

# The Effect of Country and Culture on Perceptions of Appropriate Ethical Actions Prescribed by Codes of Conduct: A Western European Perspective among Accountants

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**ABSTRACT.** Recognizing the growing interdependence of the European Union and the importance of codes of conduct in companies' operations, this research examines the effect of a country's culture on the implementation of a code of conduct in a European context. We examine whether the perceptions of an activity's ethicality relates to elements found in company codes of conduct vary by country or according to Hofstede's (1980, *Culture's Consequences* (Sage Publications, Beverly Hills, CA)) cultural constructs of: Uncertainty Avoidance, Masculinity/Femininity, Individualism, and Power Distance. The 294 individuals, who participated in our study, were from 8 Western European countries. Their responses to our 13 scenarios indicate that differences in the perceptions of ethicality associate primarily with the participants' country as opposed to their employer (i.e., accounting firm), employment level, or gender. The evidence also indicates that these country differences associate with Hofstede constructs of Individualism and Masculinity.

**KEY WORDS:** Codes of conduct, ethical perceptions, country culture

## Introduction

In recent years, an extensive body of research has examined cross-cultural influences on individuals' approaches to and perceptions of business related ethical dilemmas. Most of these studies focus on very diverse cultures such as India versus the United States (US) (Christie et al., 2003), Latin American countries versus Anglo-based countries such as the US and Australia (Robertson et al., 2002), and Asian versus eastern European countries (Davis, et al., 1998). Yet with the growing between-country cooperation and

unification of the European Union, there has been a very limited amount of research examining the cross-cultural influences on business related ethical issues across Western European countries.

At the same time, we have seen an increase in the interest of issues of corporate social responsibility as evidenced by research on the use of codes of conduct by multinational companies (Kaptein, 2004). Kaptein reports that 52.5% of the 200 largest multinational companies have a code of conduct with common specific issues such as *honesty* (50%), *fairness* (45%), *corporate core values* [such as] *teamwork* (43%), *appropriate conduct among employees including lack of discrimination* (44%) and *intimidation* (43%), and *lack of conflicts of interests* (52%) (p. 13). However, research has not adequately investigated the intersection of cultural influence with the issues addressed within typical corporate codes of conduct.

Our research addresses these issues by examining whether there are cross-cultural differences among eight Western European countries in terms of the degree of individuals' sensitivity to ethical dilemmas commonly represented in companies' codes of conduct. We first examine country-based differences and then look for any cultural association of these differences with Hofstede's (1980) cultural constructs.

## Literature review

### *Country differences*

Payne et al. (1997) note that, as the international economy continues to change at a rapid rate, the

truly global company must come to grips with the multi-faceted legal and moral atmosphere in which it operates (p. 1727). A typical method for addressing these country differences is through the use of a formalized company code of conduct *that defines the expected overall responsibilities of the corporation towards its stakeholders and/or the conduct the corporation expects of employees* (Kaptein, 2004, p. 13). Research suggesting that ethical behavior varies cross-culturally causes additional problems. For example, Sarwon and Armstrong (2001) find differences that relate to value orientation questions in their survey. Ahmed et al. (2003) found that, while there was a basic agreement on ethical business practices, differences were present in the respondents' tolerance to damages caused by a particular unethical behavior. Allmon et al. (1997) also find that differences in ethical perceptions of university business students regarding business world related actions (e.g. "achieving business results is more important than being honest" and "most people do personal business on company time") exist among countries. Thus, in order to understand the effectiveness of an international company's code of conduct, we first must have a sufficient understanding of the effect of cross-cultural influences on the components frequently found in such codes of conduct.

In a study of Irish business managers, Stohs and Brannick (1999) used structured in-person interviews about business ethics, codes of ethics and their development to determine how frequently unethical practices occurred. Of the independent variables studied, only the existence of a code of conduct and the size of the company associate with perceptions of how wrong an act was and the frequency of an unethical event occurring. Their study suggests that one should determine the influence of gender, level, firm and country on ethical perceptions, which leads to our first research question:

#### RQ1

*Are there (a) gender, (b) employment level, (c) firm, and/or (d) country differences in the subjects' perceptions of unethical scenarios that relate to components often found in the codes of conduct of companies?*

#### Cultural relativism

Jackson (2000) studied whether ethical judgments varied by country and were influenced by the loyalty of employees to corporations (and vice-versa) and to fellow employees. He believed that the structure of ethical judgments would vary by country. Findings of the study indicate that managers' ethical judgments were influenced by cultural differences. Ferrell et al. (2002) also believe that ethical judgments could vary between cultures. Their findings indicate that the degree of dissimilarity of ethics judgments across cultures (i.e. cultural relativism) explains some of the variation in ethical perceptions. Robertson et al. (2002) discuss how cultural relativism could lead one to see the potential different attitudes across countries in regards to ethical problems. Cultural relativism does not negate the notion that there are issues that all cultures view as immoral. Rather, while culture affects what is considered moral, cultural relativism maintains that value judgments should not be made about which standard is better (Robertson et al., 2002).

While cultural relativism has been debated, research has shown that Hofstede's (1980) *cultural dimensions* [have an] *impact on the ethical decision-making process across different societies* (Vitell et al., 1993, p. 759). Cohen et al. (1992), Moon and Franke (2000) and Christie et al. (2003) all hypothesize that ethical perceptions or attitudes vary by country and across cultures. Specifically, these authors suggest that ethical decision-making correlates with Hofstede's (1980) cultural constructs. However, Ahmed et al. (2003, p. 90) point out that questions of what is considered '*Wrong-Right*' and/or '*Good/Bad*' in business practices in different cultures remains relatively unexplored.

#### Cultural influences

Culture can be defined as a *set of likely reactions of citizens with a common mental programming ... reactions need not be found within the same persons, but only statistically more often in the same society* (Hofstede, 1991, 112). Hofstede believes that culture represents a system of shared values and beliefs. From his examination of the responses from over 100,000 employees from the 53 countries of a large

multi-national corporation, he hypothesized 4 cultural constructs: Uncertainty Avoidance, Masculinity/Femininity, Individualism, and Power Distance. Table I shows Hofstede's cultural construct index scores for the countries in this study.

Christie et al. (2003) believe that responses to questions of an ethical nature from any particular group of individuals from any particular country are a function of multiple constructs. They suggest the use of constructs rather than country as independent variables. For example Arnold and Bernardi (1997), Kachelmeier and Shehata (1997), Siegel et al. (1997), and Cohen et al. (1995) found cultural differences in the application of ethical issues in professional accounting. Christie et al. also found that variations in general attitudes toward business ethics among managers from three countries associate with Hofstede's cultural constructs.

#### *Uncertainty Avoidance*

Hofstede describes the Uncertainty Avoidance construct as *the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. This feeling leads them to ... [maintain] institutions protecting conformity. Strong Uncertainty Avoidance societies maintain rigid codes of belief and behavior... [while in a weak] Uncertainty Avoidance [society] ... deviance is more easily tolerated* (1984, pp. 83–84). It represents the collective willingness of a society to tolerate ambiguous outcomes (Cohen et al., 1995).

Jeurissen and van Luijk (1998) studied the ethical reputations of European countries. Using their data, we found that Hofstede's Uncertainty Avoidance

explains 30.1% of the variation of the *summed scores of ethical business conduct* for the nine European countries in their study. In our analysis, we also found that as Uncertainty Avoidance increases, ethical behavior increases for European countries. So that, *maintain[ing] rigid codes of belief and behavior and intolerance towards deviant persons and ideas* (Hofstede 1984, 83) would be expected in countries with lower Uncertainty Avoidance scores. We also examined the relationships among Hofstede's constructs and Au's data (1999) for the European countries in this study. Our analysis indicates that Uncertainty Avoidance is related to Au's pride in work, which should be the case because beliefs about one's job are central to Uncertainty Avoidance (Hofstede, 1980, p. 164).

In an international replication of Prasad et al.'s (1998) study of ethical perceptions, Bernardi and Long (2004) note that as Uncertainty Avoidance increases, individuals from that culture perceived ethical standards in business being lower than in the typical family in their country. Bernardi and Long also note that as Uncertainty Avoidance decreases, individuals were more likely to believe that the ethical standards are determined by the least ethical competitor. This supports Husted's (1999) finding that, as Uncertainty Avoidance increases, perceptions of corruption also increase.

#### *Masculinity*

Hofstede (1984, pp. 83–84) defines a masculine culture as one that prefers values such as *achievement, heroism, assertiveness, and material success*, while more feminine societies prefer values such as *relationships,*

TABLE I  
Comparison of Hofstede's cultural indices by country

Country	Hofstede's (1980, p. 500) cultural construct index scores			
	Uncertainty Avoidance	Masculinity/ Femininity	Individualism/ Collectivism	Power Distance
France	86	43	71	68
Spain	86	42	51	57
Italy	75	70	76	50
Netherlands	53	14	80	38
United Kingdom	35	66	89	35
Sweden	29	05	71	31
Ireland	35	68	70	28
Denmark	23	16	74	18

*modesty, caring for the weak, and the quality of life.* Hofstede's indication that Masculinity associates with the importance given to achievement and high earnings could result in these values dominating one's ethical decision process. This potential association is supported by Husted's (1999) finding that perceptions of corruption increase in societies with higher Masculinity constructs.

#### *Individualism/collectivism*

The Individualism/Collectivism construct is a measure of the level of the interdependence of the members in a society. As individualism increases in a society, individuals within the society's relationships resemble a *loosely knit social framework ... wherein individuals are supposed to take care of themselves and their immediate families* (Hofstede, 1984, pp. 83–84) as compared to a general concern for others' needs. Recent research indicates cross-cultural differences in ethical perceptions associate with Hofstede's Individualism construct (Bernardi et al., 2003). This research suggests that, as Individualism increased, subjects perceive unethical actions as being more acceptable.

#### *Power Distance*

Hofstede (1984, pp. 83–84) believes that Power Distance relates to the *extent to which the members of a society accept that power in institutions and organizations is distributed unequally*. Consequently, in large Power

Distance societies there is a set hierarchical structure and everyone knows their place in that structure. The Power Distance construct recognizes that societies must deal with *inequalities among people* (Hofstede, 1984, pp. 83–84). Au (1999) finds that Power Distance is negatively associated with pride in work. The farther one is from the source of power in a society, the less likely one is to feel the benefits of one's efforts. He notes that Power Distance is also negatively associated with freedom in decision-making. The authors believe that, because *people in large Power Distance societies accept a hierarchical order in which everybody has a place* (Hofstede, 1984, p. 84), employees from large Power Distance societies will follow a company code of conduct more rigidly. Husted (1999) also finds that, as Power Distance increases, perceptions of corruption also increase.

Hofstede's constructs also have been examined in the context of professional ethical guidelines. For example, Cohen et al. (1992) suggest that Hofstede's cultural constructs associate with the International Federation of Accountants' (1990) Guidelines on Ethics for Professional Accountants (Table II). These constructs have also been used when examining the association between culture and corruption (Husted, 1999). Our second research question is:

#### **RQ2**

*Do the subjects' perceptions of unethical scenarios associate with Hofstede constructs?*

TABLE II

Predicted association among Hofstede's cultural constructs and the international federation of accountants' "Guidelines on Ethics for Professional Accountants"

Ethical guideline	Hofstede's (1980, p. 500) Four Cultural Construct Index Scores			
	Uncertainty Avoidance	Masculinity/Femininity	Individualism/Collectivism	Power Distance
Integrity	Compromising professional standards	Exaggeration of ability	Conflicting loyalties	Loyalty to supervisor
Objectivity			Value of other opinions	Loyalty to supervisor
Confidentiality		Acceptability of self-promotion	Loyalty to family and friends	Willingness to follow instructions
Professional behavior	Resolution of ethical conflicts	"Lowballing" & aggressive promotion of firm Sex discrimination	Loyalty to professional colleagues Independence of audit	

Taken from Cohen et al. (1992, p. 695)

## Research design

### Sample selection

The participants in this study came from 17 different offices of four international public accounting firms located in major cities of eight different economically developed Western European countries (Denmark, England, France, Ireland, Italy, The Netherlands, Spain and Sweden) located in the largest or second largest city in their country. The pool of subjects (294 individuals) included a mix of employment levels (senior accountant, assistant manager, manager, senior manager and partner), gender and employer (Table III).

Each firm requires that its employees have a minimum of a college education. The public accounting profession requires a professional examination generally noted for its intellectual rigor. In addition, auditors with major accounting firms conduct audits on a variety of businesses during each

year and become exposed to various cultures found within a variety of business settings. By selecting subjects from the international firms, the population was deemed to have a high level of education, intelligence and familiarity with a variety of business settings.<sup>1</sup>

### Development of scenarios

We began by obtaining the code of conduct from businesses in various industry groups. Included were two international manufacturing companies, one large utility company, one international service business, two health care organizations, one association and one governmental unit. We identified the key points in their codes of conduct and designed 13 scenarios (see Appendix) that potentially would have elements in violation of these codes. Each scenario was then checked back to the codes to make sure that it violated a minimum of at least one point in at least two different organizations' codes. The 13 scenarios provided violations in, on average, 4 of the aforementioned organizations' codes of conduct.<sup>2</sup>

We cross-checked these scenarios with Kaptein (2004) and with Waddock et al. (2002), prior research studies that summarized topics within codes of conduct. Kaptein (2004) investigated the codes of conduct of the largest 200 multinational companies and summarized topics that are frequently included in the codes. Waddock et al. (2002) observed common trends of concerns in various pieces of literature discussing ethical concerns of international businesses. Table IV shows the current scenarios compared to the topics illustrated by Kaptein and by Waddock. The overlap shows that the surveyed areas were ones in which there was both concern and formal guidance in the international business community.

After reading each individual scenario (Appendix), the subjects were asked to indicate their opinion as to whether an unethical action had taken place and if so, how unethical they would consider the action to be, on a 1–7 Likert scale (where 1 = none exists, 2 = not very significant, 4 = moderate and 7 = very significant). It was further noted to the subjects that each situation was independent of all other situations.<sup>3</sup>

TABLE III  
Demographic distribution of participants

Country		Firm	
Denmark	42	1	55
England	37	2	62
France	19	3	50
Ireland	36	4	127
Italy	63	Total	294
Netherlands	36		
Spain	32		
Sweden	29		
Total	294		
Employment Level		Gender	
Partner	26	Male	219
Senior Manager	60	Female	66
Manager	95	Subject did not indicate	9
Assistant Manager	19	Total	294
Senior	89		
Subject did not indicate	5		
Total	294		
Years with firm			
Average	8.2 years		
Range	37 years–3 months		

TABLE IV  
Comparison of current scenarios with Waddock and Kaptein<sup>a</sup>

Current scenarios	Waddock et al. (2002) New Business Imperative	Kaptein (2004) Stakeholder principles
1, 2, 4, 6, 7, 13	INTEGRITY – Stakeholders demand that companies be honest and adhere to their stated codes and values	Honest, truth, fairness, impartiality, trust, responsiveness, keeping promises
8, 9,12	RESPECT – Stakeholders demand that companies' relationships with different stakeholders are interactive, engaged and take into account different points of view	Empathy, respect, diversity, equality, freedom, autonomy of stakeholders
3, 5, 10 11	STANDARDS – Stakeholders demand that articulated values be met practice and that a minimum of internationally agreed upon values are achieved	Coherence, uniformity
3, 10	TRANSPARENCY – Stakeholders demand company openness about company performance on a triple bottom line of economic, social and environmental income	Transparency, dialog, open communication
3, 10	ACCOUNTABILITY – Stakeholders demand that the company acknowledge its impact take responsibility for them	Accountability

<sup>a</sup>Two of the authors independently conducted this comparison. In the two cases in which there was disagreement, a third author reviewed it. Through discussion, full consensus was reached.

#### *Distribution and collection procedures*

The lead author asked the contact person in each participating office of the respective accounting firms whether the test instrument should be presented in the country's language. The contact persons in Italy and Spain asked that their country's language be used. For these two countries, one person first translated the survey questionnaire into that country's language. Following this, a second person then back-translated the questionnaire to ensure that the initial translation correctly reflected the exact intent of the survey. All of the individuals who translated the questionnaire data were auditors from Italy and Spain who were on extended exchange assignments in the New York City offices of the firms participating in the study. We checked the accuracy of the interpretations by extensive conversations with the translators.

The lead author visited each participating office of the accounting firms and asked either Director of

Human Resources or the Office Managing Partner to randomly distribute the surveys to individuals at various professional employment levels who were native to the country. All participants were instructed not to place their name anywhere on the instruments and return it to the collection point (usually the contact person's secretary) in a sealed envelope.<sup>4</sup> To ensure that subjects had not been on an extended assignment period outside his/her home country at some point in their career, the authors also included a background questionnaire as part of the survey instrument. This questionnaire requested information on staff level, experience, age, gender, and nationality. The experience section of the instrument included a question asking whether the participant had been assigned to an office outside their country for a year or more. These questions ensured that the sample from each country represented the culture in that country. The subjects were instructed not to evaluate the potential ethical activity in terms of its impact on their audit



procedures or on the potential impact on the company's financial statements. Instead, they were to simply concentrate on the ethical nature of the activity.

## Analysis

### *First research question*

The purpose of the first research question was to determine if the subjects' perception of the level of ethicality of the scenarios was a function of their gender, employment level, firm and/or country. This question was examined through two perspectives. First, we conducted a discriminate analysis of the responses themselves and then we examined the subjects' degree of sensitivity to the scenarios.

### *Discriminate analysis*

When doing this analysis, it was necessary to eliminate all subjects who did not provide a response to all 13 scenarios limiting us to 161 subjects. By limiting the analysis to Scenarios Three through Six and Eight through Ten, however, the sample increased to 290 subjects. Consequently, we ran the discriminate analysis twice – once with all 13 scenarios (161 subjects) and once with the limited set of scenarios (290 subjects). As would be anticipated using such a large data set, all four factors (country, employment level, firm and gender) were significant at the 0.05-level. We thus extended the analysis by using the output of the discriminate analysis. We produced data (Tables V and VI) that show: (a) the percentage predicted correctly by the discriminate analysis (i.e. the number of “correct” predictions, per the discriminate analysis, as a percentage of the total number of subjects) and (b) a random prediction percentage. The random prediction percentage was based on the number of comparisons; for the eight countries surveyed, the random percentage would be 1/8th (or 12.5%) for each country; 1/4th (or 25%) for the four firms; 1/2 (or 50%) for gender; and, 1/5 (or 20%) for the five employment levels. The two sets of percentages generate a “prediction factor”, defined as the ratio of the “percent predicted correctly per the discriminate analysis” to the “random prediction”, as shown in Table V for gender (Panel A),

employment level (Panel B) and firm (Panel C) and Table VI for country.

An evaluation of these prediction factors indicates that country (for “all questions” and for the “limited questions”) showed, by far, the greatest indication of relevance. Furthermore, the prediction factors for country (2.98 and 2.18) are 133 and 91% higher than the comparable figures for gender (1.28 and 1.14) and 61–86% higher than for employment level (1.77 and 1.17) and firm (1.79 and 1.35). Consequently, the prediction factors suggest that the characteristics of one's country (Table VI) provide considerably more influence on the subjects' perceptions of the ethicality of the activities than do gender, employment level and firm (Table V).

### *Degree of sensitivity to scenarios*

We continued our analysis of the first research question by investigating whether the subjects' “degree of sensitivity” to the scenarios associates with their country, firm, employment level or gender. As there was no independent standard for determining which of the scenarios were most unethical, we established a standard by drawing upon a subset of the population of subjects. We began by randomly selecting 9 subjects per country (72 subjects in total over the 8 countries) and identifying which scenario was assigned the highest 1–7 score from these individuals.<sup>5</sup> The range of average scores per scenario for this subset was from 5.15 (for Scenario Five) to 3.11 (for Scenario Eleven). The Hsu Multiple Comparisons for Best Means Test (SAS Institute, 2002) identified Scenarios Twelve and Thirteen as the only ones that were not significantly different from Scenario Five.<sup>6</sup> We re-ran the same exercise using all 294 subjects in the entire sample and observed the same results; Scenario Five was the highest and Scenarios Twelve and Thirteen were not significantly different from Scenario Five. Accordingly Scenarios Five, Twelve and Thirteen were used as the standard measure of “most unethical scenarios”.<sup>7</sup>

We then proceeded to measure each individual's sensitivity to ethical issues (Measure of Sensitivity – MOS) by calculating their average response on these three scenarios. In order to avoid bias in the calculation of the MOS, the 76 subjects who did not reply to all of these three particular scenarios had to be eliminated from further analysis, leaving 218

TABLE V  
Summary of discriminate analysis output by: gender, employment level and firm

Number of correct predictions	Questions	
	Limited	All
<i>Panel A: By gender</i>		
Female	42	25
Male	122	76
Total (a)	164	101
Number of subjects analyzed (b)	287	158
% Predicted correctly (c) = (a)/(b)	57.1%	63.9%
Random prediction – 1 out of 8 (d)	50.0%	50.0%
Prediction “Factor” = (c)/(d)	1.14	1.28
<i>Panel B: Employment level</i>		
Partner	10	7
Senior Manager	11	11
Manager	15	16
Assistant Manager	12	6
Senior	19	16
Total (a)	67	56
Number of subjects analyzed (b)	287	158
% Predicted correctly (c) = (a)/(b)	23.3%	35.4%
Random prediction – 1 out of 4 (d)	20.0%	20.0%
Prediction “Factor” = (c)/(d)	1.17	1.77
<i>Panel C: By firm</i>		
Firm 1	9	13
Firm 2	31	12
Firm 3	21	20
Firm 4	37	27
Total	98	72
Number of subjects analyzed (b)	290	161
% Predicted correctly (c) = (a)/(b)	33.8%	44.7%
Random prediction – 1 out of 4 (d)	25.0%	25.0%
Prediction “Factor” = (c)/(d)	1.35	1.79

observations. Using the 218 subjects’ MOS score, we ran 2 ANOVAs. The first one included as variables country, employment level, firm and gender. We found that only country was significant ( $p = 0.0446$ ). We then again ran the ANOVA deleting gender as a variable; once again we saw that country was the only significant variable ( $p = 0.0153$ ).

Further analysis using Fisher’s Least Significant Difference Test (SAS Institute, 202) based on the Student’s T indicated that Spain and Sweden (with the two highest average MOS scores) were significantly different than Italy and England (two lowest).

The remaining independent variables were not significantly different from each other, which indicates that there are country differences in the sensitivity of the subjects to the scenarios presented.

#### *Second research question*

The second research question investigated whether there was an association between the subjects’ responses and the Hofstede constructs. As with the first research question, this question was also examined through two perspectives. First, we ran a



TABLE VI

Summary of discriminate analysis output by country

Number of correct predictions	Questions	
	Limited	All
Denmark	16	8
England	15	6
France	6	4
Ireland	4	5
Italy	10	17
Netherlands	7	5
Spain	10	11
Sweden	11	4
Total (a)	79	60
Number of subjects analyzed (b)	290	161
% Predicted correctly (c) = (a)/(b)	27.2%	37.3%
Random prediction – 1 out of 8 (d)	12.5%	12.5%
Prediction “Factor” = (c)/(d)	2.18	2.98

bivariate (regression) fit of the Hofstede construct score (indices) of the subjects' country with their response for each individual scenario. Second, we determined if the measure of sensitivity scores (MOS) developed for the first research question were associated with the 4 Hofstede construct scores.

#### *Univariate regression analysis*

The univariate fit of the Hofstede construct scores with the scenario responses produced 52 regressions (13 scenarios  $\times$  4 construct scores). We found significance in 22 (42.3% of the 52 regressions (Table VII). More specifically, we found that the Individualism and Masculinity constructs were each significant for 8 of 13 (62%) of the scenarios. Furthermore, the direction of this association for Individualism and Masculinity was as anticipated by the literature (and discussed in the section “Cultural Influences” above) – i.e. as Individualism increases, subjects perceive unethical actions as being more acceptable and as Femininity increases, society places a greater emphasis on issues such as relationships and caring for the weak and others. This would indicate that not only does country have an impact (RQ1) but that specific cultural characteristics associated with a country also have significant impact on the subjects' responses (RQ2).

#### *Degree of sensitivity to scenarios*

As with the first research question, we continued the analysis by investigating whether the subjects' “degree of sensitivity” to the scenarios were associated with the four construct scores of their respective country. Here, we ran a bivariate (regression) fit of the Hofstede construct score of the subject's country with the subject's MOS score (as calculated above). Once again, Masculinity ( $p = 0.0197$ ) and Individualism ( $p = 0.0179$ ) were significant; however, Uncertainty Avoidance ( $p = 0.4756$ ) and Power Distance ( $p = 0.3087$ ) were not significant. The analysis indicates that a subjects' country – and more specifically their country cultural construct of Masculinity and Individualism, but not firm, employment level or gender – is associated with their perceptions of the level of ethicality of the 13 scenarios. The data also indicates that the same factors were associated with the subjects' level of sensitivity when analyzing the most sensitive-prone of the scenarios.

### **Conclusions, implications and limitations**

The goal of this research was to learn if cross-cultural differences exist in individuals' sensitivity to ethical dilemmas among selected Western European countries. The authors used scenarios commonly found in companies' codes of conduct. Specifically, we tested to determine whether differences associate with Hofstede's (1980) cultural constructs.

This research found differences in the subjects' perceptions of ethical inappropriateness to activities frequently covered by business codes of conduct. Such differences associate with the subjects' country to a much greater degree than with the subjects' employer, employment level or gender. The evidence also suggests that these country differences were further associated with the Hofstede's cultural constructs of Masculinity and Individualism. More specifically, as anticipated both in prior research (e.g. Husted, 1999 and Bernardi et al., 2003) and in Hofstede's explanations of the constructs (e.g. 1980, pp. 225 and 297), individuals from societies that are more masculine and more individualistic (per the Hofstede cultural construct index score) found that the scenarios were deemed to be less unethical. These findings have implications for three audiences:

TABLE VII  
Bivariate regression of Hofstede's constructs and significant associations with subjects' responses

Scenario	Hofstede's (1980) four cultural constructs				Significant constructs
	Uncertainty Avoidance	Masculinity/ Femininity	Individualism/ Collectivism	Power Distance	
1	+0.001	+0.002	-0.001	+0.001	4
2		-0.009	-0.001		2
3					0
4			-0.001		1
5	-0.040	-0.016	-0.016	-0.026	4
6		-0.002			1
7			-0.004		1
8		-0.001	-0.033	-0.020	3
9		-0.004	-0.006		2
10		-0.034			1
11	+0.047				1
12			-0.023		1
13		-0.039			1
Number of significant questions	3	8	8	3	22
Percentage of significant constructs = 22/(13 scenarios × 4 constructs)					42.3%

the international companies when developing their codes of conduct; the stakeholders in the unification and cooperation efforts within the European Union; and the researchers when examining the impact of company codes of conduct on the users of such codes.

Our evidence suggests that companies must be very careful when developing and writing their code of conduct. The notion that a single code applied to the world-wide operations of an international company will be interpreted and applied in the same manner must be called into question – even if the operations of that company are limited to a single region such as the economy of the developed countries of Western Europe. The developers of such codes for international companies must carefully test any proposed components of such a code to make sure that they achieve the intended outcome.

As the European Union continues forward with further cooperation and unification, the presence and impact of unique cultural characteristics on business practices must be recognized and addressed.

Past research has documented this impact on various activities within the practice of public accounting firms such as on the auditors' interpretation and implementation of making decisions regarding appropriate level of materiality estimates when conducting an audit and on inappropriate professional actions such as prematurely signing off on individual audit steps and underreporting of time work on an audit assignment (Arnold et al., 2001, 2002). It appears again when applying and implementing business codes of conducts.

These findings also have implications for researchers. When examining the development and implementation of codes of conduct for international companies a mitigating variable for the effect of country culture should be included. Research that limits its subject base to one country might not provide for the robust implications needed for multi-country companies.

We observe three limitations of this research—all of which provide suggestions for further research. First, there was the limitation on the subject pool used. While the population included only

individuals familiar with practices of multiple businesses, it did not include a broad spectrum of individuals covering all segments of the business world. Furthermore, the pool of subjects was limited to individuals working for large employers in large cities. Further research should include greater a diversity of subjects in order to gain a broader understanding of the elements examined. Second, due to the problems associated with size of the participating pool of subjects and the geographic dispersion of the firm's offices, we relied upon the professional integrity of the contact person at each office to administer the distribution and collection of the test instruments. There was no indication that the prescribed procedures were not followed. Third, as with most questionnaire studies, we were limited by the number of scenarios used. It would be interesting to greatly expand the number and types of scenarios to be used drawing upon a greater number of items that Kaptein (2004) and Waddock et al. (2002) observed in their respective works.

## Appendix

### *Questionnaire scenarios*

#### *1. Unfair treatment*

An employee of this company believes that she has been treated unfairly by the company. She will frequently tell stories about the company to anyone who will listen. These stories are partially true but they convey a very negative image of the company to the general public. Assume that the listeners do NOT have any direct significant influences over the company, such as major customers or governmental officials.

#### *2. Exclusive dealer*

This company is the exclusive dealer and only realistic alternative supplier for a specialty product needed by certain customers. The sales manager has told his staff to take whatever action within the law that is needed to maximize sales. He recently scolded one of his workers for wasting time trying to be considerate and respectful of customers. "They need to buy from us and this is not going to change. You are wasting company time with your efforts of

trying to treat them with respect. We offer them a good product at a fair price. That is all we have to do."

#### *3. Toxic waste*

This company's manufacturing process does have some leakage of toxic waste into the environment, but it is at a level slightly below that which would violate government laws.

#### *4. Competitive advantage*

Our company has a policy of prohibiting its employees from seeking out private (secret) information of its competitors. However, if a competitor's employees volunteer to give their company's secret information to our company (for whatever reason), Company A's management would see nothing wrong in accepting it, especially if it would give our company a competitive advantage.

#### *5. Bad debts*

Realizing that many estimates are required for financial statements such as for bad debt allowances, this company's management always provides to the auditors pre-audited financial estimates that are overly optimistic in the company's favor. Their president said "After all, why not try to get away with it? The auditors cannot check everything. And if they catch it, we will just record the adjustment at that time."

#### *6. Husband*

The husband of an employee of this company is a tax accountant with a private practice. He has an excellent reputation for the quality of his work and the fairness of his fees. During the course of the workday, this employee, who is in contact with many different vendors of this company, frequently suggests that these vendors should bring their personal tax work to her husband.

#### *7. Person of the year*

This company has a strict policy prohibiting its employees from receiving large gifts from suppliers or customers. Last year, one employee was awarded the honor of being named the "Person of the Year" by the company's customers for his "extraordinary services." This award was accompanied by a valuable prize.

### 8. Jack

When Jack was not present, his supervisor said the following to a group of fellow workers: "We all want to promote good ethical activities in our company. But don't you think that Jack is just going to far? It is one thing to follow the spirit and the letter of the company code of conduct. Yet Jack is constantly worried about the ethical aspect of each of his actions. While his concerns never interfere with the goal of making a profit, I am glad that you are not like him."

### 9. Executive promotion

An executive, who has the authority to grant or deny promotions to many employees, claims to have the policy of promoting individuals who show "good decision making skills." It has become evident to everyone, however, that he defines "good decisions" only in terms of how much they agree with his personal opinions. If he knows that two alternative decisions would create equal profit amounts, he will only classify the one that he would personally select as being a "good decision."

### 10. Government inspection

This company operates within an industry that requires frequent government inspections in order to protect the local environment. The company president has made it very clear that while the company MUST MEET all environmental laws, the employees should limit their cooperation with the government officials to just the level necessary to avoid fines for lack of cooperation.

### 11. Ill patients

One of the product lines distributed by this company is special medical equipment needed for recovery by serious ill patients. If the company discontinued carrying this particular produce line, the customers would be forced to buy them from other distant distributor at a much higher cost. This extra cost will not be covered by insurance. Because of the limited customer base, this product line earns a very low profit rate that affects this division's profit ratios that are reported to headquarters. Accordingly, the local division manager is considering dropping this product line. It would NOT free up any company resources that could be used for other purposes. It would simply

mean that one less product line but a higher overall reported return on sales for this division.

### 12. Small vendors

It has become evident that this company has developed the following policy when buying supplies from smaller vendors. After negotiating a specific price with these suppliers and accepting delivery, this company will vigorously try to renegotiate a lower price on these products, knowing that the vendor probably will accept the lower price instead of having to take back the goods or upsetting this company's buyers.

### 13. Employee after hours

An employee of this company often comes to the company's offices after working hours to use their expensive computer programs to design products that he personally sells to customers of his personal business. His use of these computer programs will not effect their life cycle. He has never asked for permission to use the programs and the company does not know that he does it. His personal business is NOT in competition with the company.

### *Additional scenarios used as Validity-Check (VC) questions\**

#### *VC1 kid scholarship*

This company has traditionally provided full scholarships for the children of its employees to attend a local university. For the first time in many years, this university recently raised its fees by a significant amount. Management and labor agreed that the new additional costs should be shared equally by the employees and the company.

#### *VC2 Charitable contributions*

This company has been making a major annual charitable contribution for many years to a specific local music concert program for children. When that program recently ended its operations, the company developed a new policy of rotating its annual contribution among different types of charitable organizations.

\*Note: The two Validity Check (VC) scenarios should be given a score of "1" or "2" on the 7-point Likert scale

## Notes

<sup>1</sup> By using subjects who have been deeply involved with multiple organizations (when conducting audits of multiple clients), we hope that we can reduce, to a limited extent, undue influence of the culture of the subjects' current employing organization on their responses.

<sup>2</sup> As a validity check, two addition scenarios were added, each of which provided a situation which clearly did not involve an unethical action. All subjects responded to these scenarios in an anticipated manner, thus eliminating the need to discard their response sheet.

<sup>3</sup> We used multiple ordering of the placement of the cases within the instrument and did not observe any order effect of responses.

<sup>4</sup> Because of practical distribution problems based on the size of the sample and the geographic dispersion of the various accounting offices through out Europe, it was necessary that the contact person select and identify the individual participating subjects within their office and to distribute the instrument directly to them. Each subject was then instructed to return the instrument in a sealed envelope to the contact person's secretary who forwarded them, unopened, to the authors. The authors did not specify when the instruments were to be completed (i.e. during working hours or after working hours). The authors did, however, request that the contact person not discuss the content of the instrument with participants and the participants were instructed not to discuss the instrument with others. The authors relied upon the professional integrity of the contact person at the accounting firms to follow the prescribed distribution and collection procedures.

<sup>5</sup> By using the same number of subjects from each country, we eliminated the problem of bias produced by variation in country size in the overall population. The subset of 72 subjects produced a sample of approximately 25% of the total population deemed adequate for identification purposes.

<sup>6</sup> We also found that scenarios 1, 2, 3, 4, 6, 7 and 10 were not significantly different from the 3.11 average for scenario 11. Scenarios 8 and 9 were significantly different from the 5.15 of 5 and the 3.11 of 11. Therefore we saw three distinctive groups: 5, 12 and 13 on the high end, 8 and 9 in the middle and the rest on the low end.

<sup>7</sup> Since the results using the subset of 72 subjects produced the same result as when using the entire population of 294 subjects, it was not necessary to delete the 72 subjects when conducting further analysis for this research question.

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