research is needed to examine the growing cultural diversity in firms within and across countries. We respond to these calls by examining within-country differences in personal values among internal auditors in China. Evidence shows that the biggest cultural gaps are within countries and not between them. For example, in a study of 32 countries, Kirkman et al., (2016), using meta-analysis, found that over 80% of the differences in work-related values were found within countries, and less than 20% of the differences were found between countries. As such, this study extends the literature by theorizing and operationalizing within-country differences in China by examining the possible influence of an important personal value, namely construal of self, on internal auditors’ acceptance and likelihood of engaging in whistle-blowing.

Whistle-blowing as an internal control mechanism provides an interesting and relevant context to examine judgment and decision making. Specifically, there have been calls in the literature to study antecedent variables which may influence whistle-blowing in various cultural contexts (Hoyt & Price, 2015; Taylor & Curtis, 2013; Wainberg & Perreault, 2015). In addition, there are calls in the literature to examine more rigorously the effectiveness of whistle-blowing in countries such as China, where cultural values differ significantly from Anglo-American countries (Chiu, 2003; Maroun & Gowar, 2013; Patel, 2003; Pittroff, 2014). Our paper responds to these calls, and we extend the literature by providing evidence to show the importance of personal values as measured by construal of self, on Chinese internal auditors’ judgments on whistle-blowing as an internal control mechanism. Construal of self is defined as the “constellation of thoughts, feelings, and actions concerning the relationship of the self to others, and the self as distinct from others” (Singelis, 1994, p.581). Construal of self allows researchers to evaluate theoretically psychological phenomena in explaining individuals’ ethical judgments (Campbell et al., 1996; Caprara et al., 2012; Cross & Madson, 1997). Importantly, reliability and validity of the 24-item construal of self scale developed by
Singelis (1994) to capture complex individual variations in personal values have been widely tested in prior studies in fields of social psychology (Lee et al., 2000; Bechtoldt et al., 2012), business (Parson and Artístico, 2014; Hoyt and Price, 2015), accounting and auditing (Patel, 2006; Ying and Patel, 2016; Pan and Patel, 2017).

China provides a particularly appropriate national context because the forces of globalization have increased significantly both the size and complexity of enterprises in China. Evidence shows that the traditional internal control systems in China have largely failed to achieve their objective of preventing wrongdoings (Higgins, 2012). Significant, high-profile wrongdoings have been reported in both Chinese scholarly journals (Li, 2013; Zhang, Ji, & Sun, 2013; Zheng, Xu, Deng, & Wang, 2009) and international journals (Beller, 2010; Edin, 2003; Rongen, 2001). The Chinese President Xi Jinping proposed that it is important to fight corruption, and proposed the importance of whistle-blowing in exposing corruption in China (BBC News, 2012). Evidence shows that more than 70% of the prosecution of governmental officials for abusing public power in China is triggered by whistle-blowing tips (NPC, 2008). Also, it has been shown that almost every major fraud or corruption crisis faced by both domestic and multinational enterprises in China over the past years was detected by whistle-blowing mechanisms (Forbes, 2015). The Chinese regulators have made a strong and sustained commitment to use internal auditors to improve their efficiency and effectiveness and that of the flourishing business community (China Institute of Internal Audit, 2011). Additionally, the regulators have emphasized the important role of internal auditors in their current anti-corruption programs (Xinhua News, 2016).

Therefore, Chinese internal auditors have been selected as subjects because regulators place significant importance on them in designing, implementing and evaluating internal control systems centred on preventing wrongdoing and enhancing ethical practices (IIA Code of Ethics, 2016). Specifically, the Institute of Internal Auditors (IIA) requires internal auditors to fulfil their responsibilities to foster a strong organizational ethical culture by regularly evaluating the effectiveness of the organisation’s ethics-related objectives (China Institute of Internal Audit, 2011). Importantly, internal auditors are particularly sensitive to whistle-blowing because they are required to report any wrongdoing either inside or outside the normal chain of command (IIA Code of Ethics, 2016; IIA Practice Advisory, 2010; Jubb, 2000). Not reporting suspicious wrongdoing is considered as unethical because it violates the Internal Auditors’ Code of Ethics. With specific reference to China, the regulators have emphasized the important role of internal auditors in their current anti-corruption programs (Xinhua News, 2016). In addition, the importance of the internal auditing professional in China is also reflected in the statistics that in 2014 over 50% of Certified Internal Auditor
(CIA) candidates worldwide were from China (National Audit Office of the People’s Republic of China, 2015). However, very little is known about personal values which are likely to influence internal auditors’ judgments on whistle-blowing.

The influence of individualism and collectivism on auditors’ judgment and decision making has been extensively examined in the literature (Chand, Cummings, & Patel, 2012; Karaibrahimoglu & Cangarli, 2015; Smith & Hume, 2005). Researchers interested in auditors’ judgment and decision making have largely classified China as a highly collectivist and interdependent country and Anglo-American countries as individualistic and independent. We reject such simplistic categorization of Chinese as a homogenous collectivist group; we suggest that even within a country, largely because of the globalization, the Chinese are likely to differ in their collectivist values. We theorize and operationalize this difference by examining the influence of the individual-level construct of construal of self on Chinese internal auditors’ judgment and decision making. Variations in the construal of self have been theoretically and empirically linked to cultural values of individualism and collectivism (Oyserman, Coon, & Kemmelmeier, 2002; Oyserman & Lee, 2008). Construal of self has been selected for examination because it is a fundamental trait governing core values of individuals. It captures complex moral, cognitive processes of individuals at two levels, namely cultural and personality (De Cremer, Zeelenberg, & Murnighan, 2013; Markus & Kitayama, 1991; Trope & Liberman, 2003). Furthermore, psychological and sociological research shows that construal of self is important in explaining individuals’ cognitive performance, emotional expression, moral motivation, and social interactions (Kühnen & Oyserman, 2002; Markus & Kitayama, 1991).

Valuable insights and greater understanding of internal auditors’ judgments on whistle-blowing can be achieved by examining the influence of construal of self, which distinguishes between interdependent and independent construal of self (Bass, Barnett, & Brown, 2009; Feltz & Cokely, 2009; Heinz et al., 2013). The primary goal of interdependents is to maintain harmony within hierarchy, and these individuals are likely to consider relational and contextual factors in their ethical judgments, rather than follow their individual wishes or personal attributes. In contrast, the primary goal of independents is to distinguish themselves from others, promote their individual goals, and focus on the ability to validate individual attributes. We suggest that there is likely to be a significant difference between interdependents and independents in their acceptance and likelihood of engaging in whistle-blowing. Therefore, this paper develops and tests the hypotheses that interdependent (independent) internal auditors are less (more) accepting of engaging in whistle-blowing and less (more) likely to engage in whistle-blowing.
Our paper contributes to the literature in three ways. First, we show the importance of personal values measured by construal of self to gain insight into Chinese internal auditors’ acceptance and likelihood of engaging in whistle-blowing. Second, we show that Chinese internal auditors are likely to differ systematically in their construal of self. Our finding confirms that interdependents and independents coexist within contemporary China. Finally, our results provide empirical evidence to show the presence of a “holier-than-thou” perception bias among Chinese internal auditors. “Holier-than-thou” perception bias results in individuals perceiving that their colleagues behave less ethically than themselves when confronted with work-related ethical dilemmas (Patel and Millanta, 2011). We extend this concept to provide additional insights into “holier-than-thou” perception bias by comparing individuals with their colleagues, superiors, and junior staff in an organizational setting. Ethical comparisons with superiors and junior staff are important because including all levels of staff provides useful insight into the ethical culture of an organization. We find that internal auditors perceive themselves as more ethical than their colleagues, superiors, and junior staff in relation to their likelihood of engaging in whistle-blowing. Overall, our findings may be relevant to local and multinational enterprises, regulators and researchers, who are interested in developing and designing more compatible whistle-blowing policies and procedures.

The remainder of this paper is organized as follows. The next section provides background information on whistle-blowing, construal of self and “holier-than-thou” perception bias. This is followed by the theory development and hypotheses formulation. We then outline the research method used and present the results. The final section concludes the study.

2.0 BACKGROUND

2.1 WHISTLE-BLOWING

Our evaluation of 80 studies published in leading journals show that only three studies have rigorously examined the influence of personality variables on whistle-blowing. Specifically, Chiu (2003) found that locus of control moderates the relationship between ethical judgments and whistle-blowing intentions. Zhang, Chiu and Wei (2009) provide evidence that the relationship between whistle-blowing judgments and whistle-blowing intentions are not moderated by positive affect, and the relationship will not be stronger for employees with more positive affect (people with positive affect have more positive expectations of the complaint, and have greater ability to correct wrongdoings (Zhang, Chiu & Wei, 2009)). In another study, Dalton and Radtke (2013) found that individuals who are higher in Machiavellianism perceive lower responsibility for reporting wrongdoings. Complementing these studies, we suggest that it is important to recognize that individuals’ ethical values and judgments are not static, enduring or fixed, and are reactive to and influenced by contextual
variables (Pan & Patel, 2017; Ying & Patel, 2016). As such, construal of self, which captures complex moral, cognitive processes at both cultural and personality levels, is a particularly appropriate and important variable in examining whistle-blowing in China (Cross, Gore & Morris, 2003; Singelis, 1994).

2.2 CONSTRUAL OF SELF

Construal of self measures “what people believe about the relationship between the self and others and, especially, the degree to which they see themselves as separate from others or as connected with others” and distinguishes individuals between interdependents and independents (Markus & Kitayama, 1991, p.226). Importantly, interdependent and independent construal of self is often linked to collectivist and individualist cultures, which are the most important values used by researchers to examine national cultures (Balcetis, Dunning, & Miller, 2008; Oyserman et al., 2002). Interdependents are suggested to dominate in collectivistic cultures (Singelis & Brown, 1995; Triandis, 2001). Individuals from collectivistic countries, such as China, are more influenced by group-centered cultural values, and therefore have a score higher on measures relating to interdependents (Oyserman & Lee, 2008; Park, Rehg, & Lee, 2005). In contrast, independents are suggested to be dominant in individuals from individualistic cultures (Singelis & Brown, 1995; Triandis, 2001). Individuals from Anglo-American countries, such as the UK, Canada, and the US are more likely to be influenced by individual-centered cultural values, and thus have a higher score on measures relating to independents (Oyserman & Lee, 2008; Park, Rehg, & Lee, 2005). We recognize that there are differences in construal of self that may not be classified as either interdependent or independent. However, the objective of the classification is to show individuals view themselves as connected or separate from others.

Researchers have suggested that globalization and convergence influence construal of self in both collectivist and individualist cultures (Wan, Chiu, Peng, & Tam, 2007; Wong & Hong, 2005) and, therefore, view the self in all cultures which include both interdependents and independents (Church, 2008; Kolstad & Gjesvik, 2014). China, in particular, has experienced rapid globalization, and traditional Chinese cultural values have been constantly exposed and interacted with Western culture particularly over the past three decades. In response to the rapid globalization in contemporary China, individuals are likely to experience cognitive changes in their self-construal (Gudykunst & Lee, 2003; Yamada & Singelis, 1999). Additionally, China has undergone rapid market-oriented economic development, and individuals in China have come under increasing pressure to respond to the rapidly changing market environment. Competition rather than a focus on social harmony is becoming
dominant, and traditional Chinese collectivistic cultures have been influenced by the forces of globalization that encourage them to become increasingly independent (Guthrie, 2012; Sit & Liu, 2000). Thus, traditional Chinese interdependents have been influenced by these strong globalization forces that encourage them to shift towards independence. Kolstad and Gjesvik (2014, p.268-269) further suggest that “for the contemporary Chinese, independents may be nurtured, developed, elaborated and even emphasized in certain domains of life”. This paper suggests that these two aspects of self coexist within contemporary China. This study contributes to research by rejecting the simplistic notion of categorizing Chinese as a homogenous collectivistic group. This study argues that even within China, interdependents and independents are likely to systematically differ in their whistle-blowing judgments.

2.3 “HOLIER-THAN-THOU” PERCEPTION BIAS

Recall that “holier-than-thou” perception bias results in individuals perceiving that their colleagues behave less ethically than themselves when confronted with work-related ethical dilemmas. Patel and Millanta (2011) provide evidence that “holier-than-thou” perception bias exists among professional accountants in Australia and India. A methodological limitation of prior studies is that they have not examined “holier-than-thou” perception bias among all organizational participants. Patel and Millanta (2011) measured “holier-than-thou” perception bias by comparing individuals’ ethical judgements with those of their colleagues. As evidence demonstrates that individuals’ ethical judgements are also strongly influenced by their superiors (Bierstaker & Wright, 2005; Carpenter & Reimers, 2013; Peecher et al., 2010), our study suggests that it is also important to compare individuals’ ethical judgements with their superiors and junior staff. Thus, in addition to comparison with colleagues, our study also provides additional insights into “holier-than-thou” perception bias by comparing individuals with their superiors and junior staff among internal auditors in the Chinese context.

3. THEORY DEVELOPMENT AND HYPOTHESES FORMULATION

As discussed earlier, interdependents emphasize the fundamental connectedness of individuals with their social context and others, and value the importance of conformity, hierarchy, harmony within one’s group, promotion of in-group goals, and fitting into group norms (Cross, Hardin, & Gercek-Swing, 2010; Komissarouk & Nadler, 2014; Singelis, 1994). In contrast, independents emphasize separation of individuals from their social context and from others, and value the importance of self-promotion, autonomy, assertiveness, and uniqueness (Cross & Madson, 1997; Parson & Artistico, 2014; Singelis, 1994).

Importantly, interdependents are more likely to perceive personal costs outweighing possible benefits from whistle-blowing. This is because whistle-blowing as an individual’s
disagreement action is likely to destroy harmony within the social group and, therefore, is considered as a socially undesirable act (Chiu, 2003; Gundlach, Douglas, & Martinko, 2003; Markus & Kitayama, 1991). Specifically, interdependents perceive themselves as being similar to their colleagues and are more cautious in their judgments to keep harmonious interpersonal relationships with peers, colleagues, and supervisors (Cross & Madson, 1997; Howard, Gardner, & Thompson, 2007; Lee, Aaker, & Gardner, 2000). To maintain these fundamental norms, interdependents tend to communicate implicitly and indirectly and are more attentive to others’ feelings and thoughts, because keeping harmony with others, and meeting their expectations is intrinsically rewarding for interdependents (Cross & Madson, 1997; Hardin, Leong, & Bhagwat, 2004; Singelis, 1994). As such, interdependents tend to act mainly in accordance with their perceptions and expectations of others, and accepted social norms to main harmonious interpersonal relationships (Markus & Kitayama, 1991; Singelis & Sharkey, 1995; Vohs & Heatherton, 2001). In addition, negative consequences or retaliation against any member of the interdependents group are likely to have negative impacts on all group members, which in turn are likely to jeopardize harmonious interpersonal relationships (Mavondo & Rodrigo, 2001; Tsang, 1998; Wong & Chan, 1999).

Furthermore, empirical evidence shows that interdependents’ moral reasoning is relationship-based. Interdependents tend to behave in accordance with the accepted group norms even if their personal beliefs are significantly different from the group norms (Cross, Gore, & Morris, 2003; Hamamura, Xu, & Du, 2013). Also, they tend to be more accepting of any discrepancy between their personal beliefs and group norms (Husted & Allen, 2008; Iwao & Trlandis, 1993; Oyserman et al., 2002). Interdependents are likely to consider the implications of their whistle-blowing decisions for the group, and the needs and wishes of the group may influence their whistle-blowing decisions and actions. Therefore, this study suggests that interdependents are less likely and less accepting of engaging in whistle-blowing due to their concerns for the group and social harmony.

In contrast, independents view themselves as separate from their social context and tend to demonstrate their independence (Cross & Madson, 1997; Nezlek et al., 2012; Vohs & Heatherton, 2001). The main task of independents is to “stand out” from others through self-accomplishment, and thus, they are more focused on promoting their personal rather than others’ objectives (Komissarouk & Nadler, 2014; Parson & Artistico, 2014; Su, Lee, & Oishi, 2013). Compared to interdependents, independents perceive that the world is controllable through individuals’ actions, and thus they tend to focus more on their own abilities and characteristics in their judgments (Guan et al., 2015; Komissarouk & Nadler, 2014; Parson & Artistico, 2014). For independents, evidence shows that personal beliefs and values are more
important than group norms in ethical judgments (Hoyt & Price, 2015; Husted & Allen, 2008; Iwao & Trlandis, 1993). Independents are likely to view any difference between personal beliefs and group norms as “hypocritical” and will try to minimize such discrepancies (Husted & Allen, 2008). As a result, independents tend to have a higher consistency between individuals’ ethical dilemma judgments and behavior (Husted & Allen, 2008; Volkema, 1998). Therefore, they are more likely to behave in accordance with their ethical dilemma judgments and moral reasoning, rather than be motivated by the maintenance of harmonious relationships.

Importantly, independents are more likely to be motivated by the desire to do the right thing and to have greater altruistic concerns than interdependents (Arnocky, Stroink, & DeCicco, 2007; Schwartz, 2000; Schultz et al., 2005). This desire is driven by self-enhancement incentives to promote their own individual ethical goals, meaning that independents consider others’ attempts to influence them as a threat to their individuality (Markus & Kitayama, 1991; Matsumoto, 1999; Oyserman et al., 2002). As such, independents are less likely to consider others’ influence and suggestions regarding whistle-blowing ethical judgments because they perceive whistle-blowing as the ethical option. Independents are also less likely to ask for help from others, and this allows them to maintain perceptions of self-reliance and individuality (Cross & Madson, 1997; Lee et al., 2000; Neff et al., 2008).

In addition, independents view compromise to others’ expectations as a weakness in conceding to social pressure, and therefore they react to withstand social pressure and rely more on their ethical dilemma judgment and moral reasoning (Komissarouk & Nadler, 2014; Singelis, 1994; Sung & Choi, 2010). Thus, independents are likely to rely on and use their own abilities, attributes, characteristics, and goals to make whistle-blowing judgments rather than referring to feelings and actions from colleagues, supervisors and junior staff members. Additionally, independents demonstrate a priority of individual rights (Husted & Allen, 2008). As a result, not reporting business wrongdoing that may affect adversely the interests of individuals is likely to be seen by independents as unethical (Ahmed et al., 2003; Armstrong & Sweeney, 1994; Nyaw & Ng, 1994). This leads to the formulation of the following hypotheses:

**H1:** Interdependent (independent) internal auditors are less (more) accepting of engaging in whistle-blowing.

**H2:** Interdependent (independent) internal auditors are less (more) likely to engage in whistle-blowing.
4. RESEARCH METHOD

Data to examine the hypotheses were collected using a survey questionnaire to internal auditors who attended a professional development executive training program at a leading university in China. The research instrument consists of three parts. Part 1 contains an ethical scenario that requires subjects to provide their whistle-blowing judgments. Part 2 contains the 24-item Self-Construal Scale developed by Singelis (1994) to categorize subjects into interdependents and independents. Part 3 collects subjects’ demographic information including gender, age, years of professional internal audit experience, and their organizational position.

We adopted a scenario approach in our study because evidence shows that it can provide realistic and richer context for subjects to exercise their ethical judgment and it is easy for subjects to understand (Cooper & Morgan, 2008; Reidenbach & Robin, 1990; Flory, Phillips Jr, Reidenbach, & Robin, 1992). Specifically, Part 1 includes a whistle-blowing scenario which was first developed by Meier and Rittenberg (1986) and was applied by Arnold and Ponemon (1991), Patel and Millanta (2011), Liyanarachchi and Adler (2011), and Dalton and Radtke (2013). Reliability and validity of the ethical scenario has been extensively tested in prior literature. It describes an internal auditor in a company that is a major contractor for the government. During the audit examination, the internal auditor finds a number of inflated invoices to customers that have been paid already. The internal auditor is clearly told by the director of internal audit that he will be "fired if he decides to pursue the matter any further". In the scenario, the internal auditor decides not to report the matter to the next management level. This negative reporting approach is selected because more cognitive effort is required in exercising individuals’ judgments based on the scenario (Reidenbach & Robin, 1988, 1990; Patel, 2003). Additionally, the scenario used a third-person rather than a first-person reporting approach to minimize potential self-reporting bias in ethical judgment research (Lowe, Pope, & Samuels, 2014; Patel & Millanta, 2011; Ponemon & Gabhart, 1994). By using a third-person reporting approach, subjects do not need to state their own personal response to the scenario presented. Evidence shows that the pressure to provide socially desirable responses is largely reduced (Cook & Selltiz, 1964; Huber & Power, 1985).

After reading the scenario, subjects were required to evaluate the internal auditor’s decision of not reporting wrongdoing to management and to provide their judgment on acceptance and likelihood of engaging in whistle-blowing. Specifically, subjects’ acceptance of engaging in whistle-blowing was measured by using a combination of uni-dimensional and Multidimensional Ethics Measure. A uni-dimensional ethics scale measures responses on a
seven-point Likert-type scale where 1 = ethical and 7 = unethical. Prior research on ethical judgments has primarily relied on a single-item uni-dimensional ethics measure, which means researchers either use a single item Likert-type scale or a number of uni-dimensional ethics scales to measure aspects of ethical judgments (Ferrell, Crittenden, Ferrell, & Crittenden, 2013; Reidenbach & Robin, 1990). Empirical evidence shows that an oversimplified uni-dimensional measure fails to provide insights into complex ethical judgments (Ferrell et al., 2013; Patel, 2007; Reidenbach & Robin, 1990). Researchers suggest that this limitation is likely to be addressed by using Multidimensional Ethics Measure because it can provide more reliable and consistent responses by repeatedly asking subjects questions that are correlated (Ferrell et al., 2013; Reidenbach & Robin, 1988, 1990; Yukl, Mahsud, Hassan, & Prussia, 2013). It is also shown that Multidimensional Ethics Measure can provide a deeper understanding of “why” individuals make specific ethical judgments from both areas of moral philosophy and religion (Patel, 2007; Reidenbach & Robin, 1990; Yukl et al., 2013). Importantly, Multidimensional Ethics Measure has been tested for reliability and validity among professional accountants from Australia, Malaysia, and India (Patel, 2003; 2007).

Multidimensional Ethics Measure comprises three dimensions (Ferrell et al., 2013; Reidenbach & Robin, 1990). The first, the moral equity dimension comprises perceptions of fairness and justice, which reflects both an individual’s perception of right and wrong and good and bad, as determined by an individual’s main reference group. This dimension is concerned with normative perceptions related to what is considered fair/unfair, just/unjust, and morally right/not morally right in human behavior (Reidenbach & Robin, 1990; Yukl et al., 2013). The second dimension, relativism, reflects notions of right and wrong in an individual’s social settings. Relativism takes cultural and traditional values, which have strong influences on an individual’s ethical judgments, into account. This dimension includes two scales, namely, culturally acceptable/unacceptable and traditionally acceptable/unacceptable (Ferrell et al., 2013; Reidenbach & Robin, 1990). The third dimension, contractualism, comprises ideas of violation of unspoken or unwritten promises, and violation of implicit contracts, which are measured by scales of “violates an unwritten contract” and “violates an unspoken promise”. This dimension is derived from the philosophy of deontology. Deontologists suggest that individuals must satisfy the legitimate needs of others by applying logic to accepted ethical rules. This dimension is of particular importance in business as it includes “ethics of exchange and societal obligations” regarding “unwritten and unspoken social contracts” (Patel, 2007, p. 99). We use the seven-point Likert-type scale where 1 = fair/ just/ morally right/ acceptable to my family; culturally acceptable/ traditionally acceptable; does not violate an unwritten social contract/ does not violate an
unspoken social contract and 7 = unfair/ unjust/ not morally right / unacceptable to my family; culturally unacceptable/ traditionally unacceptable; violate an unwritten social contract/ violate an unspoken social contract. To rule out order-effects, the order of the eight questions was randomly changed.

The reliability of the Multidimensional Ethics Measure was tested using Cronbach’s alpha, which describes how well a group of items focuses on a single idea or construct (Cronbach 1951). The overall Cronbach’s alpha is 0.983 for the Multidimensional Ethics Measure (eight items taken together). Specifically, Cronbach’s alpha is 0.972 for moral equity dimension (four items), 0.949 for relativism dimension (two items), and 0.929 for contractualism dimension (two items). These coefficients are well above the 0.7 level of acceptability for construct measurement as defined by Nunnally (1978, p. 245).

Subjects’ likelihood of engaging in whistle-blowing is measured by requiring subjects to answer four questions, namely, “what is the probability that you would make the same decision?”, “what is the probability that your colleagues would make the same decision?”, “what is the probability that your superiors would make the same decision?”, and “what is the probability that your junior staff would make the same decision?”. Including various levels of organizational participants, such as junior staff, colleagues, and supervisors provides additional insights into internal auditors’ likelihood of engaging in whistle-blowing. Additionally, these four questions enable us to calculate the “holier-than-thou” perception bias. To rule out order-effects as a reason for the existence of “holier-than-thou” bias, the order of the four questions was randomly changed. Responses were captured on a seven-point Likert-type scale which ranged from “1=highly probable” to “7=highly improbable”.

Part 2 of the research instrument contains the 24-item Self-Construal Scale which was developed by Singelis (1994) and used to differentiate between interdependent and independent subjects. The scale is used because it has been found to produce a reliable and stable measure of self-construal across countries (Hannover, Birkner, & Pöhlmann, 2006). The Self-Construal Scale has consistently shown to have high internal reliability, construct validity, and predictive validity (Singelis, Bond, Sharkey, & Lai, 1999; Singelis & Sharkey, 1995; Yamada & Singelis, 1999). The Self-Construal Scale has been extensively tested for validity and reliability in previous research (Brewer & Gardner, 1996; Evanschitzky et al., 2014; Kitayama et al., 2014). Importantly, Ying and Patel (2016) and Pan and Patel (2017) provide further evidence that the Self-Construal Scale has high reliability in China and clearly differentiates between interdependents and independents. Specifically, the scale comprises 24 items, with 12 items each, to measure interdependents and independents. Subjects are required to indicate their response on each statement on a 7-point Likert-type scale
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(1=strongly disagree, 7=strongly agree). Cronbach’s alpha for interdependent construal of self is 0.78 and Cronbach’s alpha for independent construal of self is 0.79, and these coefficients are above the 0.7 level of acceptability as defined by Nunnally (1978, p.245).

The research instrument was initially designed in English. An important first step in the development of the research instrument was to prepare an equivalent and high quality version in the Chinese language. To ensure high quality of translation, the translation and back-translation method was used to confirm that the different language versions of the instrument were conceptually equivalent (Heidhues & Patel, 2012, p.137). The English version was translated first into Simplified Chinese by an expert who is equally fluent in both Chinese and English. The Simplified Chinese version was translated back into English by an independent auditing professor who is highly fluent in both English and Simplified Chinese. Any discrepancies between the English and Simplified Chinese versions of the instrument were eliminated, and this process was repeated three times until no discrepancies were found. Furthermore, the two versions of the research instruments were then reviewed by a committee of three bilingual auditing experts. This committee further confirmed the realism, understandability, appropriateness and the semantic equivalence of the questionnaire. This procedure ensured the content equivalence of the questionnaire (Wang & Hsieh, 2013).

The questionnaire was developed and tested through a number of steps. To examine the appropriateness of the research instrument, extensive pilot tests were conducted using 25 auditing academics and 10 professional auditors. They were requested to evaluate the questionnaire with the objective of improving its understandability and to provide feedback on the realism of the auditing scenarios in the questionnaire. Based on their feedback, minor suggestions were incorporated into the questionnaire.

The research instrument that included a cover letter, a research questionnaire, and a self-addressed envelope were distributed by a professor during professional development training programs after obtaining necessary ethics approval from relevant committees. An independent person collected all completed instruments after all subjects left the room, to ensure further confidentiality and anonymity. In total, 450 research instruments were randomly distributed. After excluding 79 incomplete research instrument, a total of 371 usable responses with a response rate of 82% were examined for data analysis.

5. RESULTS

5.1 Descriptive Statistics

Subjects’ demographic details are shown in Table I. In summary, it shows that approximately 51% of the subjects are males, 80% are in the age group of 30 to 39 years, 47% have more
than four years internal auditing experience, and 40% have more than seven years internal auditing experience. 92% of the subjects are supervisors, and 8% are managers and partners. Statistical tests indicate that the demographic variables (age, gender, years of professional internal audit experience, and organizational position do not significantly affect subjects’ scores on the dependent variables. As such, the responses were aggregated for hypotheses testing.

[INSERT TABLE I HERE]

Recall our earlier discussion that the dependent variables in our study are internal auditors’ acceptance and likelihood of engaging in whistle-blowing, and the independent variable is construal of self which distinguishes between interdependents and independents. To categorize interdependents and independents, we follow the computation rule applied in previous studies and the total sample of 371 responses was divided into interdependents and independents by z-standardizing subjects’ average scores (Holland, Roeder, Brandt, & Hannover, 2004; Pöhlmann, Carranza, Hannover, & Iyengar, 2007). The differences on the z-standardized scores between the scales were calculated for each subject to obtain the difference scores. Respondents with a score above zero were classified as interdependents (n=187, M=3.67) and respondents with a difference score below zero were classified as independents (n=184, M=3.50).

5.2 Internal Auditors’ Acceptance of Engaging in Whistle-Blowing

Data to examine differences in internal auditors’ judgments related to acceptance of engaging in whistle-blowing were obtained through measures of the uni-dimensional ethics measure (ethical/unethical), and Multidimensional Ethics Measure.

With respect to the uni-dimensional ethics measure (ethical/unethical), an ANOVA test was conducted to examine whether differences existed between internal auditors classified as interdependents and independents. For the ANOVA test⁸, self-construal was the independent variable and ethical/unethical was the dependent variable. As shown in Section A of Table II, the results show that on average independents (M = 4.02; S.D. = 1.69) evaluate not engaging in whistle-blowing as being more unethical than interdependents (M = 3.64; S.D. = 1.752). Thus, the results take the direction predicted in the hypothesis. The results also show this difference is significant (F = 4.390; p = 0.037). Hence, the results in relation to the uni-dimensional ethics measure (ethical/unethical) question provide support for H1.

[INSERT TABLE II HERE]

Section A of Table II also provides the mean scores of interdependents and independents on each of the eight items comprising the Multidimensional Ethics Measure. Results from
MANOVA show that there are significant differences between interdependents and independents on the eight dependent variables which comprised Multidimensional Ethics Measure taken together (F=4.270; p < 0.000). In addition, to examine the contributions of the variables to the significant results from MANOVA, univariate follow-up tests were conducted on each dependent variable separately. Results from the univariate follow-up tests show that there are significant differences on all four items comprising the Moral Equity dimension, and on all two items comprising the Relativism dimension and the Contractualism dimension between interdependents and independents (p < 0.000). These findings again support H1, that is, interdependent (independent) internal auditors are less (more) accepting of engaging in whistle-blowing.

5.3 Internal Auditors’ Likelihood of Engaging in Whistle-Blowing

Self-construal was the independent variable, and the four single questions (“you”, “your colleagues”, “your superiors”, “your junior staff”) measuring subjects’ likelihood that they would make the same decision were the dependent variables.

To test the hypothesis, ANOVA tests were conducted. As shown in Section B of Table II, the results show that for each of the four questions measuring the likelihood of engaging in whistle-blowing, the mean response for individuals with interdependent is lower compared to individuals with independent. Therefore, the results take the direction predicted in the hypothesis. These differences are significant for “you” question (F = 8.695; p = 0.003), “your colleagues” question (F = 5.007; p = 0.026), “your superiors” question (F = 5.931; p = 0.015), and “your junior staff” question (F = 8.173; p = 0.004). Hence, the results are supportive of H2 that interdependent (independent) internal auditors are less (more) likely to engage in whistle-blowing.

5.4 Holier-than-thou Perception Bias

We conducted repeated measures ANOVA to examine whether “holier-than-thou” perception bias exits among internal auditors by comparing their own responses with their perceptions of responses by their colleagues, their superiors and their junior staff. The results reveal that subjects perceive themselves as more likely to engage in whistle-blowing (and therefore more ethical) compared to their colleagues (F = 72.780; p < 0.000; η2=0.165), superiors (F = 74.560; p < 0.000; η2=0.168), and junior staff (F = 73.964; p < 0.000; η2=0.167). These results provide evidence that “holier-than-thou” perception bias exists among both interdependents and independents. However, there are no significant differences between interdependents and independents in their “holier-than-thou” perception bias.
6. CONCLUSIONS

This paper contributes to the literature by providing evidence on how personal values measured by construal of self influences internal auditors’ judgments in their acceptance and likelihood of engaging in whistle-blowing. The findings show that compared to independents, interdependent internal auditors are less accepting and less likely to engage in whistle-blowing. This study suggests that organizations and researchers need to recognize the importance of differences in personal values within countries, and their possible influence on professionals’ judgments and decision making.

This study uses a combination of uni-dimensional ethics measures and a Multidimensional Ethics Measure to provide additional insights into internal auditors’ acceptance of engaging in whistle-blowing. The findings show that the three ethical philosophies underpinning Multidimensional Ethics Measure are equally relevant in capturing Chinese internal auditors’ judgments. The results further show that there are significant differences between interdependents and independents on each of the eight questions which are derived from the three ethical philosophies. This study suggests that continued application of Multidimensional Ethics Measure in different business ethical situations and cultural contexts will enable greater understanding of the complex process that guides ethical judgments. Such evidence of ethical judgments is important before ethical behavior can be understood and prescribed in the code of ethics.

The findings have a number of implications that may benefit local and multinational enterprises, regulators and researchers, who are interested in developing more compatible whistle-blowing policies and procedures. First, understanding individual differences in personal values is likely to provide useful insights for developing ethical organizational cultural values and appropriate whistle-blowing policies and procedures. Ethical culture is what drives staff within the organization and is one of the key areas in which things can go wrong. Enhancing ethical culture within organizations is therefore crucial for internal auditors.

A “good” ethical culture means that if something goes wrong, then it is escalated, it is understood, and it is dealt with appropriately (Adams et al., 2001; Erondu et al., 2004). Strategies and training programs may be designed to encourage the development of good ethical cultures. The findings on differences between interdependents and independents in their acceptance and likelihood of engaging in whistle-blowing may be useful in developing strategies for the recruitment, promotion, and placement of internal auditors. Understanding construal of self can allow targeted training programs, particularly for interdependents.

Second, examination of internal auditors’ judgments on whistle-blowing is a necessary step for policy makers and managers to benefit their organizations in particular and society in
general. The findings of this study may provide guidance for managers, practitioners, and policy makers. Understanding the judgment of whistle-blowers will enable more effective internal disclosures, which will lead to positive benefits. With reference to China, and consistent with the Chinese Government’s recent anti-corruption campaigns, the findings of this paper could be utilized as a useful control mechanism to address wrongdoing.

Third, the findings of this paper may also benefit enterprises operating in China and enterprises with employees who have a Chinese cultural background. There has been a significant increase in Chinese new hires in Anglo-American countries. In response to the shifting multicultural environment of enterprises, it is therefore important to understand whistle-blowing judgments in appropriate cultural contexts.

Fourth, the findings provide evidence that “holier-than-thou” perception bias existence among Chinese internal auditors. This indicates that internal auditors perceive themselves as acting more ethically than their colleagues, superiors and junior staff. This bias is likely to likely to foster an unethical organizational culture because subjects may lower their own ethical standards to compete with other staff whom they perceive to be more unethical than them. This bias in the longer term may results in ‘race to the bottom’ ethical behavior.

Finally, the findings on the presence of “holier-than-thou” perception bias among internal auditors have implications for judgment and decision-making research in business. Given the existence of “holier-than-thou” perception bias in this study, this paper questions findings from prior research where subjects were required to provide their judgments on complex ethical issues related to their relationships with their colleagues, superiors, and junior staff members. This paper suggests that researchers may develop appropriate strategies and training programs to address the possible limitations posed by “holier-than-thou” perception bias.

Future research may examine other personal values and contextual factors that may lead to design and development of more compatible whistle-blowing policies and procedures. The results of this study must be examined in light of its limitations. This study is based on a single country to provide evidence on the influence of personality on Chinese internal auditors’ acceptance and likelihood of engaging in whistle-blowing. Therefore, the findings may not be generalizable to other countries where cultural contexts are substantially different. However, the findings of this study demonstrate the importance of understanding a country’s unique social, cultural, and legal environment in examining internal auditors’ ethical judgments. Researchers need to exercise caution and take countries’ unique contextual factors into account when generalizing the findings of this study to other countries. In addition, it is acknowledged that in actual internal audit practices, auditors’ judgments will be influenced by
a number of interrelated factors. Consequently, future research may examine other contextual factors and personal values which may influence individual’s ethical judgments both within and across countries. Another limitation is that scenarios used in this study may not invoke the types and intensity of pressures faced by internal auditors in real-world whistle-blowing practices. Internal auditors in practice, work in a richer information environment and face more pressures when engaging in whistle-blowing.

ENDNOTES

1 An evaluation of the whistle-blowing literature in leading accounting journals classified as A* and A by the Australian Business Deans Council (ABDC) show that 67 out of the 80 studies were conducted in Anglo-American countries; 13 studies were conducted in non-Anglo-American countries (two in Malaysia, one in India, one in Spain, one in South Africa, one in Hong Kong, one in Israel, one in Turkey, two in Korea, and three in China). ABDC provides a journal quality list to assist academics to target papers at journals with an appropriate standard.

2 In another study of 49 cultures, Terracciano et al., (2005) found that national character does not reflect personality traits, and therefore they suggest the importance of measuring personality traits rather than focusing on national cultural values.

3 Details of the acceptance and likelihood of engaging in whistle-blowing are provided in the research method section.

4 All participants in our study are professional internal auditors, who are members of the Institute of Internal Auditors (The IIA), and successfully passed the Certified Internal Auditor (CIA) exams. In 2014, the importance of the internal auditor professional in China is reflected in the statistics that over 50% of CIA students worldwide are from China (National Audit Office of the People’s Republic of China, 2015).

5 The leading journals are ranked as A* or A by the Australian Business Deans’ Council.

6 This university holds a very good reputation for the academic quality of its auditing degrees, and came under the direct supervision of the China National Audit Office in 1987 (CNAO, 2014; NAU, 2014). In 2012, this university was ranked as “Jiangsu Provincial Outstanding University in Teaching Auditing Affairs”.

7 The ethical aspects of this study have been approved by the researcher’s University Human Research
Levene’s test (2-tailed, \( p = 0.794 \)) showed that the assumption of homogeneity of variance was satisfied.

Huck et al. (1974, p. 190) suggest that two simple rules must be followed for the MANOVA tests. First, the number of dependent variables should not be less than the number of groups which are being compared. In our study, eight dependent variables were used to measure acceptance between two sample groups (interdependents and independents). Therefore, our study satisfies the first requirement. The second rule requires that the total respondents in each group should be two times greater than the number of dependent variables. In our study, 184 internal auditors are classified as independents, and 187 are classified as interdependents. Therefore, the second requirement is also satisfied. Additionally, the assumption of homogeneity of variance was also satisfied for all dependent variables (Tabachnick & Fidell, 1989, p. 379).

According to the American Institute of Certified Public Accountants’ (AICPA) (2015) report on Trend in the Supply of Accounting Graduates and the Demand for Public Accounting Recruits, since 2011, one-third of new hires in US accounting firms were non-Caucasians, and half of these were Asian. Similarly, Lee (2012) recently reports that one-third of Ernst and Young’s recruitments from US campuses are now non-Caucasians.
REFERENCES


### Table 1: Demographic Details

<table>
<thead>
<tr>
<th></th>
<th>Total (n=371)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>188</td>
<td>51%</td>
</tr>
<tr>
<td>Female</td>
<td>183</td>
<td>49%</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20–29</td>
<td>53</td>
<td>15%</td>
</tr>
<tr>
<td>30–39</td>
<td>297</td>
<td>80%</td>
</tr>
<tr>
<td>40 or over</td>
<td>21</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Years of professional internal audit experience</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1–3 years</td>
<td>50</td>
<td>13%</td>
</tr>
<tr>
<td>4–6 years</td>
<td>174</td>
<td>47%</td>
</tr>
<tr>
<td>7–9 years</td>
<td>87</td>
<td>23%</td>
</tr>
<tr>
<td>10 years or greater</td>
<td>60</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Organizational position</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supervisors</td>
<td>342</td>
<td>92%</td>
</tr>
<tr>
<td>Managers and partners</td>
<td>29</td>
<td>8%</td>
</tr>
</tbody>
</table>

Note: Statistical tests show that the demographic variables of gender, age, years of professional internal audit experience, and organizational position do not significantly affect respondents’ scores on each of the four dependent variables. As such, the responses in our study were aggregated for the purpose of hypothesis testing.
Table II: Results of Subjects’ Acceptance and likelihood of Engaging in Whistle-blowing

**Section A: Acceptance of Engaging in Whistle-blowing**

<table>
<thead>
<tr>
<th>Construal of Self</th>
<th>Mean (Interdependent)</th>
<th>Mean (Independent)</th>
<th>ANOVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uni-dimensional Ethics Measure</td>
<td>Ethical (single item)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interdependent (n=187)</td>
<td>Mean</td>
<td>S.D.</td>
<td>Mean</td>
</tr>
<tr>
<td>Ethical</td>
<td>3.64</td>
<td>1.752</td>
<td>4.02</td>
</tr>
</tbody>
</table>

1 = ethical and 7 = unethical (Subjects were required to evaluate the internal auditor’s decision of not reporting wrongdoings to management.)

<table>
<thead>
<tr>
<th>Construal of Self</th>
<th>Mean (Interdependent)</th>
<th>Mean (Independent)</th>
<th>MANOVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multidimensional Ethics Measure</td>
<td>Fair</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interdependent (n=187)</td>
<td>Mean</td>
<td>S.D.</td>
<td>Mean</td>
</tr>
<tr>
<td>Fair</td>
<td>3.57</td>
<td>1.642</td>
<td>4.14</td>
</tr>
<tr>
<td>Just</td>
<td>3.57</td>
<td>1.616</td>
<td>4.07</td>
</tr>
<tr>
<td>Morally right</td>
<td>3.43</td>
<td>1.593</td>
<td>4.12</td>
</tr>
<tr>
<td>Acceptable to my family</td>
<td>3.49</td>
<td>1.587</td>
<td>4.16</td>
</tr>
<tr>
<td>Culturally acceptable</td>
<td>3.49</td>
<td>1.598</td>
<td>4.17</td>
</tr>
<tr>
<td>Traditionally acceptable</td>
<td>3.47</td>
<td>1.546</td>
<td>4.14</td>
</tr>
<tr>
<td>Unwritten contract</td>
<td>3.51</td>
<td>1.628</td>
<td>4.20</td>
</tr>
<tr>
<td>Unspoken promise</td>
<td>3.40</td>
<td>1.611</td>
<td>4.20</td>
</tr>
</tbody>
</table>

1 = fair/ just/ morally right/ acceptable to my family; culturally acceptable/ traditionally acceptable; does not violate an unwritten social contract/ does not violate an unspoken social contract; 7 = unfair/ unjust/ not morally right / unacceptable to my family; culturally unacceptable/ traditionally unacceptable; violate an unwritten social contract/ violate an unspoken social contract (Subjects were required to evaluate the internal auditor's decision of not reporting wrongdoings to management.)

**Section B: Likelihood of Engaging in Whistle-blowing**

<table>
<thead>
<tr>
<th>Construal of Self</th>
<th>Mean (Interdependent)</th>
<th>Mean (Independent)</th>
<th>ANOVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interdependent (n=187)</td>
<td>Mean</td>
<td>S.D.</td>
<td>Mean</td>
</tr>
<tr>
<td>You</td>
<td>3.38</td>
<td>1.887</td>
<td>3.96</td>
</tr>
<tr>
<td>Your colleague</td>
<td>2.89</td>
<td>1.631</td>
<td>3.28</td>
</tr>
<tr>
<td>Your superior</td>
<td>2.88</td>
<td>1.658</td>
<td>3.32</td>
</tr>
<tr>
<td>Your junior</td>
<td>2.82</td>
<td>1.639</td>
<td>3.34</td>
</tr>
</tbody>
</table>

1 = highly probable not to report wrongdoings and 7 = highly improbable not to report wrongdoings