

**WHISTLE-BLOWING & PEER REPORTING: A  
CROSS-CULTURAL COMPARISON OF  
CANADIANS AND CHINESE**

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## **Abstract**

This study examined the impact of cultural differences on whistle blowing and peer reporting between Canada and China using Graham's (1986) model of principled organizational dissent in conjunction with Hofstede's culture theory (1980, 1993, & 2001). These countries have been shown, by Hofstede, to differ on important cultural dimensions which are expected to influence ethical decision-making. This study found that Canadian subjects felt more responsibility for reporting than Chinese subjects. The likelihood of whistle blowing was less than the likelihood of peer reporting for Chinese subjects. The results of the study supported the expectation that culture was related to subjects' ethical judgments, which has implications for ethics training programs and the internal control system of multinational corporations.

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## List of Abbreviations

Chinese Value Survey	CSC
Degrees of Freedom	df
Doctor	Dr.
Euro - European Common Currency	EUR
Gross Domestic Product	GDP
Hypothesis Number	H #
Individualism	IDV
International Business Machines Corporation	IBM
International Centre for Human Rights and Democratic Development	ICGRDD
Long-term Orientation	LT
Management Business Administration	MBA
Masculinity	MAS
Multinational corporations	MNCs
Power Distance	PDI
Sample Size	n
Standard Deviation	s.d.
Statistical Package for the Social Science	SPSS
Uncertainty Avoidance	UAI
United Kingdom	UK
United States of America	US
Values Survey Module	VSM
Whistle blowing and peer reporting	Whipeer
World Trade Organization	WTO

## CHAPTER ONE

### Introduction and Importance of the Study

At the beginning of the 21<sup>st</sup> century, the world's economy is becoming more integrated. Trade between countries is growing. Tourism and the migration of people are increasing. In developing and transition economies capital markets have developed. The Internet and other new technologies have connected the farthest corners of the globe. These activities have become accepted as factors in the process of globalization (World Bank Group, 2001).

In the last thirty years the value of global trade in goods and services has risen from thirteen percent of the world's Gross Domestic Product (GDP) in the 1970's (approximately US \$1.5 trillion in current dollars) to twenty-five percent (approximately US \$8 trillion) of the world's GDP (Stern, 2002).

The expansion in globalization, or international business operations, has led to an increased interest in cross-national/cultural business transactions (Shi, 2001). This indicates that the frequency of business interactions among managers from different countries is increasing (Priem & Shaffer, 2001). The rapid growth of international business transactions places demands on organizations' ability to manage their ever increasingly diverse cross-border activities (Neelankavil, Mathur, & Zhang, 2000). Therefore, management practices should not be universally applied because culturally defined values affect organizations' effectiveness in different cultural contexts (Hofstede, 1992).

“With the increasing focus on international ventures, it is important that managers understand intercultural similarities and differences, particularly since many

psychological and managerial principles are culturally relative” (Earley, 1989, p. 565). Varying cultural backgrounds lead to diverse ways of looking at the world, and cultural differences, which in turn affect the individual’s ethical reasoning (Thorne & Saunders, 2002). Thus, understanding the values and culture of the people that an organization is conducting business with, will benefit building a solid cross-national business relationship (Ralston, Gustafson, Elsass, & Cheung, 1992). Iyer (2001) goes further to say that success in international business activities demands a complete understanding of the importance of ethics in international business transactions.

Economists have projected that the Chinese economy will be one of the world’s largest in the next decade. Western understanding of traditional Chinese business values however, still has much room for improvement (Robertson, 2000; Robertson & Hoffman, 2000).

To increase this understanding, the current study seeks to examine the impact of culture on two types of reporting behaviour: whistle blowing and peer reporting in Mainland China and Canada. Whistle blowing is “the disclosure by organizational members (former or current) of illegal, immoral, or illegitimate practices under the control of their employers, to persons or organizations that may be able to effect action” (Miceli & Near, 1984, p. 3). It is a form of upward control in which the observer seeks to end inappropriate behaviour being committed by senior officials of the corporation (King, 2001). Peer reporting is a specific form of whistle blowing in which an individual discloses the wrongdoing of a peer and is, therefore, a form of lateral control in which the observer seeks to eliminate unethical behaviour being committed by an employee, who may be on the same hierarchical level (Trevino & Victor, 1992).

An examination of whistle blowing and peer reporting behaviour in Mainland China and Canada is important for three reasons. First, the cost of unethical behaviour, such as management fraud or employee theft, can be extremely high (Trevino & Victor, 1992). In Europe a recent study of 538 companies in 15 countries indicated that fraud cost these companies at least EUR \$3.6 billion. The Association of Certified Fraud Examiners estimated that fraud costs American businesses more than US \$400 billion per year (Shaw, 2002).

Fraud committed by employees is more common than fraud committed by individuals external to the organization (Shaw, 2002). Thus, employees who are willing to report a superior's or peer's violated behaviour to management represent a potentially important resource for organizations (Trevino & Victor, 1992). Therefore, for multinational corporations, understanding the impact of cultural differences on whistle blowing and peer reporting is very important.

Second, China became the world's top destination for foreign direct investment in 2002 (Business Eccountant, 2003). China attracted a record \$52.7 billion in direct investments replacing the United States. Since becoming a member of the World Trade Organization (WTO) in 2001, China's market of 1.3 billion people has become the new frontier for many Western corporations (Business Eccountant, 2003). China's share of world trade rose to almost 5 percent in 2001, at the time China was the fifth largest exporter in the world (Will, 2003). Chinese exports are expected to rise to at least 7 percent in 2007, making China one of the world's largest trading countries (Will, 2003).

Bilateral trade between Canada and China has increased from 1992 to 2001 (Asia Pacific Foundation of Canada, 2003). In 2000, Canada's total exports to China were

worth \$3.7 billion (an increase of 39.3% over 1999) and imports totalled \$11.3 billion (an increase of 26.4% over 1999) (ICHRDD, 2003). In 2002 Canada-China trade, increased by 17%, over the previous year. China is now Canada's third largest international trading partner, behind only the United States and Japan. A better understanding of cultural differences between China and Canada will therefore benefit Canadian companies seeking to expand into the Chinese market.

Third, measures of the culture of Taiwan and Hong Kong have been employed as proxies for examining how China compares with the rest of the world (e.g. Chow, Deng, & Ho, 2000 or Tsui & Windsor, 2001). However, as a developing nation, the per capita gross national product and income of the People's Republic of China (Mainland China), are far below those of other Chinese countries (Shenkar & Ronon, 1987). Furthermore, while Taiwan and Hong Kong have had amicable relationships with the West over the last decades, Mainland China has been largely isolated from Western influences for most of the past half century (Shenkar & Ronon, 1987). Although cross-cultural business research has compared China and other countries (e.g. Earley, 1989; Ralston et al., 1992; Ralston, Holt, Terpstra, & Cheng, 1997; Pelled & Xin, 1997; Whitcomb, Erdener, & Li, 1998; Tan, 2002), a review of the business literature indicates that no studies have been done comparing the ethical behaviour of the Mainland Chinese and Canadians.

The remainder of the paper is organized into five sections. Chapter two is a comprehensive review of the literature on Hofstede's culture theory (1980, 1993, & 2001) and Graham's (1986) model of principled organizational dissent. Chapter three describes the hypotheses of this study. Chapter four explains the research method, including the sample design, questionnaire design, translation and procedure. Chapter five discusses

the results of the study, and chapter six presents the discussion, limitations, suggestions for future study, and conclusion.

## CHAPTER TWO

### Literature Review and Theoretical Perspective

As previously discussed, whistle blowing and peer reporting are very important for detecting management fraud and employee theft, which are very costly to organizations across the globe. To gain a better understanding of the effect of culture on reporting behaviour, Hofstede's theory of culture will be reviewed. A review of Graham's (1986) model of principled organizational dissent will provide an understanding of factors that influence individual's reporting judgment, such as perceived seriousness of the act, attribution of personal responsibility for reporting, and perceived personal cost of reporting. These two theories provide a better understanding of reporting behaviour differences between Canada and China.

#### *Hofstede's Theory of Culture*

With the increasing importance of the global economy, national culture has now been incorporated as a key variable in international business research (Sivakumar & Nakata, 2001). An individual's perceptions of ethical problems, alternatives, and consequences can be affected directly by their culture (Lu, Rose & Blodgett, 1999). Whether people from different nations respond differently when faced with the same ethical situation has immense implications for multinational corporations (MNCs) (Whitcomb et al., 1998). The culture framework that has accumulated the greatest attention from business researchers in recent years is Hofstede's culture factors (Sivakumar & Nakata, 2001).

Hofstede's theory of culture posits that national culture refers to "a collective programming of the mind that distinguishes the members of one group or category of

people from another.” (Hofstede, 2001, p. 9) In a comprehensive research program examining 116,000 employees in branches and affiliates of IBM, in more than 50 nations, over a six-year period beginning 1967, Hofstede (1980, 1997) observed four dimensions on which countries differ in terms of culture. Hofstede labelled these dimensions individualism/collectivism, power distance, uncertainty avoidance, and masculinity/femininity. Subsequent research by Hofstede and Bond (1988) identified a fifth cultural dimension, long/short-term orientation. Mainland China was not included in the original study, but it was included in a later extension of the study (Hofstede, 1993).

The most exhaustive culture-based research that exists today is the data set created by Hofstede (Robertson, 2000). No other study has compared so many other national cultures with such a detail (Richard, 1998). Since publication of his book, *Culture's Consequences*, (1980) Hofstede's definition of culture as the 'mental programming' of a society and the deconstruction of culture as four universal values have been widely adopted in the study of marketing (e.g., Lu et al., 1999), managerial performance (e.g. Neelankavil, et al., 2000), accounting (e.g., Cohen, Pant, & Sharp, 1993), business ethics (e.g., Tsui & Windsor, 2001), advertising industry (e.g., Moon & Franke, 2000), international joint ventures (e.g., Barkema & Vermeulen, 1997), and corruption (e.g., Husted, 1999). Birnberg and Snodgrass (1988); Chow, Shields, and Wu (1999); and Jackson (2001) are all examples of the extensive empirical researches based on Hofstede's model. Sondergaard (1994) and Chanchani and MacGregor (1999) have reviewed studies replicating and corroborating Hofstede's dimensions. The database of Barkema and Vermeulen (1997), which spans almost three decades, provided new evidence on a key assumption of Hofstede's work; that cultural values are stable over



time. Hofstede's theory has been noted as "probably the dominant explanation of behavioural differences between nations" (Williamson, 2002, p. 1392). Also, the availability of reliable scores on the five dimensions for over 50 nations is considered as a significant advantage of using the Hofstede culture framework (Cohen, Pant, & Sharp, 1995).

The following sections are a review of the current literature on the five dimensions of Hofstede's culture theory and its implications for business and ethical research.

### ***Individualism***

Individualism pertains to whether the relationships between individuals within a society are loose or tight (Tsui & Windsor, 2001). "Individualism is reflected in the way people live together (for example, in nuclear families, extended families, or tribes)" (Hofstede, 2001, p. 209). In highly individualistic societies, individuals are expected to look after themselves and their immediate families only (Hofstede, 2001). Loyalty is calculative since individuals are loyal for as long as it suits their interests. (Richard, 1998).

In highly collectivistic societies, people are integrated into strong, cohesive in-groups (Tsui & Windsor, 2001). Members of an in-group are those with whom a person works and identifies with (Triandis, Kwok, Marcelo, & Felicia, 1985). "Loyalty to the in-group is paramount and the individual is expected to sacrifice his/her own well-being for that of the group" (Goodwin & Goodwin, 1999, p. 269).

Individualism has many implications for values and behaviour and several studies have examined the organizational effect of individualism. For example, Straughan and Albers-Miller (2001) conducted a multi-country survey of consumer attitudes about

domestic versus international retailers, and found that individualism is negatively correlated with loyalty to domestic retailers. Members of a collectivist culture tend to be more loyal to the in-group, which results in less labour mobility and longer job tenure than members of an individualistic culture (Black, 2001).

Cohen et al. (1995) examined the responses of Latin American, Japanese, and American auditors to unethical acts in eight vignettes, relating to public accounting practice. They tested whether there would be significant difference among countries on the evaluation of the eight actions, and the likelihood that auditors would perform the actions. Results were consistent with differences between all three groups of auditors, but strongest differences appeared with the Latin-US comparison, these cultural groups that differed the most on the individualism dimension. “Twelve of the 13 significant differences on questions, spread throughout six of the eight vignettes, indicated that the highly collectivistic Latin auditors viewed the action as less ethical than did the highly individualistic US subjects” (1995, p. 56). This finding led Cohen et al. (1995) to suggest that within the accounting profession higher ethical standards are associated with collectivism, which relates to the value associated with the concern for one’s place in a social group.

Chow, et al. (2000) compared the effect of the highly individualistic American society and the highly collectivistic Chinese society on employees’ tendency to share knowledge with coworkers. The authors found that Chinese managers, relative to American managers, shared knowledge significantly less with those that were not a member of their in-group (Chow et al., 2000). Subjects in the in-group treatment condition were told that two engineers described in the scenario “had successfully

worked together on quite a few bids” (p. 9). In contrast, the out-group version reported that the two engineers “only met once or twice at company meetings, but otherwise the two of them had had no contact” (p. 9).

To summarize, this dimension refers to the importance of the group versus the individual. Collectivists are more loyal to the in-group (Black, 2001; Straughan & Albers-Miller, 2001), and have lower tendency to share knowledge with out-group members (Chow et al., 2000). Additionally, auditors from collectivistic countries appear to have higher ethical standard than auditors from individualistic countries (Cohen, et al., 1995).

### *Uncertainty Avoidance*

Uncertainty avoidance is defined as “the extent to which members of the society feel threatened by uncertain or unknown situations” (Hofstede 1997, p. 113). This dimension reflects how an individual perceives and reacts to the tolerance of ambiguity and risk-taking (Gray & Marshall, 1998; Schuler & Rogovsky, 1998). In weak uncertainty avoidance communities, employees are relatively more secure and more willing to take risks and are more comfortable with uncertainty (Moon & Franke, 2000; Tsui & Windsor, 2001). In strong uncertainty avoidance communities, employees are relatively less secure and there is a higher level of anxiety with unstructured or risky situations (Moon & Franke, 2000; Tsui & Windsor, 2001). This dimension reflects a deep psychological need for control and security (Barkema & Vermeulen, 1997, p. 848).

Barkema and Vermeulen (1997) reported that uncertainty avoidance has a negative impact on international joint venture survival and reduces firms’ propensity to enter a foreign country through an international joint venture rather than an international wholly owned subsidiary. Research indicates that foreign retailers in high uncertainty

avoidance countries are more likely to be perceived as different or unusual, and less predictable and more risky than in low uncertainty avoidance countries. Therefore, members in low uncertainty avoidance countries tend to be more loyal to domestic retailers (Straughan & Albers-millers, 2001).

Gul and Tsui (1993) found support for the hypothesis that since auditors in Australia and Hong Kong were different on the uncertainty avoidance dimension, there would be significant differences in Australian and Hong Kong auditors' decision attitudes towards the uncertainty audit qualifications. Auditors in the low uncertainty avoidance society (Hong Kong) felt more secure and therefore, have a higher preference for the 'subject to' qualification without the fear of the risk of losing clients than auditors in high uncertainty avoidance society (Australia).

Schuler and Rogovsky (1998) examined the relationships between specific compensation practices and dimensions of Hofstede' national culture. The tendency to use a seniority-based compensation system was found to be positively correlated with uncertainty avoidance. Compensation practices based on individual performance is less prevalent in high uncertainty avoidance countries (Schuler & Rogovsky, 1998).

Salter, Guffey and McMillan (2001) examined the attitudes of accounting students in the United Kingdom (UK) and the United States (US) regarding a variety of cheating scenarios. Results demonstrated that the higher uncertainty avoidance US students have a higher likelihood to cheat and were more sensitive to external stimuli than were the relatively the lower uncertainty avoidance UK students.

Uncertainty avoidance relates to the individual's intolerance of ambiguity within a given culture (Husted, 1999). The findings of the preceding studies indicate that societies

high on uncertainty avoidance have a negative impact on international venture and foreign retailer survival (Barkema & Vermeulen, 1997; Straughan & Albers-Millers, 2001). In high uncertainty avoidance countries, auditors are less likely to prefer a 'subject to' qualification than low uncertainty avoidance countries because they fear the loss of clients (Gul & Tsui, 1993). This dimension also has implications for compensation practices. Since seniority-based compensation systems are more reliable and predictable to the employees than compensation practices based on individual performance, the former is more likely to be found in countries with high level of uncertainty avoidance (Schuler & Rogovsky, 1998). The Salter et al. (2001) study also suggests that individuals in higher uncertainty avoidance countries might experience low ethical standards.

### ***Power Distance***

Power distance represents how accepting a society is of a hierarchical system. Societies with low power distance scores look for justification for power inequalities and endeavour to find equality. Large power distance societies are more accepting of a hierarchical system. In a culture with a low power distance, the common belief is that there should be a minimal inequity within an organization (Schuler & Rogovsky, 1998). Thus, there is greater interdependence between superiors and subordinates (Brody, Coulter, & Mihalek, 1998).

In a culture with a large power distance, it is a common belief that a certain degree of inequity in the organization should exist (Schuler & Rogovsky, 1998). Supervisors are considered inaccessible and entitled to privilege (Cohen, Pant, & Sharp, 1992). Thus, more importance is given to superiors' decisions and their actions are subject to less scrutiny. "Superiors are seen as superior individuals" (Hofstede 2001, p. 97).

Power distance has been shown to influence management practices. For example, Newman and Nollen (1996) found work units in low power distance cultures were higher performing if they were more participative in decision-making. In high power distance cultures, work units were higher performing if they were less participative (Newman, & Nollen, 1996). Husted (1999) drew on Hofstede's culture theory to examine whether cultural differences are associated with the perceived level of corruption. The author found corruption to be significantly correlated to power distance. That is, the higher the power distance in a country, the higher the level of corruption in a country.

There is some correspondence between power distance and ethical reasoning. Tsui and Windsor (2001) examined the impact of Hofstede's culture variables on auditors' ethical reasoning between Australia and China (Hong Kong and Mainland China). The findings indicated that higher ethical reasoning scores are consistent with low power distance scores due to the more equal relationships among people and the focus on social justice (Tsui & Windsor, 2001).

Cohen et al. (1993) highlighted the cultural variables that influence auditors' ethical perspectives with regard to unethical client behaviour. One implication for auditors from low power distance societies is their propensity to exhibit high ethical standards even when encountering pressure from a superior. They have less difficulty withstanding pressures from wealthy and powerful clients, (Cohen et al., 1993). In contrast, in high power distance countries (e.g., many Asian and African countries), a local auditor may be frightened by large, wealthy clients, and will show no independence from the client who pays them (Cohen et al., 1993).

The preceding discussion suggests that in high power distance countries because of considerable amount of formal hierarchy, employees are less involved in decision-making (Newman, & Nollen, 1996). High power distance countries appear to tolerate corrupt practices and are more likely to view an unethical business practice as ethical than people from a low power distance culture (Tsui & Windsor, 2001; Cohen et al., 1993; & Husted, 1999).

### *Masculinity*

Masculinity refers to the degree in which gender roles are separated within a society (Hatch, 1997). “Men are supposed to be assertive, tough, and focused on material success; whereas, women are supposed to be more modest, tender, and concerned with the quality of life” (Hofstede, 2001, p. 297). Femininity pertains to the degree in which social gender roles overlap within the society (Hofstede, 2001). “Both men and women are supposed to be modest, tender, and concerned with the ‘quality of life’” (Hofstede, 1997, p. 83). Aggressive unethical behaviour, such as predatory or exploitative acts, might be more tolerant in an assertive, masculine society (Cohen et al., 1992).

Ethical research has also examined the effect of masculinity. Moon and Franke (2000) examined cultural influences on the ethical perceptions and concerns of advertising agency executives by comparing advertising practitioners in two countries, South Korea and the US. Results were consistent with the hypothesis that advertising practitioners in masculine cultures (the US) are less sensitive to ethical issues in advertising than practitioners in feminine cultures (South Korea) (Moon & Franke, 2000).

In summary, gender role differences may affect ethical perception and result in different evaluations of unethical behaviour. Masculine cultures appear more likely than

feminine cultures to overlook aggressive unethical business practices (Cohen et al., 1992; Moon & Franke, 2000).

### ***Long-term Orientation***

Hofstede's fifth dimension long-term orientation (also called Confucian Dynamism) measures the extent to which a culture's emphasis is on pragmatic future-oriented perspective rather than focusing on the present (Barkema & Vermeulen, 1997). "Long-term orientation emphasizes the fostering of virtue oriented towards future rewards, in particular, perseverance and thrift" (Hofstede, 2001, p. 359). More specially, individuals with long-term orientation depends on his employer and, therefore, place more value on the employer (and other stakeholders) more than himself (Lu et al., 1999). Short-term orientation fosters "virtues related to the past and present, in particular, respect for tradition, preservation of 'face' and fulfilling social obligations" (Hofstede, 2001, p. 359). For example, Lu, et al. (1999) reported that sales agents from a long-term orientation country (Taiwan) placed a great importance on their employers' and fellow employees' interests than did managers from a short-term orientation country (the US).

Robertson (2000) surveyed managers in three non-traditional-Confucian nations: Chile, Australia, and the US. The results indicated that long-term orientation exists at the individual level of analysis, and future long-term orientation is strongly correlated with uncertainty avoidance (Robertson, 2000). "One important managerial implication is that human resource managers may be interested in the cultural makeup of employees to facilitate better job synergy and increase job performance" (Robertson, 2000, p. 12).

Cohen, Pant, and Sharp (1996) explored the usefulness of Hofstede's five dimensions of culture in predicting ethical sensitivity. A small-sample survey of academic experts in cross-cultural management research demonstrated that long-term



orientation is associated with a lower tolerance for unethical business activities (Cohen et al., 1996).

As discussed above, long-term orientation is consistent with the placing of more value on employers' and fellow employees' interests than short-term orientation societies (Lu et al., 1999). "Confucianism is regarded as the dominant influence on values in East Asia, and it differs substantially from Western philosophical approaches to ethics" (Whitcomb et al., 1998, p. 8). Long-term orientation appears to be consistent with higher ethical reasoning scores than short-term orientation societies (Cohen et al., 1996). However, Robertson (2000) found that long-term orientation societies tend to exhibit high uncertainty avoidance scores, and countries with high uncertainty avoidance are posited to exhibit low ethical standards of individuals (Salter, et al., 2001). This brings into doubt the effect of long-term orientation on ethical judgment. To this date, no studies have unequivocally resolved this dilemma.

### ***Dimensions Summary***

Hofstede's measures of national culture provide numerous implications for understanding individuals' values and behaviour. Since Canada and China differ in these dimensions (see Table 1), individuals in these countries are expected to behave differently when faced with the same work-related ethical situations. A direct comparison between Canada and China will be undertaken in the hypothesis development. A literature review of Graham's (1986) model will be provided in an attempt to develop an understanding of reporting behaviour.

**Table 1. A Comparison of Hofstede’s Culture Scores Between  
Canada and Mainland China**

Country	IDV	UAI	PDI	MAS	LT
Canada	80	48	39	52	23
China	20	60	80	50	118

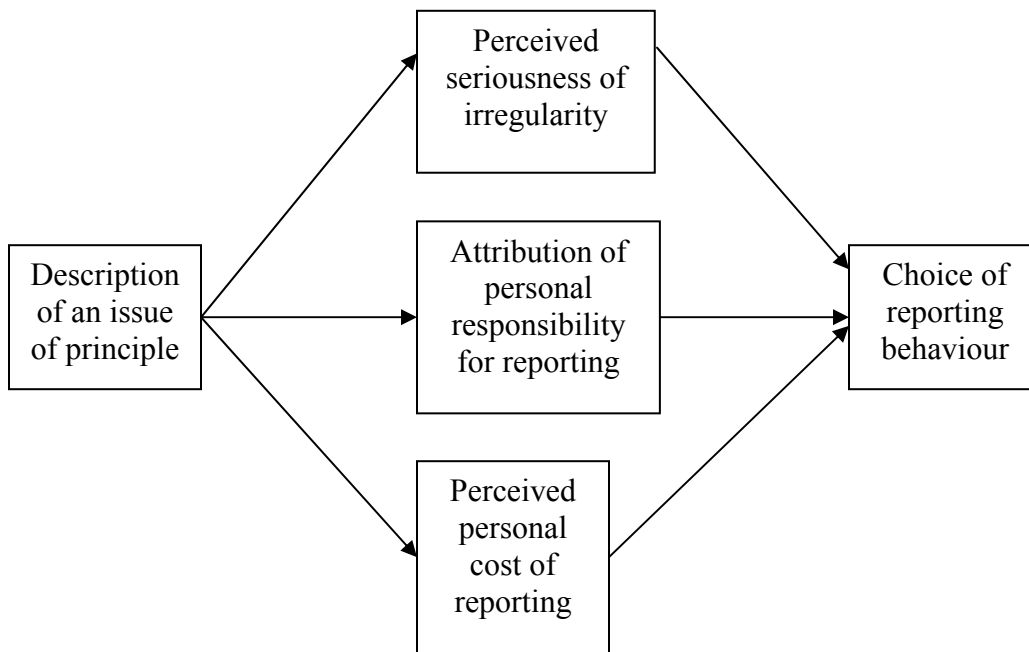
Note. IDV—Individualism; UAI—Uncertainty avoidance; PDI—Power distance; MAS—Masculinity; LT—Long-term orientation. The index values range from 0 for small to 100 for large. Canadian IDV, UAI, PDI, and MAS scores are taken from the Hofstede Values Survey Module (VSM) Index, and LT from Chinese Value Survey (CSC), “*Culture’s consequences: Comparing values, behaviours, institutions, and organizations across nation*”, by G. Hofstede, 2001, Sage Publishers. Chinese IDV, UAI, PDI, MAS, and LT scores are taken from “Cultural constraints in management theories”, by G. Hofstede, 1993, *Academy of Management Executive*, 7, p. 91.

### ***Graham’s Model of Principled Organizational Dissent***

The importance of whistle blowing continues to increase as businesses struggle with the cost of management fraud or employee theft in the workplace. Graham’s (1986) model of principled organizational dissent provides an explanation of individual’s reporting behaviour and has been proved to be useful in understanding individual’s whistle blowing tendencies (e.g. Schultz, Johnson, Morris, & Dyrnes, 1993; Kaplan & Whitecotton, 2001) Therefore, the second strand of literature review is based on this model.

“Principled organizational dissent is the effort by individuals in the workplace to protest and/or to change the organizational status quo because of their conscientious objection to current policy or practice” (Graham, 1986, p. 1). Graham’s (1986) model

(see Figure 1) indicates the pathways of an individual’s decision to report an unethical act. An unethical act is defined as “an action which violates a standard of justice, honesty or economy” (Schultz, et al., 1993, p. 75). The model predicts that the likelihood of reporting unethical behaviour within an organization increases with both the observer’s perception of the seriousness of the irregularity and attribution of personal responsibility to report, and decreases with perceived personal cost (Graham, 1986).



*Figure 1—Reporting unethical acts.*

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Adapted from Graham (1986, p. 35) and Schultz, Johnson, Morris, and Dyrnes (1993)

### ***Seriousness***

The first component of Graham’s (1986) model is the perceived seriousness of the act. Graham defined seriousness as, “The degree to which an ethical issue is perceived as being serious is a function of the objective characteristics of the situation, the apparent

assessment of others concerning the issues seriousness, and any individual tendency to exaggerate or minimize the severity of the issue” (Graham, 1986, p. 38). It can be measured in a number of ways; e.g. monetary impact, the threat to cause harm, negative outcomes and, the frequency with which some form of wrongdoing occurs (Graham, 1986). The number of others perceived to have knowledge of the issue is likely to reduce the perceived issues seriousness (Graham, 1986). Additionally, some people systematically exaggerate objective evidence as compared to other observers, and its effect is likely to increase the perceived issue seriousness (Graham, 1986, p. 39).

Hooks, Kaplan, Schultz, and Ponemon (1994), Dirsmith and Covalleski (1985), and McNair (1991) found factors that affect the perceptions of the seriousness. Hooks et al. (1994) summarized the whistle-blowing research findings and suggest that social influences such as group norms and the organization’s tolerance for wrongdoing may play a role in individuals’ perceptions of the seriousness of unethical acts. Similarly, the organizational culture within the public accounting firm may influence the perceptions of seriousness (Dirsmith & Covalleski, 1985; McNair, 1991).

Near and Miceli (1985) found evidence that perceived seriousness influences whistle blowing behaviour. The authors found that whistle blowing was more likely to occur if the employees who observed organizational wrongdoings perceived the activity as serious. The authors noted that “the degree of seriousness of the wrongdoing increases perceived efficacy, and hence the force to act, because serious acts are more likely to be perceived both by the observer and others as worthy of attention and potential change” (1985, p. 7). The study further found that when the wrongdoing is perceived as serious, observers would use external channels for disclosure (1985).

### *Personal Responsibility*

The perceived personal responsibility for reporting is the second component of Graham's (1986) model. Graham defined personal responsibility as, "The psychological state of feeling personally responsible for responding to an issue of principle is related to job assignment, personal sense of social responsibility, and extent of issue exposure" (Graham, 1986, p. 39). Personal sense of social responsibility is an outcome of cognitive moral development and social learning (Graham, 1986). It can be sustained by internalization of a professional ethic of social responsibility (Graham, 1986). The number of other observers and extent of exposure to issues of principle are both likely to reduce personal responsibility (Graham, 1986). Also, whistle blowing is sometimes prescribed to be part of an individual's role responsibilities (Miceli and Near, 1984). Brabeck (1984) has supported that internal whistle-blowers (whistle-blowers that use internal organizational channels) indeed have higher levels of moral reasoning than do inactive observers.

Trevino and Victor (1992), Victor, Trevino, and Shapiro (1993), and Miceli, Near, and Schwenk (1991) all found evidence that perceived responsibility affects employees' reporting judgments. Trevino and Victor (1992) examined employees' propensity to report peers' wrongdoing and the evaluation of peer reporting. Subjects stated that when peer reporting is defined as a role responsibility of group members, they were more inclined to engage in that behaviour. Victor et al. (1993) study also supports perceptions of responsibility for peer reporting is positively associated with the inclination to peer report. Miceli et al. (1991) investigated a number of perceptual factors that are associated with internal auditors' whistle blowing. More than 1,000 directors of internal auditing in both public and private sector organizations across the US and

Canada were surveyed. The results suggested that they were more likely to report the wrongdoing when it was perceived as part of their role responsibility, or because they felt it was morally correct to do so.

### ***Personal Cost***

The third and last component of Graham's (1986) model is the perceived personal cost to report. "The primary personal cost is the risk of reprisal from those in the organization who oppose reporting action" (Graham, 1986, p. 41). Organizational cultures that encourage role innovation, independent thought and action, widespread participation, and include epistemological assumptions favouring experimentation and continuous learning will reduce the perceived risk of reprisal (Graham, 1986, p. 41). More concretely, "personal costs are reduced where assistance in the preparation and presentation of critical arguments is provided within a formal dissent mechanism and where guarantees against reprisal also exist" (Graham, 1986, p. 41). Supporting Graham's contention, Ponemon (1994) suggests that,

"The nature and extent of retaliations or sanctions imposed by management or co-workers against the whistle-blower is perhaps the most significant determinant to the prospective whistle-blower's decision in the communication of organizational wrongdoing" (1994, p. 123).

Hooks et al. (1994) suggested reporter's personal characteristics significantly affect the perceived cost of reporting. An individual with the ability to affect others, who is in a powerful position and can easily get replacement employment, is more likely to perceive the cost to be relatively minor.

Empirical support for personal cost being an important determinant of reporting behaviour was found by Arnold and Ponemon (1991). They examined 106 internal auditors and found that the potential cost in the form of threatened retaliation, such as

threats to person or property, lawsuits, job termination, or imprisonment lessened the likelihood of reporting or other ethical behaviour. Threatened retaliation has been found to be correlated with a greater propensity to use external, public reporting channels which may result from whistle-blowers' observation that public backing will likely provide them with protection from retaliation (Miceli & Near, 1985).

### ***Graham's Model and Whistle Blowing***

Both Schultz et al. (1993) and Kaplan and Whitecotton (2001) have tested the effects of Graham's (1986) three attributes on reporting intentions. Schultz et al. (1993) investigated the responses of managers and professional staff in France, Norway, and America to six whistle-blowing situations regarding an assessment of a superior's unethical act. Subjects from the three countries differed on Hofstede's indexes of power distance and uncertainty avoidance. French subjects scored higher on power distance and uncertainty avoidance than the Norwegians and the Americans. The results indicated that Graham (1986) model is useful in understanding reporting tendencies. Norwegian subjects relied on perceptions of the seriousness of the act, attribution of personal responsibility, and perceived personal cost when deciding whether to report an unethical act. Americans relied on responsibility and cost to report. Responsibility for reporting was the only factor that affected French subjects reporting judgment. Subjects' perceptions of the seriousness were significantly positively related to their likelihood of reporting. Results also indicated that managers and professional staff were more likely to report their supervisors' unethical acts when there was high attribution of personal responsibility for reporting. Individuals were also less likely to report as their perception of personal cost increased (1993).

Kaplan and Whitecotton (2001) also applied Graham's (1986) model to examine the reporting tendencies of an auditor who has found out that an audit manager is considering employment with a client and has failed to conform to the ethics ruling requiring that he remove himself from the engagement (Kaplan & Whitecotton, 2001). The study indicated that reporting tendencies have a positive relationship with perceived responsibility and a negative relationship with perceived personal cost.

### ***Other Whistle Blowing Studies***

Not surprisingly, concern for the impact of organizational wrongdoing is gaining increasing importance (Near & Miceli, 1995). Whistle blowing has obtained considerable attention. Brody et al. (1998) examined how cross-cultural differences influence the highly individualistic US and the highly collectivistic Japanese's ethical perceptions. A hypothetical internal control scenario was presented to the Japanese and American accounting students. They were then asked to respond to a series of questions relating to ethical perceptions, personal responsibility, and actions that a potential whistle-blower should choose. Japanese accounting students felt that the observer had less responsibility to protect the interest of the company's owners than American accounting students. Results also indicated that Japanese students were more unwilling to report questionable acts than American subjects when faced with the same scenario.

Cohen et al. (1992) examined the influence of cultural and socio-economic factors on the effectiveness of international codes of professional conduct. The authors noted that members of a weak uncertainty avoidance culture might have a higher preference to question or take actions against unethical work practices; while a strong uncertainty avoidance culture would be less tolerant of whistle-blowing.



Finn and Lampe (1992) examined auditors' whistle blowing. Students, audit staff, and audit managers responded to four different vignettes concerning professional auditing whistle blowing situations. The results found that most participating staff (63%) and audit manager (70%), but only (48%) students believe that it was not appropriate to blow the whistle. Results indicated that years of audit experience have impact on auditors' ethical judgment. "These beliefs about whether whistle blowing constitutes "acceptable" behaviour are likely to be influenced by the organizational culture and norms within the audit firm" (Kaplan & Whitecotton, 2001, p. 6).

The preceding studies provided evidence that national culture and organizational culture affect whistle blowing (Brody et al., 1998; Cohen et al., 1992; Finn & Lampe, 1992). Members from collectivistic countries feel more responsibility to protect the interest of the immediate in-group other than the company's owners and would be less likely to report than members of individualistic countries (Brody et al., 1998). Members of weak uncertainty avoidance countries are more tolerant of whistle blowing than members of high uncertainty avoidance countries (Cohen et al., 1992). Also, audit experience appears to hinder practitioners from whistle blowing (Finn & Lampe, 1992).

## **CHAPTER THREE**

### **Hypothesis Development**

People from individualistic cultures are self-reliant, and regard individual achievement highly (Priem & Shaffer, 2001). On the other hand, in collectivistic societies, it is expected that members' in-group will look after them if they show absolute loyalty to the group (Schuler & Rogovsky, 1998; Brody et al., 1998). It may, for example, be considered acceptable within an organization in a collectivistic society to cover up a colleague or superior's illegal act in order to protect the reputation of the in-group (Cohen et al., 1992).

The much lower score for China (20) on Hofstede's individualism scale (Table 1) indicates a more collectivist culture than Canada, one in which participation in and protection of one's immediate in-group (e.g. colleagues and supervisors with whom one has direct contact) is an important value. Thus, the protection of a supervisor or peer who has committed an unethical action might not be perceived as unethical to Chinese as to Canadians. Chinese are therefore expected to have a lower personal sense of social responsibility for justice and, therefore, experience less responsibility for reporting an unethical act than Canadians.

Canada's power distance score is 39, and China has a much higher score of 80 (Table 1). The power distance dimension measures the extent to which people accept the fact that distribution of power is unequal in society or organizations (Schuler & Rogovsky, 1998). There is a higher level of tolerance of hierarchies and autocratic leadership in high power distance countries than in low power distance countries (Moon & Franke, 2000). Subordinates will tend to be afraid to disagree with superiors when

power distance is large, but when it is small subordinates will more readily speak to and confront their bosses (Hofstede, 1997). The preceding discussion suggests that “when high power distance describes the culture, subordinates will be likely to bend to the demand of their superiors” (Cohen et al., 1993, p. 7), even if the supervisors’ actions are viewed as unethical (Schultz et al., 1993). Therefore, the Chinese might have less personal sense of responsibility for social justice. Thus, it is expected that the Chinese will experience less responsibility for reporting than Canadians.

Based on the analysis above, the first hypothesis is proposed:

**H1:** Chinese students will feel less personal responsibility for whistle blowing and peer reporting than Canadian students.

Since loyalty (an important value of collectivism (Brody, et al., 1998)) is more important in Chinese culture than in Canadian culture, it is expected that reporting a supervisor’s or peer’s wrongdoing will be considered a greater betrayal of the immediate in-group in Chinese culture than in Canadian culture, leading to a greater strain on relationships within an organization for Chinese than for Canadians. Furthermore, reporting a supervisor’s unethical act involves challenging the hierarchy of the community, Chinese are expected to experience more personal cost for reporting an unethical act than Canadians. The second hypothesis is therefore proposed:

**H2:** Chinese students will feel more personal cost for whistle blowing and peer reporting than Canadian students.

Since Chinese are expected to feel less responsibility and experience higher personal cost for reporting unethical acts, it is expected that Chinese will be less likely to report supervisors’ and peers’ unethical acts than Canadians. This is consistent with

Graham's (1986) model which predicts that reporting tendency is positively related to responsibility, but negatively related to personal cost. This is consistent with Brody et al. (1998) who found marginal support for subjects from a collectivistic country (Japan) being more unwilling to report an unethical act than subjects from an individualist country (America). Two early studies by Cohen et al. (1992, & 1993) also found members in collectivistic countries exhibited lower ethical standards. On the other hand, the expectation that Chinese will have lower reporting tendencies is contrary to Cohen et al. (1995) who found higher ethical standards were associated with collectivism. The bulk of research supports collectivistic countries exhibiting lower ethical standards; therefore, the third hypothesis is as follows:

**H3:** Whistle blowing and peer reporting are less likely with Chinese students than with Canadian students.

It is expected that China's relatively higher power distance than that of Canada will result in Chinese being less likely to question a supervisor's unethical act and also experience significantly more discomfort reporting the unethical acts of a supervisor than a peer. Chinese are therefore expected to feel less responsibility and more personal cost, and therefore be less likely to engage in whistle blowing than peer reporting. On the other hand, Canada's relatively lower power distance suggests that there will be relatively less difference between the discomfort experienced for whistle blowing and peer reporting.

The remaining hypotheses are therefore proposed:

**H4a:** The likelihood of whistle blowing is less than the likelihood of peer reporting for Chinese students.

**H4b:** The difference in the likelihood of whistle blowing and peer reporting is greater with Chinese students than with Canadian students.

Canada scores 23 in long-term orientation, while China's score is the highest one measured, 118. Long-term orientation societies value the relative importance of persistence, respect for status, thrift, and having a sense of shame (Robertson & Hoffman, 2000). Short-term orientation societies tend to be more in line with the values of personal steadiness and stability, saving face, respect for tradition, and reciprocation of greetings, favour, and gift (Robertson & Hoffman, 2000). A strong sense of shame will lead to individual's consciousness of what is improper or disgraceful, and therefore avoid behaving inappropriately (Lu, et al., 1999). Cohen et al. (1996) also found members displaying long-term orientation have higher ethical standards. However, contrary to Cohen et al. (1996) finding, Tsui and Windsor (2001) found that short-term orientation is consistent with higher ethical reasoning scores. Thus, it is difficult to predict how this dimension influences reporting behaviour. Should persistence (long-term orientation) have a different impact on reporting tendency than stability (short-term orientation)? Values at both ends of this dimension might either increase or decrease reporting tendencies. Therefore, this dimension was not included in the hypothesis because of a contradictory effect of long-term orientation on reporting behaviour as suggested by the literature.

Since Canada and China have very similar scores on uncertainty avoidance and masculinity (Hofstede, 2001), these dimensions were not expected to be significant factors explaining the difference in reporting behaviour between Canadian and Chinese. Perceived seriousness was also not included in the hypothesis. It was decided by the

research team that cultural differences between Canada and China would not affect the perceptions of seriousness. However, Graham's model suggests that seriousness will impact individual decisions to report unethical behaviour, so along with cost and responsibility, seriousness was included as a covariate in testing H3, H4a, and H4b.

## CHAPTER FOUR

### Research Methodology

#### *Subjects*

Subjects were chosen from countries (Canada and Mainland China) that according to Hofstede (1980, 1993, & 1997) exhibit strong cultural differences. Since limited variation of the indexes may lead to relatively weak results, for cross-cultural ethical research, subjects should be chosen from countries with large differences on Hofstede's culture scores (Gernon, 1993).

Data for this study were collected in Canada from January, 2003 to May, 2003. In China, data were collected in May, 2003. Subjects in both nations were final year accounting students. Canadian subjects ( $n = 77$ ) were taken from a southern Alberta university with campuses in three cities in Alberta, and Chinese subjects ( $n = 82$ ) were from two major universities in Beijing. Following Cohen's (1988) recommendations, a sample size of 35 for each treatment group with a significant level of 0.05 has more than 0.8 power for the statistical tests that were used in this study. Therefore, the sample size of this study was considered sufficient.

Studies have found firm culture to significantly affect employees' work-related behaviour (Hofstede, 1998; Chow et al., 2000, Finn & Lampe 1992). To reduce employees' reporting views being confounded by the culture of their firm, graduating accounting students were used as subjects. It is therefore more likely that observed differences in ethical perceptions will be due to cultural differences (Brody et al., 1998; Goodwin & Goodwin, 1999).

### *Cases*

Three cases, adapted from the Schultz et al. (1993) study were used (Appendix A). A three-case version was used in preference to the six-case version. Since participation in this study was strictly voluntary, it was believed that a shorter time requirement would increase participation rate and subjects' attention to the cases. The cases were pilot tested by Schultz et al. (1993) in MBA classes in the US and Norway. Students with significant business experience evaluated the cases on seriousness, realism (likeliness to happen), and clarity (Schultz et al., 1993).

Each case contains material describing the observer of an unethical act, the perpetrator, their positions in the company, the act, and a set of complicating facts. Subjects were randomly assigned to one of the two treatment conditions: whistle blowing or peer reporting scenarios. The two sets of cases are identical except that one set of cases describes the perpetrator of an unethical act as the observer's supervisor (whistle blowing scenarios) and the other set describes the perpetrator as the observer's peer (peer reporting scenarios). Gender-neutral Canadian and Chinese names were used to remove the potential for gender bias (Appendix A). The cases in each set were randomly ordered to remove order effects.

### *Translation of Questionnaire*

The questionnaire was initially prepared in English. When conducting behavioural studies across cultures and languages, it is essential that each language version of the questionnaire be equivalent (Cohen et al., 1995). The back-translation method (Adler, 1983; Sekaran, 1983) was used for translating the survey instrument into Chinese. With back-translation, the instrument is first translated into the requisite language(s) by one



expert familiar with not only the languages itself, but also differences in culture and usage; a second expert then independently retranslates the instrument back to the original language, and any discrepancies carefully resolved (Cohen et al., 1995). In the case of the Chinese version, two Chinese students translated the questionnaire materials into Chinese. A third Chinese student translated it back into English and the lead researcher then checked for accuracy.

### *Procedure*

The questionnaire was administered during class sessions in Canada and in the students' dormitories in China. Data collection in China was conducted by two Masters Students under the supervision of the Vice Dean of the Business School of one university and by an administrator of the Business School in the other university. In Canada the research team, Dr. Stuart Thomas, Dr. Diane Miller, and Jinyun Zhuang, collected the data.

Researchers first advised students of the time required to complete the questionnaire. Students were advised that they were going to make decision in a business context and that participation was voluntary. Then researchers distributed the consent form (Appendix B). Subjects were randomly assigned to one of two sets (whistle blowing and peer reporting) of three cases (Chris, Drew, and Pat) so that approximately an equal number of students received the same version. Students completed the questionnaires individually, with no consultation with their peers.

Subjects were asked to assess seriousness (amount of social harm done), responsibility (duty or obligation), and cost (trouble, risk, discomfort) from low (1) to high (9) on 9-point Likert scales based on each of the situations described above (scale

development directly from Schultz et al. 1993 study). They were also asked to indicate on an 11-point Likert scale, ranging from never (0) to always (10), the likelihood the observer would report the unethical act (scale development directly from Schultz et al. 1993 study). Subjects were asked to respond as though they were facing the situation in real life. Due to the perception that the reporting of unethical acts may be a sensitive issue, subjects were guaranteed anonymity. In addition, subjects were not informed about the appropriate course of action from an observer or research team member. Since the proposed model is a discretionary reporting model, it would bias subjects' reporting tendencies by telling them what an appropriate response would be to report (Kaplan & Whitecotton, 2001).

Finally, a post-test questionnaire was then administered requesting subjects' age, gender, work experience, and career objective and other background information (Appendix C). This information will provide us a better understanding of our subjects and the impact of these factors on the results. When the subjects finished the questionnaire, they were thanked and informed that if they would like to know more about the study, they were free to contact the researchers.

### ***Statistical Methodology***

The Statistical Package for the Social Science (SPSS) discriminate analysis procedure was used in analyzing the data. The set a priori significance level of 0.05 was used for all significant tests. Differences in the perceived responsibility to report and the personal cost for reporting were compared using t-tests (H1, H2). Levene's test was used

to test equality of variances using the F-statistic. The pooled-variance t-test<sup>1</sup> was used for equal variances. The separate-variance t-test was used<sup>2</sup> for unequal variances.

The reporting tendency difference between Canada and China (H3), and the difference of whistle blowing and peer reporting tendencies for Chinese subjects (H4a) were tested with ANOVA analysis. ANOVA analysis was also used to test whether nationality resulted in differences between whistle blowing and peer reporting judgments (H4b) by examining the interaction effect between reporting types (whistle blowing and peer reporting) and countries (Canada and China).

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<sup>1</sup> Pooled Variance:  $t = (x_1 - x_2) / \sqrt{[s_p^2 * (1/n_1 + 1/n_2)]}$ . Where:  $x_i$  = mean of group  $i$ ;  $n_i$  = number of observations in group  $i$ ;  $s_i^2$  = sample variance in group  $i$ ;  $s_p^2 = [s_1^2 * (n_1-1) + s_2^2 * (n_2-1)] / (n_1+n_2-2)$ .

<sup>2</sup> Separate Variance:  $t = (x_1 - x_2) / \sqrt{(s_1^2/n_1 + s_2^2/n_2)}$ . Where:  $x_i$  = mean of group  $i$ ;  $n_i$  = number of observations in group  $i$ ;  $s_i^2$  = sample variance in group  $i$ ;  $s_p^2 = [s_1^2 * (n_1-1) + s_2^2 * (n_2-1)] / (n_1+n_2-2)$ .

## CHAPTER FIVE

### Analysis and Results

#### *Descriptive Information*

Descriptive information about the subjects is presented in Table 2. Subjects were nearly evenly divided between men and women (48% and 52%, respectively), and their overall mean age was 23 years. Canadian subjects' mean age was approximately 25 years old, 45% were male and 55% were female. Chinese subjects' mean age was approximately 22 years old and 51% were male and 49% were female. Pearson's correlation indicated no correlation between age and reporting tendencies ( $r = -0.022$ ,  $p = 0.784$ , 2-tailed test). Also, a t-test indicated that different gender (male or female) did not result in significantly different reporting tendencies ( $p = 0.119$ , Table 3).

Subjects were asked to indicate how interesting the cases were on a 0 (strongly disagree) to 6 (strongly agree) point Likert scale. Means for Canadian and Chinese subjects are 4.13 and 4.34 (respectively). Pearson's correlation indicated no correlation between interest of the case and reporting tendencies ( $r = 0.000$ ,  $p = 0.997$ , 2-tailed test).

92% of Canadian subjects had part-time or full-time work experience, and only half Chinese subjects had work experience. However, an ANOVA indicated that the differences in work experience did not result in significantly different reporting tendencies ( $p = 0.225$ , Table 4).

Since the sample size of subjects that had made similar decisions to those described in the scenarios ( $n = 11$ ) was too small, as compared to the sample size of subjects that had not made similar decisions ( $n = 144$ ), the effect of this variable on reporting tendency was not analyzed. There were no significant differences in self-

reported questionnaire completion times (approximately 15 minutes) between the two groups.

**Table 2. Descriptive Information**

<b>Pooled</b> (n = 159)	Mean	s.d.
Age	23.5	3.1
Employed per week (hour)	16.9	18.7
Interest in cases	4.24	1.11
	Frequency	%
Gender Male	76	48.1
Female	82	51.9
Work Experience None	47	29.6
Part-time	64	40.3
Full-time	48	30.2
Made Similar Decisions Yes	11	7.1
No	144	92.9
<b>Canada</b> (n = 77)	Mean	s.d.
Age	24.7	4.0
Employed per week (hour)	17.7	17.8
Interest in cases	4.13	0.97
	Frequency	%
Gender Male	34	44.7
Female	42	55.3
Work Experience None	6	7.8
Part-time	29	37.7
Full-time	42	54.5
Made Similar Decisions Yes	10	13.7
No	63	86.3
<b>China</b> (n = 82)	Mean	s.d.
Age	22.4	1.0
Employed per week (hour)	16.1	19.6
Interest in cases	4.34	1.23
	Frequency	%
Gender Male	42	51.2
Female	40	48.8
Work Experience None	41	50.0
Part-time	35	42.7
Full-time	6	7.3
Made Similar Decisions Yes	1	1.2
No	81	98.8

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**Table 3. T-Test on Reporting Tendency Differences Between Male and Female**

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	Male Mean (s.d.)	Female Mean (s.d.)	t-test	p-value (2-tailed test)
Reporting	5.57 (1.73)	5.98 (1.53)	-1.567	0.119

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**Table 4. ANOVA on Reporting Tendency Differences Between None, Part-time, and Full-time Work Experience**

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	None Experience Mean (s.d.)	Part-time Mean (s.d.)	Full-time Mean (s.d.)	t-test	p-value (2-tailed test)
Reporting	5.74 (1.61)	6.03 (1.65)	5.49 (1.59)	1.504	0.225

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### ***Results***

The subjects' response means and standard deviations by country, case, reporting types and pooled categories for each variable are presented in Table 5. The pooled mean for the likelihood of reporting (5.78) is slightly above the midpoint of the 0 to 10 point Scale. Pooled means on a 1 to 9 scale for the responsibility, cost, and serious are 7.21, 6.22, and 6.78 (respectively).

**Table 5. Summary of Subjects' Responses<sup>1</sup>**

Reporting	Whistle Blowing <sup>2</sup> (N=79)				Peer Reporting <sup>3</sup> (N=80)				Whistle Blowing and Peer Reporting
	Chris	Drew	Pat	Pooled	Chris	Drew	Pat	Pooled	Pooled
Canada N=77	4.54 2.38	6.36 1.71	6.05 2.09	5.65 1.63	5.11 2.61	5.71 2.28	5.79 2.28	5.54 2.10	5.59 1.87
China N=82	4.35 2.07	6.00 2.17	6.68 1.69	5.68 1.16	4.83 2.16	6.38 1.91	7.45 1.84	6.22 1.48	5.96 1.35
Pooled N=159	4.44 2.22	6.18 1.95	6.37 1.91	5.66 1.40	4.96 2.37	6.06 2.11	6.66 2.21	5.90 1.82	5.78 1.63
<b>Responsibility</b>									
Canada	6.92 1.99	8.10 1.48	8.15 1.29	7.73 1.22	6.53 2.45	7.34 1.92	7.97 1.55	7.28 1.48	7.51 1.36
China	6.48 1.99	7.15 1.66	7.78 1.49	7.13 1.26	6.12 1.99	6.74 1.86	7.33 1.57	6.73 1.23	6.93 1.25
Pooled	6.70 1.99	7.62 1.64	7.96 1.4	7.43 1.27	6.31 2.21	7.03 1.90	7.64 1.59	6.99 1.37	7.21 1.33
<b>Cost</b>									
Canada	6.15 2.42	7.33 1.49	7.56 1.35	7.02 1.30	6.08 2.33	6.32 2.20	6.76 2.05	6.39 1.73	6.71 1.55
China	6.35 1.67	6.10 1.88	6.00 2.12	6.15 1.14	5.71 2.16	5.33 1.76	5.14 2.39	5.40 1.37	5.76 1.31
Pooled	6.25 2.07	6.71 1.80	6.77 1.94	6.58 1.29	5.89 2.23	5.80 2.03	5.91 2.36	5.87 1.62	6.22 1.50
<b>Serious</b>									
Canada	6.38 2.00	7.72 1.56	7.74 1.31	7.28 1.20	6.08 2.44	6.95 1.96	7.47 1.84	6.83 1.69	7.06 1.47
China	6.08 2.08	6.60 1.88	7.58 1.24	6.75 1.31	5.79 1.93	5.90 1.72	7.24 1.61	6.31 1.40	6.52 1.37
Pooled	6.23 2.03	7.15 1.81	7.66 1.27	7.01 1.27	5.93 2.18	6.40 1.90	7.35 1.71	6.56 1.56	6.78 1.44

<sup>1</sup> Means appear above standard deviations

<sup>2</sup> Whistle blowing 39 for Canada, 40 for China

<sup>3</sup> Peer reporting 38 for Canada, 42 for China

In order to compare relationships between the likelihood of reporting, perceived personal responsibility, perceived personal cost, and perceived seriousness of the act, correlations of the four factors were performed (Table 6). The correlations were all statistically significant except a non-significant correlation between personal cost and reporting tendency ( $r = 0.090$ ).

**Table 6. Pearson's Correlations Between Reporting, Responsibility, Cost, and Seriousness**

	Reporting	Responsibility	Cost	Seriousness
Reporting	1			
Responsibility	0.365**	1		
Cost	0.090	0.377**	1	
Seriousness	0.322**	0.680**	0.377**	1

\*\* Correlation is significant at the 0.01 level (2-tailed).

Cronbach's alpha was used to test whether questions regarding each component of Graham's (1986) model in the three cases measured the same component. A widely accepted Social Science reliability alpha should be 0.7 or higher, but 0.6 is acceptable if there is a strong theoretical support for the item (Hair, Anderson, Tatham, & Black, 1998). The reliability results of perceived seriousness, responsibility, and cost were 0.6689, 0.5728 and 0.5177 (respectively).

### *Hypothesis Outcomes*

Hypothesis 1 predicted that Chinese students would feel less personal responsibility for reporting than Canadian students. Results (Table 7) illustrated that Canadian subjects perceive a higher personal responsibility (mean = 7.51) for reporting unethical acts than Chinese subjects (mean = 6.93), and there was a significant difference



between the two means ( $p = 0.003$ , one-tailed test). The results, therefore, supported hypothesis 1.

**Table 7. T-Test on Reporting Judgment Differences Between Canada and China**

	Canada Mean (s.d.)	China Mean (s.d.)	t-test	p-value (2-tailed)
Responsibility	7.51 (1.36)	6.93 (1.25)	2.795	0.006
Cost	6.71 (1.55)	5.76 (1.31)	4.142	0.000

Pooled sample  $n = 159$ .

Hypothesis 2 predicted that Chinese students would feel more personal cost for reporting than Canadian students. However, Table 7 indicates that Canadian subjects (mean = 6.71) perceived a significantly higher personal cost of reporting unethical acts than Chinese subjects (mean = 5.76) ( $p = 0.000$ ). Thus hypothesis 2 was not supported.

Hypothesis 3 predicted that whistle blowing and peer reporting were less likely with Chinese students than with Canadian students. The significant effect of country in Table 8 ( $p = 0.006$ ) indicates that there was a significant reporting tendency difference between Canada and China. However, Table 9 indicates that the estimated marginal mean of Chinese reporting tendencies was significantly higher than that of Canadians. This result was opposite to what was predicted. Therefore, hypothesis 3 was not supported.

**Table 8. ANOVA on the Variables of Reporting Acts for Canada and China**

Dependent Variable: REPORTING

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Corrected Model	89.819(a)	6	14.970	6.929	.000	.215
Intercept	9.788	1	9.788	4.531	.035	.029
Seriousness	5.888	1	5.888	2.725	.101	.018
Responsibility	21.849	1	21.849	10.114	.002	.062
Cost	.052	1	.052	.024	.877	.000
Whipeer <sup>1</sup>	8.293	1	8.293	3.839	.052	.025
Country <sup>2</sup>	16.703	1	16.703	7.732	.006	.048
Whipeer * Country	4.130	1	4.130	1.912	.169	.012
Error	328.366	152	2.160			
Total	5729.889	159				
Corrected Total	418.184	158				

<sup>1</sup> Whipeer: Whistle blowing and peer reporting.

<sup>2</sup> Country: Canada and China.

**Table 9. Estimated Marginal Means of Reporting Tendencies  
for Canada and China**

Dependent Variable: REPORTING

COUNTRY	Mean	Std. Error	95% Confidence Interval	
			Lower Bound	Upper Bound
Canada	5.420(a)	.173	5.078	5.762
China	6.109(a)	.167	5.779	6.440

a Covariates appearing in the model are evaluated at the following values: SERIOUS = 6.7841, RESPONS = 7.2075, COST = 6.2201.

Hypothesis # 4a predicted that the likelihood of whistle blowing was less than the likelihood of peer reporting for Chinese students. Table 10 indicates that the mean for peer reporting for Chinese subjects (6.299, Table 11) was significantly larger than the mean for whistle blowing (5.595, Table 11) ( $p = 0.021$ , Table 10). This is consistent with H4a.

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**Table 10. ANOVA on the Variables of Reporting Acts for China**

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Dependent Variable: REPORTING

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Corrected Model	19.872(a)	4	4.968	2.992	.024	.135
Intercept	21.058	1	21.058	12.683	.001	.141
Seriousness	.413	1	.413	.249	.619	.003
Responsibility	6.411	1	6.411	3.861	.053	.048
Cost	.042	1	.042	.025	.875	.000
Whipeer <sup>1</sup>	9.203	1	9.203	5.542	.021	.067
Error	127.853	77	1.660			
Total	3055.889	82				
Corrected Total	147.725	81				

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<sup>1</sup> Whipeer: Whistle blowing and peer reporting.

**Table 11. Estimated Marginal Means of Whistle Blowing and  
Peer Reporting for China**

Dependent Variable: REPORTING

WHIPEER	Mean	Std. Error	95% Confidence Interval	
			Lower Bound	Upper Bound
Whistle	5.595(a)	.209	5.179	6.011
Peer	6.299(a)	.204	5.893	6.704

a Covariates appearing in the model are evaluated at the following values: SERIOUS = 6.5244, RESPON = 6.9268, COST = 5.7642.

Hypothesis # 4b predicted that the difference in the likelihood of whistle blowing and peer reporting was greater with Chinese students than with Canadian students. An ANOVA analysis indicates that the interaction effect of country (Canada and China) and type of reporting (whistle blowing and peer reporting) was not statistically significant ( $p = 0.169$ , Table 8). Therefore, H4b was not supported.

## **CHAPTER SIX**

### **Discussion and Conclusion**

The major goal of this study was to compare the effect of national culture on whistle blowing and peer reporting tendencies of Canadians and Chinese. The study also makes a theoretical contribution to the literature in that it represents an initial attempt to fill a gap in the literature regarding the differences between whistle blowing and peer reporting. A better understanding of the differences between these two types of reporting behaviour will enhance researchers' ability to clarify specific factors that influence each reporting behaviour. In addition, a review of the business literature indicates that no previous studies have compared the ethical behaviour of individuals from Mainland China and Canada.

#### *Discussion*

The first hypothesis, Chinese students will feel less personal responsibility for whistle blowing and peer reporting than Canadian students, was supported. This finding was consistent with the previous discussion that members of collectivistic countries view loyalty to the in-group so paramount that they might consider it acceptable to protect a colleague or supervisor who has committed an unethical act in order to protect the reputation of the in-group. Also, in high power distance countries, such as China, subjects are likely to bend to the demand of their supervisors. These two cultural values led to the expectation that Chinese subjects' might have a lower sense of social responsibility for justice. As a result, high power distance and collectivistic (Chinese) subjects are expected to feel less responsibility for reporting than low power distance and individualistic (Canadian) subjects.

Hypothesis two predicted that Chinese subjects would have higher personal cost for reporting. Since loyalty is more important in Chinese culture than in Canadian culture, it was expected that reporting a supervisor's or peer's wrongdoing would be considered a greater betrayal of the in-group in Chinese culture than in Canadian culture, leading to a greater strain on relationships within an organization for Chinese than for Canadians. Collectivistic (Chinese) subjects would therefore experience more personal cost than individualistic (Canadian) subjects. Additionally, since reporting a supervisor's unethical act involves challenging the hierarchy of the community, high power distance (Chinese) subjects would feel more personal cost than low power distance (Canadian) subjects. The result indicated that Canadian subjects felt more cost than Chinese subjects, which was contrary to what was predicted.

The third hypothesis predicted that whistle blowing and peer reporting were less likely with Chinese students than with Canadian students. According to Brody et al. (1998), since subjects from collectivistic countries place a high value on protection of the in-group, they will be more unwilling to report unethical acts than individualistic countries subjects. Schultz et al (1993) also found French subjects (high power distance) were less likely to report wrongdoing than American and Norwegian subjects (low power distance). Therefore, it was expected that Chinese subjects would have lower reporting tendencies than Canadian subjects; however, a contradictory result indicated that Chinese subjects had higher reporting tendencies than Canadian subjects.

Hypothesis 4a predicted that the likelihood of whistle blowing was less than the likelihood of peer reporting for Chinese subjects. It was expected that high power distance subjects (Chinese) would experience significantly more discomfort reporting the

unethical acts of supervisors than peers, because Chinese subordinates tend to be afraid to disagree with supervisors. In the mind of the Chinese subjects, supervisors are considered inaccessible and entitled to privilege. The data gathered supported this hypothesis; peer reporting was more likely for Chinese subjects.

Hypothesis 4b, the differences in the likelihood of whistle blowing and peer reporting is greater with Chinese students than with Canadian students, was not supported. It was expected that China's higher power distance would result in Chinese students experiencing more discomfort reporting a supervisor than a peer. Canada's lower power distance was expected to result in less difference between the discomfort experienced for whistle blowing compared with peer reporting. The difference of means between whistle blowing and peer reporting was larger for Chinese subjects than for Canadian subjects; however, this difference was not statistically significant.

As discussed above, the results of H2 and H3 were contrary to what were predicted. Chinese subjects felt less personal cost and had higher reporting tendencies than Canadian subjects. One of the reasons for these results could stem from differences in long-term orientation. Members of long-term orientation countries emphasize a future-oriented perspective, and so, they may worry more about the long-term consequences of supervisors' or peers' wrongdoing on the organization. Long-term oriented (Chinese) subjects may therefore feel less cost for reporting and be more likely to engage in whistle blowing and peer reporting than short-term oriented (Canadian) subjects.

The results of H2 and H3 may also suggest that Chinese subjects' perceptions of the in-group are different from what were expected. Collectivistic subjects (Chinese) heavily emphasize loyalty to the in-group. However, does the 'in-group' for Chinese only

include the immediate in-group (e.g. colleagues and supervisors with whom one has direct contact), or does it cover the organization? Since employees' unethical acts have been proven to harm the organization, Chinese subjects' loyalty to the organization might lead them to be willing to sacrifice their own well-being in order to protect the good of the organization (Hofstede, 2001). Thus, leading Chinese subjects to feel less cost for reporting and be more likely to engage in reporting behaviours than individualistic (Canadian) subjects. This discussion suggests that, for collectivistic members (Chinese), when the interest of the organization is in conflict with that of the immediate in-group, loyalty to the organization will be considered more important.

These findings were also contrary to Brody et al. (1998) study. Brody et al. (1998) found collectivistic (Japanese) subjects felt more responsibility to protect the interest of the immediate in-group rather than the company's owners and would be less likely to report than members of an individualistic country (the US). This indicates that for collectivistic members, different perceptions of the in-group will result in different decision making judgments.

Chinese subjects' perceptions of the in-group seemed to have been applied to the organization. This perception could also be applied to H1 if the theory of diffusion of responsibility is used (Darley & Latane, 1968). If Chinese subjects regarded their organization as their in-group in this study, subjects' responsibility for reporting would be diffused among other employees. That is, the responsibilities for acting were perceived as being shared with other employees and not unique to any one (Darley & Latane, 1968). As a result, Chinese subjects would regard reporting as a group responsibility and, thus, they felt less personal responsibility to report.



Additionally, Canadian subjects' perception of high cost might imply a more hostile reporting environment in Canada than in China. In Schultz et al. (1993) study, the authors found America to have a more hostile reporting environment than France with regard to the perception of higher cost. Given the similarity in cultures between Canada and the US, as suggested by Hofstede, one can posit that there is a hostile reporting environment in Canada. This research highlights the need to examine the hostile reporting environment and its impact on subjects (e.g. between Canada and China or Canada and the US).

The non-significant interaction between country (Canada and China) and type of reporting (whistle blowing and peer reporting) indicated that H4a was not supported. The suggested reason for this finding is that both Canadian and Chinese subjects perceived the cost of whistle blowing higher than that of peer reporting ( $t = 3.06$ ,  $df = 157$ ,  $p = 0.003$ , 2-tailed test). Therefore, the perceptions of whistle blowing and peer reporting might be very similar for both Canadian and Chinese subjects; thus, leading to two almost parallel lines between the estimated marginal means of Canadian reporting behaviours and Chinese reporting behaviours (Appendix D). This finding also suggests that whistle blowing is perceived to be harder than peer reporting for employees. Therefore, corporations that attempt to enhance internal control quality may have to put more effort on encouraging whistle blowing.

The findings of this study provide a deeper understanding of Graham's (1986) model. Results indicated subjects' reporting tendencies mainly depend on how they perceived the responsibility to report. Both Canadian and Chinese subjects did not treat seriousness and cost for reporting as important. This indicates subjects would report

unethical acts if they perceived that reporting the acts were their responsibility, regardless of the seriousness of the act and the cost. Schultz et al. (1993) also found different components of Graham's (1986) model played different roles in different country subjects' reporting judgments. Norwegian subjects relied on all three components (seriousness, responsibility, and cost) when deciding whether to report an unethical act. Americans relied on responsibility and cost to report. Similar to the results found in the current study for Canada and China, Schultz et al. (1993) found that responsibility for reporting was the only factor that affected French subjects reporting judgment. Therefore, it was believed that different countries tend to emphasize different variables within Graham's (1986) model. Future research, that examines how the effects of these three components vary between other cultures, will inform MNCs about which components should be emphasized in their ethical training programs.

### ***Limitations and Research Directions***

This study has several characteristics that limit the generalizability of the results. First, the sample of this study was not randomly selected but instead was a convenience sample of students attending two universities in Beijing and one in Canada. Therefore, it is possible that participating students were not representative of the population in either country.

Second, the reliability tests of responsibility and cost were lower than the accepted Cronbach's alpha for Social Science research. This indicates a relatively high level of measurement error in responsibility and cost. The measurement error might add some 'noise' to the measurements of perceived responsibility and cost, causing the 'true'

effects of the computed means and the correlations of these two variables to be masked by the measurement error and thus, be less precise.

This limitation illustrates a weak point of scenario based research. Weber (1992) found 65% (17 of 26) business ethics studies did not check reliability. Thus, there is a need for future scenario based research to increase the reporting of reliability tests.

A third limitation involves the methodology used in the study. A survey approach may not invoke the real-world pressures faced by individuals in an actual whistle blowing or peer reporting scenario.

Future research should empirically examine whether loyalty to the organization has a greater influence than loyalty to the immediate in-group (e.g. colleagues and supervisors with whom one has direct contact) for collectivistic societies and how it impacts people's values and behaviour.

Finally, this study provides an implication to expand the study to examine other culture dimensions. It also provides the motivation to compare the responses of individuals who have made similar ethical decisions to those who have not, which would mean obtaining comparable sample sizes of the two groups.

### *Conclusion*

Reporting behaviour has been of major concern for both researchers and practitioners. This study contributes to our understanding by testing the impact of national cultural values on the likelihood of reporting unethical acts. More specifically, this project explores the effects of individualism, power distance, and long-term orientation on whistle blowing and peer reporting for Canadians and Chinese. Also, the use of Graham's (1986) model in conjunction with Hofstede's culture theory as suggested

by Schultz et al. (1993), provides us a deeper understanding of the human psyche in the ethical decision making process.

Based on Hofstede's culture theory, individualistic and low power distance (Canadian) subjects were expected to feel more responsibility for reporting than collectivistic and high power distance (Chinese) subjects. Also, the likelihood of whistle blowing was expected to be less than the likelihood of peer reporting for Chinese subjects. These beliefs were supported. The results indicate that countries that differ on individualism and power distance will result in different assessments of responsibility for reporting.

Subjects' perceived personal cost and their likelihood of reporting were found to be contrary to what were predicted. This indicates that Chinese subjects perceptions of the in-group may have been applied to their organization rather than their immediate in-group (e.g. colleagues and supervisors with whom one has direct contact). These findings indicate that collectivistic (Chinese) subjects' loyalty to the organization may be considered more important than their loyalty to the immediate in-group. This might lead to collectivistic, high power distance (Chinese) subjects feeling less cost to report and being more likely to report unethical acts than individualistic, low power distance (Canadian) subjects. This finding also supported the results of Cohen et al. (1996) that long-term orientation is associated with higher ethical standards. Since long-term orientation (Chinese) subjects may worry more about the long-term consequences of supervisors' or peers' wrongdoing on the organization, Chinese subjects may feel lower cost and have higher reporting tendencies than short-term orientation (Canadian) subjects. However, the results of this study are not consistent with the Brody et al. (1998)

study. More investigation is required to determine how Chinese perceive the in-group and to assess whether contextual conditions will affect these perceptions.

The results also indicate a non-significant interaction effect between country (Canada and China) and type of reporting (whistle blowing and peer reporting). The difference of means between whistle blowing and peer reporting for Chinese subjects was not significantly larger than that of Canadian subjects. This indicated that Canadian and Chinese subjects perceived the differences between whistle blowing and peer reporting to be the same. Both Canadian and Chinese subjects were less likely to engage in whistle blowing than peer reporting (Appendix D).

Additionally, Graham's (1986) model suggested three components that would affect individual's reporting tendency. However, according to the results of this study, subjects' reporting tendencies mainly depend on their perceptions of responsibility to report. Both subjects did not treat seriousness and cost to report as important. Consistent with Schultz et al. (1993) study, these two findings indicated that different countries tend to emphasize different variables within Graham's (1986) model. Thus, for future study, researchers might be concerned about how the effects of these three components vary between other cultures. For corporations in different countries, this is a signal of the need to vary training programs directed at enhancing specific components of Graham's (1986) model.

This study has an important practical implication for ethical training programs and the internal control of Canadian and Chinese corporations. Since the perception of responsibility for reporting plays a significant role in whistle blowing and peer reporting,

reporting unethical acts should be emphasized as an important part of employees' job responsibility. Thus, the enhancement of internal control quality could be achieved.

Results of this study indicated that the perceptions of cost to report were higher and actual reporting tendencies were lower for Canadian subjects. Therefore, an effective training program for Canadian MNCs and Chinese corporations that locate in Canada should work at reducing Canadian employees' perceptions of cost (e.g. providing guarantees against reprisals) in an attempt to enhance whistle blowing and peer reporting. Whistle blowing is particularly problematic in China, likely due to high power distance. Canadian MNCs that locate in China and Chinese corporations should encourage Chinese employees to assess whether supervisors' actions are consistent with the interest of the organization. These corporations should also work at reducing the dependence of subordinates on supervisors (e.g. establishing more objective performance evaluation systems) in an attempt to reduce supervisors' influence on subordinates' careers and rewards. This effort may reduce the effects of high power distance and thus, increase the likelihood of whistle blowing.

Training programs that enhance cultural understanding between Canada and China will enhance an organization's ability to detect fraud and increase whistle blowing and peer reporting, and thus, increase the likelihood of success in the global economy.

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## **Appendix A Questionnaire**

W

Drew Johnson works for Bygg Inc., a conglomerate traded on the New York Stock Exchange. Since graduating with a degree in management in 1990, Drew has enjoyed the work and has progressed to the position of Controller. Opportunities for advancement within the Bygg Inc. seem quite good.

Morgan Hendrickson, the plant manager of Bygg Inc., had established a fine record with Bygg Inc. after being hired from the competition four years ago. Near the end of the year, Hendrickson asked Drew to record a major shipment to Highvalue Chemical as a sale. Drew objected since the shipment was a consignment (a loan of inventory for possible future sale) and should not be treated as sales revenue until an actual sale was made. In fact, Drew felt that the shipment was so large that it would significantly overstate income.

When Hendrickson and Drew discussed the issue, Hendrickson's position was, "to record the shipment as a sale. Highvalue will end up buying the consignment anyway. We need this sale to make our budget and to get the bonuses for our people. Besides, the amount is not large enough to make any difference in Bygg's overall financial statements." Drew wondered what to do? Drew had been to several Bygg Inc. training courses with the Vice President of Finance, and respected her judgment.

Should Drew report the questionable act to the next higher level of management, the Vice President of Finance?

1. *Considering this situation, please circle a number from 1 to 9 indicating the seriousness of the questionable act (amount of social harm done), the responsibility for reporting (duty or obligation), and the personal cost to report (trouble, risk, discomfort)*

	Low	High
SERIOUSNESS of the act	1 2 3 4 5 6 7 8 9	
RESPONSIBILITY for reporting	1 2 3 4 5 6 7 8 9	
PERSONAL COST to report	1 2 3 4 5 6 7 8 9	

2. *Given this situation, please circle a number from 0 to 10 on the scale below to indicate the LIKELIHOOD (percentage the event occurs) that the employee who has become aware of this questionable act would report it to the next higher level.*

Never Always  
0 1 2 3 4 5 6 7 8 9 10

W

For two years Pat Deacon has been a manager for DFSCAN, the European sales and distribution division of DED Computers Inc., a multinational corporation whose stock is traded on the New York Stock Exchange. DFSCAN has been successful in penetrating the whole Euro-market through innovative financing arrangements, including liberal return policies on leased equipment. Following accepted accounting practice, DFSCAN has treated the long-term leases as a sale in the initial year of the lease.

A problem has arisen, however, because a competitor has brought out a more advanced, modern computer that has distinct cost advantages. Pat learned from someone in sales that one of DED's largest clients intends to exercise the return clause, which will affect current earnings substantially. After discussion with other sales persons, Pat discovered that the return will be widespread and prepares an estimate to remove the profit in accordance with accepted accounting practices.

Pat presented this proposal to supervisor T.D. Rodgers, DED's Controller for the past ten years. However, Rodgers is not even interested in discussing the issue. After reflecting on the problem, Pat recalls a company rumor that DED needs to conclude a critical merger within the next two months. The merger involves a stock-for-stock exchange. Pat reasons that a sharp reduction in earnings will cause DED's stock price to drop and probably stop the merger. Yet accepted accounting procedures are clear about reducing profit.

Should Pat report the questionable act to the next higher level of management?

1. *Considering this situation, please circle a number from 1 to 9 indicating the seriousness of the questionable act (amount of social harm done), the responsibility for reporting (duty or obligation), and the personal cost to report (trouble, risk, discomfort)*

	Low	High
SERIOUSNESS of the act	1 2 3 4 5 6 7 8 9	
RESPONSIBILITY for reporting	1 2 3 4 5 6 7 8 9	
PERSONAL COST to report	1 2 3 4 5 6 7 8 9	

2. *Given this situation, please circle a number from 0 to 10 on the scale below to indicate the LIKELIHOOD (percentage the event occurs) that the employee who has become aware of this questionable act would report it to the next higher level.*

Never Always  
0 1 2 3 4 5 6 7 8 9 10

W

Chris Mikkelsen has been employed for nearly two years as a purchasing agent for HOUR Inc., a large multinational firm whose stock is publicly traded. Chris's supervisor is Adrian Cooke. Recently, Chris accidentally overheard Cooke making large purchases from Largo Corporation. During the conversation, Cooke made arrangements to use Largo's lakeside lodge for one week. Chris recalled that Largo's bid was slightly higher than the other suppliers' bids so asked Cooke about the deal. Cooke explained, "I have done business with Largo for years and we have a good business relationship". Cooke also pointed out, "this is a common practice for me. You might enjoy working out similar arrangement with Largo".

Chris was concerned because accepting gifts or favors from suppliers was against company policy. In fact, it was against company policy to accept even small gifts.

Should Chris report the questionable activity to the higher level of management?

1. *Considering this situation, please circle a number from 1 to 9 indicating the seriousness of the questionable act (amount of social harm done), the responsibility for reporting (duty or obligation), and the personal cost to report (trouble, risk, discomfort)*

	Low	High
SERIOUSNESS of the act	1 2 3 4 5 6 7 8 9	
RESPONSIBILITY for reporting	1 2 3 4 5 6 7 8 9	
PERSONAL COST to report	1 2 3 4 5 6 7 8 9	

2. *Given this situation, please circle a number from 0 to 10 on the scale below to indicate the LIKELIHOOD (percentage the event occurs) that the employee who has become aware of this questionable act would report it to the next higher level.*

Never Always  
0 1 2 3 4 5 6 7 8 9 10

P

Drew Johnson is a manager for Bygg Inc., a conglomerate traded on the New York Stock Exchange. Since graduating with a degree in management in 1990, Drew has enjoyed the work and has progressed to the position of Controller. Opportunities for advancement within the Bygg Inc. seem quite good.

Colleague, Morgan Hendrickson had established a fine record with Bygg Inc. after being hired from the competition four years ago. Near the end of the year, Hendrickson asked Drew to record a major shipment to Highvalue Chemical as a sale. Drew objected since the shipment was a consignment (a loan of inventory for possible future sale) and should not be treated as sales revenue until an actual sale was made. In fact, Drew felt that the shipment was so large that it would significantly overstate income.

When Hendrickson and Drew discussed the issue, Hendrickson's position was, "to record the shipment as a sale. Highvalue will end up buying the consignment anyway. We need this sale to make our budget and to get the bonuses for our people. Besides, the amount is not large enough to make any difference in Bygg's overall financial statements." Drew wondered what to do? Drew had been to several Bygg Inc. training courses with the Vice President of Finance, and respected her judgment.

Should Drew report the questionable act to the next higher level of management, the Vice President of Finance?

1. *Considering this situation, please circle a number from 1 to 9 indicating the seriousness of the questionable act (amount of social harm done), the responsibility for reporting (duty or obligation), and the personal cost to report (trouble, risk, discomfort)*

	Low	High
SERIOUSNESS of the act	1 2 3 4 5 6 7 8 9	
RESPONSIBILITY for reporting	1 2 3 4 5 6 7 8 9	
PERSONAL COST to report	1 2 3 4 5 6 7 8 9	

2. *Given this situation, please circle a number from 0 to 10 on the scale below to indicate the LIKELIHOOD (percentage the event occurs) that the employee who has become aware of this questionable act would report it to the next higher level.*

Never Always  
0 1 2 3 4 5 6 7 8 9 10



P

For two years Pat Deacon has been a manager for DFSCAN, the European sales and distribution division of DED Computers Inc., a multinational corporation whose stock is traded on the New York Stock Exchange. DFSCAN has been successful in penetrating the whole Euro-market through innovative financing arrangements, including liberal return policies on leased equipment. Following accepted accounting practice, DFSCAN has treated the long-term leases as a sale in the initial year of the lease.

A problem has arisen, however, because a competitor has brought out a more advanced, modern computer that has distinct cost advantages. Pat learned from someone in sales that one of DED's largest clients intends to exercise the return clause, which will affect current earnings substantially. After discussion with other sales persons, Pat discovered that the return will be widespread and prepares an estimate to remove the profit in accordance with accepted accounting practices.

Pat presented this proposal to colleague T.D. Rodgers. However, Rodgers is not even interested in discussing the issue. After reflecting on the problem, Pat recalls a company rumor that DED needs to conclude a critical merger within the next two months. The merger involves a stock-for-stock exchange. Pat reasons that a sharp reduction in earnings will cause DED's stock price to drop and probably stop the merger. Yet accepted accounting procedures are clear about reducing profit.

Should Pat report the questionable act to the next higher level of management?

1. *Considering this situation, please circle a number from 1 to 9 indicating the seriousness of the questionable act (amount of social harm done), the responsibility for reporting (duty or obligation), and the personal cost to report (trouble, risk, discomfort)*

	Low	High
SERIOUSNESS of the act	1 2 3 4 5 6 7 8 9	
RESPONSIBILITY for reporting	1 2 3 4 5 6 7 8 9	
PERSONAL COST to report	1 2 3 4 5 6 7 8 9	

2. *Given this situation, please circle a number from 0 to 10 on the scale below to indicate the LIKELIHOOD (percentage the event occurs) that the employee who has become aware of this questionable act would report it to the next higher level.*

Never Always  
0 1 2 3 4 5 6 7 8 9 10

P

Chris Mikkelsen has been employed for nearly two years as a purchasing agent for HOUR Inc., a large multinational firm whose stock is publicly traded. One of Chris's colleagues is Adrian Cooke. Recently, Chris accidentally overheard Cooke making large purchases from Largo Corporation. During the conversation, Cooke made arrangements to use Largo's lakeside lodge for one week. Chris recalled that Largo's bid was slightly higher than the other suppliers' bids so asked Cooke about the deal. Cooke explained, "I have done business with Largo for years and we have a good business relationship". Cooke also pointed out, "this is a common practice for me. You might enjoy working out similar arrangement with Largo".

Chris was concerned because accepting gifts or favors from suppliers was against company policy. In fact, it was against company policy to accept even small gifts.

Should Chris report the questionable activity to the higher up level of management?

1. *Considering this situation, please circle a number from 1 to 9 indicating the seriousness of the questionable act (amount of social harm done), the responsibility for reporting (duty or obligation), and the personal cost to report (trouble, risk, discomfort)*

	Low	High
SERIOUSNESS of the act	1 2 3 4 5 6 7 8 9	
RESPONSIBILITY for reporting	1 2 3 4 5 6 7 8 9	
PERSONAL COST to report	1 2 3 4 5 6 7 8 9	

2. *Given this situation, please circle a number from 0 to 10 on the scale below to indicate the LIKELIHOOD (percentage the event occurs) that the employee who has become aware of this questionable act would report it to the next higher level.*

Never Always  
0 1 2 3 4 5 6 7 8 9 10

## **Appendix B Consent Form**

You are invited to take part in a study on business decisions. The entire question will last approximately 15 minutes. You will be asked to make a number of business decisions and then to complete a series of questions.

Any information obtained in connection with this study that can be identified with you will remain confidential and will be disclosed only with your permission. In any written reports or publications, no one will be identified or identifiable and only aggregate data will be presented.

Your decision whether or not to participate will not affect your future relationship with the Renmin University of China in any way. If you decide to participate, you are free to discontinue at any time without affecting your relationship with the university or your grade in any course.

If you would like more information about your participant in this study, please call Jinyun Zhuang (1403 382 7143), a master student in MSc program or Stuart Thomas (1403 329 2067), the Faculty of Management, University of Lethbridge. Questions of a more general nature may be addressed to the Office of Research Services, University of Lethbridge (1403 329 2747).

A copy of this form will be available to keep.

You are making a decision whether or not to participate. Your signature indicates that you have read the information provided above and have decided to participate. You may withdraw at any time without prejudice after signing this form should you choose to discontinue participation in this study.

\_\_\_\_\_

Signature

\_\_\_\_\_

Date

\_\_\_\_\_

Print Name

## **Appendix C Posttest Questionnaire**



**Appendix D Whistle Blowing and Peer Reporting Estimated Marginal  
Means for Canada and China**

### Whistle Blowing and Peer Reporting Estimated Marginal Means for Canada and China

