

Cultural Obstacles to the Implementation of Global Accounting Standards in China

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Attestation of authorship

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

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(Translation) **我的父母:** 在我读博士的过程中, 我的父亲母亲三次来到新西兰照顾和帮助我。我非常感激他们对我无私的爱与照顾。他们为我付出了很多, 好让我有时间学习和工作。他们是世界上最伟大的父母。这本论文谨献给他们。

Abstract

The purpose of this study is to investigate the cultural and educational issues affecting the implementation of the IFRS-based accounting standards in China.

The IASB has a goal to develop a single set of principle-based global accounting standards, which is the IFRS. China has embraced the principle-based regime and its accounting standards have converged substantially with the IFRS. However, research shows that accounting is influenced by the social, cultural and political environment. It is therefore questionable whether the IFRS-based standards can be implemented effectively in a different social and cultural environment.

The application of professional judgement is essential in order to operate within a principle-based regime. Therefore, the question is how effectively professional judgement can be exercised in China. Accounting professionals from different backgrounds may reach different judgements, because professional judgement is often influenced by education and cultural values.

The current study employed interviews to understand how a Confucian-heritage culture affects the judgement of Chinese accounting professionals within a contemporary backdrop. More specifically, the study analyses how Confucian teachings impact on Chinese accounting education and professional ethics respectively. The interviews were conducted with Chinese accounting professionals, accounting students, accounting academics and foreign practitioners who had worked in China. Their views and experiences on accounting education and the application of professional ethics are sought.

Findings reveal that Confucianism is still a substantial influence on Chinese accounting education, which is reflected through a teacher-centred pedagogy and an examination-orientated assessment structure. Under such a system, the critical thinking and analytical skills of accounting students are largely underdeveloped. Hence, students and practitioners are not well prepared for exercising professional judgement. Moreover, Confucian teachings have a strong impact on professional ethics. Professional independence and objectivity are largely compromised under the influences of *wulun* (the notion of five relationships) and *guanxi* (interpersonal relationship, networks). Chinese professionals need to follow the obligations and expectations created by Confucian culture, which are not necessarily in line

with the concepts of independence and objectivity. Furthermore, Confucian teachings merge with a prevailing materialism that drives accounting professionals to bend the ethical requirements of the profession to survive and/or gain wealth.

The findings indicate that Chinese accounting professionals cannot exercise their judgements fairly and effectively within a Chinese cultural environment. This highlights the difficulties of implementing the IFRS principle-based standards in a country that has a different culture from that of Anglo-Saxon countries. Given these cultural obstacles, this study shows that the *de facto* convergence with IFRS has not been substantial. Both the IASB and Chinese policy makers need to be aware of the cultural obstacles that hinder practitioners from exercising fair judgements. Because Chinese practitioners operate under their own culture, Western ethical concepts may not be applied. Culture is therefore an inherent barrier to developing a set of global standards.

Abbreviations

Accounting Standards for Business Enterprises (ASBE)

Accountancy Certificate (AC)

Certified Public Accountants (CPAs)

China Accounting Standards Committee (CASC)

Chinese Accounting Standards (CAS) Chinese Securities Regulatory Commission (CSRC)

The Chinese Institute of Certified Public Accountants (CICPA)

Code of Ethics (COE)

Computer Assisted Qualitative Data Analysis Software (CAQDAS)

Enterprise Accounting Standards (EASs)

Fair Value Accounting (FVA)

Initial Public Offering (IPO)

Institute of Chartered Accountants Scotland (ICAS)

International Accounting Education Standards Board (IAESB)

International Accounting Standards (IAS)

International Accounting Standards Board (IASB)

International Accounting Standards Committee (IASC)

International Auditing and Assurance Standards Board (IAASB)

International Education Standards (IES)

International Ethics Standards Board for Accountants (IESBA)

International Federation of Accountants (IFAC)

International Financial Reporting Standards (IFRS)

International Standards on Auditing (ISA)

Ministry of Finance (MOF)

National Accounting Institute (NIA)

Participant Information Sheet (PIS)

The People's Republic of China (PRC)

State Owned Entities (SOEs)

World Trade Organisation (WTO)

Chinese words index

Dao (the Way, 道)

Gaokao (National Colleague Entrance Examination, NCEE 高考)

Guanxi (Relationships, networking, connections, 关系)

He (Harmony, 合)

Junzi (true gentleman, 君子)

Keju (the Imperial Examination, IE, 科举)

Kong Fu Zi (Confucius, 孔夫子)

Li (rituals, rites, 礼)

Mao (refers to Chairman *Mao Zedong*, 毛泽东)

Mianzi (Face, 面子)

Ren (compassion, humanness, 仁)

Rujia (Confucianism, 儒家)

Yi (rightness, righteousness, 义)

Wulun (Notion of five relationships, 五伦)

Wuchang (Five Constant virtues, 五常)

Chapter 1 - Introduction to the study

With the globalisation of capital markets, there are a number of advantages for the adoption of a set of global accounting standards. International Financial Reporting Standards (IFRS), the successor of International Accounting Standards (IAS), was developed with such intent. Sharing one set of globally accepted accounting standards is likely to increase the comparability and consistency of financial information across borders. Consequently, it would improve the flow of capital and investments (Zeghal & Mhedhbi, 2006). It is also likely to improve reporting quality and reduce the reporting costs for public companies (Ohlgart & Ernst, 2011). Hans Hoogervorst, the current Chairman of the International Accounting Standard Board (IASB) (successor of Sir David Tweedie), states that the IFRS are the only way to “unleash the full potential of a truly global” capital market (cited in Ohlgart & Ernst, 2011, p. 39). There are over one hundred countries currently requiring, permitting or adopting International Financial Reporting Standards (IFRS), including large countries such as China, Canada, members of the EU, India and Brazil (Ohlgart & Ernst, 2011; Peng & van der Laan Smith, 2010; Zeghal & Mhedhbi, 2006).

Chinese economic reforms have brought foreign investments to the nation since the 1980s. China started to introduce IAS in the 1980s as a major part of its accounting reforms. In 2006, the Minister of Finance (MOF) of China issued the most recent Chinese Accounting Standard (CAS). This marks a significant convergence between CAS and IFRS. All listed companies have been required to use the 2006 CAS since 1 January 2007 (Deloitte, 2006; ICAS, 2010). Other companies and enterprises gradually implemented the 2006 CAS over a period of time. According to *Liu, Yuting*, the Director-General of the Accounting Regulatory Department of MOF, almost all medium to large size entities need to use the new CAS by 2010 (Y. Liu, 2010). China proposed a roadmap for “continuing and full convergence” and planned to complete the convergence by 2012 (Y. Liu, 2010; Ministry of Finance, 2009; M. Yang, 2011).

Some studies show that the convergence with IFRS is substantial, through comparing the 2006 CAS with IFRS (Peng & van der Laan Smith, 2010; X. Qu & Zhang, 2010). However, other studies critically question the feasibility of the IFRS convergence in China because of unique Chinese circumstances. The obstacles identified in earlier studies regarding the convergence with IFRS include the Chinese economic structure, share-market structure,

accounting traditions, culture and education (Yin Chen, Jubb, & Tran, 1997; L. M. Chow, Chau, & Gray, 1995; Olesen & Cheng, 2011; Peng & Bewley, 2010; Xiang, 1998; Xiao, Weetman, & Sun, 2004). Many studies have looked into aspects of Chinese institutional environments such as economic and political influences on the convergence project. Few have examined the cultural influences, which would affect the implementation of the new CAS.

The new CAS is recognised as having “substantially converged” with IFRS (ICAS, 2010). It is by nature a set of “principle-based” accounting standards. This principle-based nature requires professional judgements, which need to be made independently and objectively to deliver a “true and fair” presentation of financial statements. Successful implementation of CAS relies on millions of Chinese accountants applying their professional judgements effectively. As the Institute of Chartered Accountants Scotland (ICAS) notes, during its investigation of the process of converging with IFRS in China:

The most challenging aspect of operating in a principle-based environment is the need to apply professional judgement effectively, consistently and fairly. To support such an environment, accounting professionals have to be trained, ethics have to be upheld and additional guidance must be provided to make principles operational (ICAS, 2010, p. 3).

Factors, which influence the application of professional judgement, involve level of education, experience and adherence to professional ethics. Moreover, culture is a persuasive factor affecting judgements, which is evident in some studies (Chand, Cummings, & Patel, 2011; Doupnik & Riccio, 2006; Doupnik & Richter, 2003; Schultz Jr & Lopez, 2001; Tsakumis, 2007). “National culture is most likely to influence the application of financial reporting standards where judgement is required” (Tsakumis, Campbell Sr, & Doupnik, 2009, p. 36). Therefore, the successful implementation of the CAS is determined by the ability to make sound professional judgements. How Chinese accounting professionals make their professional judgements is likely to be influenced by their culture.

The purpose of this study is to investigate in-depth the cultural influences on the implementation of the IFRS-based CAS. Because Chinese culture is primarily shaped by Confucianism (Y. Fan, 2000; Kirkbride, Tang, & Westwood, 1991; Oh, 2012), this research studies the impact of a Confucian-heritage culture on the judgements made by Chinese

professionals. The next section introduces a brief background of the convergence project in China.

1.1 Background of convergence

China is one of the oldest civilisations in the world. Its long history and rich culture has made China very different to Anglo-Saxon countries. In the 1840s, the Opium War shook the foundation of the Chinese empire. The last Dynasty of China ended in the early twentieth century and marked the finale of feudal society. China then experienced hundreds of years of warfare until the founding of the People's Republic of China (PRC) in 1949. However, the centrally planned economic regime failed to grow the Chinese economy and class struggles such as the "Cultural Revolution" worsened it further. As a result, China was in a desperate need to revive its economy.

In 1979, China started the "Open door" policy with the intention of attracting foreign investments, together with foreign "know-how" knowledge and experience, to build the country's economy. These economic reforms brought tremendous changes to the social and economic structure of China (Whitcomb, Erdener, & Li, 1998). Within three decades, China had become the world's third largest economy (Brandit & Rawski, 2008). State ownership has decreased significantly since the economic reform, while privatisation and joint ventures have flourished. During the 1990s, two stock exchange markets were established, namely, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. China also joined the World Trade Organisation (WTO) in 2001. Some large Chinese entities are listed both in the Chinese and foreign capital markets (Kuan & Noronha, 2007). The traditional Soviet model accounting system that was based on a centralised planned economy can no longer accommodate a market social-orientated economy (L. M. Chow et al., 1995; Davidson, Gelardi, & Li, 1996; Scapens & Hao, 1995). China needs a new set of accounting standards and an accounting system that can facilitate international trade and increase accessibility to capital markets (Baydoun, Nishimura, & Willett, 1997; J. Ge & Lin, 1993). Increasing understandability and comparability of Chinese enterprises' financial information is also a key to unlocking the global market and communicating with the rest of the world (Kuan & Noronha, 2007). In response to such need, in 1990s China began accounting reforms aimed at converging with IAS and later IFRS, International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) and the Code of Ethics

issued by the International Ethics Standards Board for Accountants (IESBA), which is a board within the International Federation of Accountants (IFAC) (Yugui Chen, 2012; Liao & Bisman, 2008).

The standard setting body in China is called China Accounting Standards Committee (CASC), under the governance of MOF. The 2006 CAS consist of Basic Standards and 38 Specific Standards. The Basic Standards (similar to a Conceptual Framework) is applicable to all entities. The Specific Standards have been applicable to listed companies since the beginning of 2007 (Deloitte, 2006; Leung & Yang, 2006). With the issue of the 2006 accounting standards, Sir David Tweedie congratulated China on making a substantial convergence with IFRS.

The intention is that a company applying Chinese accounting standards should produce financial statements that are the same as those of a company that applies IFRSs. I believe that is a realistic and desirable goal in the light of the progress that has been made (IASB, 2006).

A more detailed historical account of Chinese accounting reform is presented in Chapter 2. The differences remaining between CAS and IFRS at the time of issuing include disclosure of related party transactions, fair value measurements, and business combinations of entities under common control (IASB, 2005).

It is important to understand the meanings of “convergence” from the Chinese perspective because the Chinese convergence project has impelled the IASB to consider Chinese circumstances when setting “a single-set” IFRS.

1.2 What is convergence

The International Accounting Standards Board (IASB) was established in 2001, and was formerly known as the International Accounting Standards Committee (IASC). According to the IASB official website, the objectives of the IASB are:

- *to develop a single set of high quality, understandable, enforceable and globally accepted international financial reporting standards (IFRSs) through its standard-setting body, the IASB;*
- *to promote the use and rigorous application of those standards;*

- *to take account of the financial reporting needs of emerging economies and small and medium-sized entities (SMEs); and*
- *to promote and facilitate adoption of IFRSs, being the standards and interpretations issued by the IASB, through the convergence of national accounting standards and IFRSs.*

“A single set” in the first objective is defined by Paul Pacter, the Director of Standards for Small and Medium-Sized Entities at the IASB, as “standards are word-for-word identical across borders” (2005, p. 71). IFRS need to be rigorously translated from English to another language so that no differences in standards occur via the translation process. The last objective of the IASB appears to indicate that convergence is a process and adoption is the goal.

Officially, China has used the term “convergence” rather than “adoption” during the entire process, though accounting literature has used the two terms interchangeably. From China’s perspective, the 2006 CAS will remain stable. Changes will be made only to address new issues or adjust to changes in IFRS. The goal of convergence is to achieve the Chinese equivalent of IFRS (ICAS, 2010; Yuting Liu, 2007). *Wang Jun*, the vice-minister of MOF and Chairman of CASC, explains that convergence is an interactive process between the MOF and IASB. Convergence does not equal to having identical standards (M. Yang, 2011). In other words, “Convergence does not mean having our standards identical with the international standards word by word” as explained by *Li Hongxia*, Director of Accounting Regulatory Department (H. Li, 2006, p. slide 21). This probably means a full adoption of IFRS is unlikely to happen in China (ICAS, 2010). Some speculate that China will make a made-for-China version of the IFRS (Peng & Bewley, 2010).

From China’s perspective, the convergence is a bilateral interaction between MOF and IASB (H. Li, 2006). This is because IFRS are developed based on Anglo-Saxon culture, which has a strong equity market, a market economy and a common law system (Albu, Albu, Bunea, Calu, & Girbina, 2011). These underlying institutional factors, which are required for IFRS to work, are often different in Chinese circumstances. The CASC agrees to assist the IASB in researching and developing recommendations on a number of accounting issues regarding differences that remain because of China’s unique circumstances and its different environment. Therefore, the convergence also means that IASB need to consider Chinese

circumstances as being an exemplar of developing countries (M. Yang, 2011). Stephen Taylor, a Partner at Deloitte said

What convergence means is that China will not just move toward international standards. In some circumstances that might mean that IASB moving closer to the [China] alternative (Meyer, 2008, p. 66).

For example, China persuaded the IASB to be more accommodating to the Chinese state ownership structure. The IASB, in considering Chinese circumstances, reduced the Related Party disclosure of its own standards (Meyer, 2008). However, Andrew Conway, the Deputy CEO of the National Institute of Accountants in Australia, expresses his concern:

If IFRS incorporates too many compromises for individual nations and those compromises make it difficult to understand a company's accounting or to compare financial statements between nations, IFRS will lose its value (Meyer, 2008, p. 66).

IFRS are perceived to be a set of high quality accounting standards, which improves the quality of accounting information. On one hand, the IASB needs to be considerate towards other countries that have different economic environments, which require the IASB to accept local differences. On the other hand, the IASB needs to make sure that “a single set” of high quality accounting standards is adopted globally. Some doubt that China’s convergence can eventually lead to a full adoption of IFRS (ICAS, 2010; Olesen & Cheng, 2011; Peng & Bewley, 2010). The outcome of China’s continuous convergence is not what this study tries to predict. Instead, this study examines the practical issues in the implementation of this IFRS-based CAS, which could provide an indication of whether a *de facto* convergence can be achieved in the future. The next section outlines a picture of the adoption of IAS/IFRS in emerging economies, with an emphasis on China.

1.3 Adoption of IAS/IFRS in emerging economies

Accounting is formed by and always adapts to its environment (Ding, 2000; Perera, 1989a). Many studies show that social, political and cultural environments have a strong influence on accounting practices (Cooke & Wallance, 1990; Gray, 1988; Nobes, 1998; Perera, 1989b). As mentioned earlier, IFRS are derived from an Anglo-Saxon economic and accounting background. The concepts and fundamental ideologies are rooted in those countries which have a large private sector, a well-developed capital market and a common law system

(Perera, 1989a). Some researchers are critical about the feasibility of the adoption of IFRS in emerging countries where the aforementioned conditions are absent or different (Perera, 1989a). Furthermore, the IFAC conducted a project to identify the challenges and success in implementing international standards. It reports that national laws, regulations, practices and the tax-driven nature of the national accounting regime can create barriers to international convergence. For example, in some countries, the primary purpose of reporting was to determine taxable income. In contrast, the IFRS focuses on the needs of capital markets. The complexity of IFRS and translations of standards also make it challenging to implement IFRS and ISA in some countries. The report also identifies education and training as being major challenges. Some emerging economies find it difficult to implement the IFRS and ISAs because they lack a knowledge of the international standards (P. Wong, 2004).

1.3.1 Examples of other emerging economies

A strand of literature questions the relevance for adopting IFRS in emerging economies (Perera, 1989a; Wallance & Briston, 1993). The benefits associated with the adoption of IFRS include the globalisation of financial markets, the enhancement of quality and an increase in the comparability of financial information (Zeghal & Mhedhbi, 2006). For example, Chamisa (2000) studied the case of the adoption of IAS in Zimbabwe through testing the *de facto* compliance in listed companies. He finds that IAS is largely relevant to Zimbabwe. However, other studies show a different view. Mir & Rahaman (2004) studied the adoption of IAS in Bangladesh. They argue that the adoption of IAS (now IFRS) is largely promoted by Western donor agencies such as the World Bank. Bangladesh has a high level of dependence on loans from the Bank. Therefore, the decision to adopt IAS is an example of the political nature of the World Bank's relationship with Bangladesh. Similarly, in the case of Romania, Albu et al. (2011) find that the adoption of IAS/IFRS is because of the coercive external forces from the World Bank. The actual implementation of IAS in Romania is very limited due to environmental factors such as a dominant position of the State, the importance of taxation and the lack of educational training. These studies show that the process of IFRS implementation in different countries is subject to the context of a particular country. China also encounters some similar challenges.

1.3.2 The case of China

China is the second largest economy, with growing importance in the world. Many studies have investigated the obstacles in Chinese accounting reforms. Earlier studies have shown three key issues relating to convergence with IFRS in China: the political environment, the structure of the economic and equity market, and the quality of accounting professionals (Yin Chen et al., 1997; Davidson et al., 1996; Ding, 2000; Graham & Li, 1997; Z. J. Lin, Chen, & Tang, 2001).

Similar to other emerging countries, State ownership is dominant in the Chinese economy and share markets. The Chinese socialist-market economy means that “capitalism and free enterprises operate under the watchful eye and sometimes direct intervention of the State” (Graham & Li, 1997, p. 249). Since the market is not fully “free”, there is limited reference to fair value. For example, the exchanges of non-financial assets are often between related parties and price does not necessarily reflect fair value (Davidson et al., 1996; Graham & Li, 1997; X. He, Wong, & Young, 2012; ICAS, 2010; Xiao et al., 2004). Therefore, the benefits of fair value accounting cannot be fully utilised in China (Peng & Bewley, 2010). Furthermore, the demand for quality financial information is considered to be low because individual shareholders are minority owners in Chinese stock markets (S. M. L. Wong, 2006; Xiao et al., 2004) (section 2.2.1).

Apart from the economic and political environment, accounting is strongly influenced by its cultural environment (Gray, 1988; Nobes, 1998; Perera, 1989b). Chow et al. (1995) analysed the adoption of IAS in China based on cultural dimensions identified in Hofstede (1980) and Gray (1988)’s models. They suggest that the Chinese accounting system reflects a conservative, strong uncertainty avoidance and a large power distance culture. Hence, it is designed to support “statutory control, harmony, uniform practices, compliance to rules, conservative measurement approach and secrecy in disclosure” (L. M. Chow et al., 1995, p. 44). The authors argue that

...moving towards an Anglo- Saxon model of financial reporting which emphasises professional self-regulation and judgement will, on cultural considerations, be very difficult to achieve in practice (p. 44).

Chow et al (1995)’s study shows that Chinese culture is an important factor in the Chinese accounting system. Their study illustrates an overall picture of how Chinese culture

influences the accounting system. The current study, however, focuses more closely on the cultural impact on accounting professionals in China because they are the people who apply the new CAS. In particular, this study investigates how Confucian heritage culture impacts on accounting education and professional ethics. Both accounting education and professional ethics influence the way that accounting professionals think and make judgements. The next section elaborates the research question in detail.

1.4 Research significance and research question

The literature on the convergence of CAS with IFRS appears to show competing views. The convergence process appears to be successful as the CAS are very much similar with IFRS (Peng & van der Laan Smith, 2010; X. Qu & Zhang, 2010). The quality of accounting information has improved since 2007 in adopting entities, which is evident by a decrease in earning management and an increase in value relevance of accounting measures in China (C. Liu, Yao, Hu, & Liu, 2011). However, others find the substantial convergence with IFRS has not lead to a convergence in practice. Olesen & Cheng (2011) find that some dual-listed Chinese companies use different accounting measurements in their financial statements in the domestic share markets (A shares) and the share market in Hong Kong (H shares). For example, fair value is used on H share accounts, which is based on IFRS, whereas cost method is employed for A share accounts, which is based on the 2006 CAS. Moreover, He et al. (2012) find that FVA for securities is used as an earning management tool to meet the zero earning threshold so that delisting can be avoided. Peng and Bewley (2010) critically reviewed the limit adoption of fair value accounting (FVA) in measuring long-term non-financial investments in the 2006 CAS. The authors challenge the official claim of “substantial convergence” and question whether IFRS are suitable for an emerging economy (section 2.2.1).

... whether successful implementation of IFRS in emerging economies is truly possible given that IFRS was created in response to the needs of developed rather than emerging economies (Peng & Bewley, 2010, p. 1004).

The convergence with IFRS in the wording of standards does not automatically lead to smooth applications by local practitioners. China is aware of the challenge of local implementation. As *Dr. Chen Yugui*, the Deputy President & Secretary General of the Chinese Institute of Certified Public Accountants (CICPA) addressed:

The major obstacles ... in achieving the internationalisation of accounting and auditing standards is how to translate the 'exotic' nature of international standards into the daily practice of millions of accountants in order to deliver high-quality accounting information (Yugui Chen, 2012).

The *de facto* convergence can be assessed during the implementation of CAS. Therefore, an understanding of the obstacles encountered by Chinese professionals during the application of the principle-based CAS is crucial.

1.4.1 Accounting education

Besides Chinese institutional factors, which are different from those found in Anglo-Saxon countries, the Chinese accounting profession is also considered to be inexperienced in applying principle-based standards (Z. J. Lin & Chen, 2000; Yunwei Tang, 2000; Xiang, 1998). Many accountants are accustomed to a Chinese traditional rule-based accounting system under a centrally planned economy. They are unfamiliar with the principle-based standards, which demand professional judgement. (Ding, 2000; ICAS, 2010; Z. J. Lin & Chen, 2000).

This unfamiliarity with professional judgement triggers a need for accounting education and training. Chinese education is also under reform to meet the growing demand for competent accountants and to improve the quality of education (section 2.2.3.3). Under this reform, accounting education has been revived and expanded (Z. Guo, 2008; Yongze Liu & Chi, 2008; Yunwei Tang, 1997b). For example, in 1978, there were 21 tertiary institutions offering an accounting major, and 2,024 students. In 2005, there were 475 universities offering a Bachelor's degree in accounting, with 208,145 Bachelor's students, 8745 Master's students and 915 Doctoral students. Chinese universities also collaborate with foreign universities via various programmes (Yongze Liu & Chi, 2008).

Accounting professionals need to face increasingly complicated business transactions in an ever-changing global economy. They need to deal with ambiguous and problematic situations. Under the changing business environment and the advancement of technology, the value of the accounting profession is determined by their expertise on understanding complicated issues and rendering judgement (Reinstein & Bayou, 1997). Having technical knowledge alone is not sufficient for accounting graduates. Accounting professionals are also required to work with different people from different backgrounds (Carr, Chua, & Perera,

2006; De Lange, Jackling, & Gut, 2006). Therefore, accounting professionals need to possess analytical and critical thinking skills, interpersonal skills and an understanding of business in both the local and the global contexts (Jones, 2010; Z. J. Lin, X. Y. Xiong, & M. Liu, 2005). The trend and emphasis of accounting education in Anglo-Saxon countries is to foster and develop the generic skills of students (Boyce, Williams, Kelly, & Yee, 2001; Jones, 2010). Generic skills, sometimes referred to as “soft skills”, are considered to be increasingly important for accountants in order to progress in their accounting career (Boyce et al., 2001; Z. Guo, 2008). Generic skills include:

communication and interpersonal skills, problem solving skills, conceptual/ analytical and critical skills, visual, oral and aural skills and judgement and synthesis skills (Boyce et al., 2001, p. 37).

These skills are necessary for accounting professionals to make judgements using applicable accounting concepts and principles.

Despite the improvements brought by Chinese education reforms, Chinese accounting education is still criticised as being weak in developing students’ generic skills (Z. J. Lin, 2008; Z. J. Lin et al., 2005; Yongze Liu & Chi, 2008). This is because “traditional Chinese teaching methods is...quite passive, with one-way delivery of lectures and test-paper examinations at the end of each semester” (M. W. Chan & W. Rotenberg, 1999, p. 46). Under this teaching approach “the development of communication, analytical, critical thinking, and problem-solving skills [of accounting students] had long been ignored” (Z. J. Lin et al., 2005, p. 151). This shows that the teaching approach used in Chinese accounting education appears inadequate in developing generic skills.

Earlier studies have highlighted the achievements and problems in accounting education. However, little has been done to explain in-depth the inherent problems in Chinese accounting education. Therefore, the first theme of this study is to understand how the Confucian heritage influences Chinese accounting education in contemporary China. This question has implications for the ability of accounting students to exercise judgement when applying principle-based standards. Hence, it is relevant to the implementation of the new CAS.

1.4.2 Professional ethics

The second theme in this current study is professional ethics. As noted earlier, effective judgement is also influenced by ethics (ICAS, 2010). Adherence to professional independence and objectivity is required in the Code of Ethics (COE) of the accounting profession. These principles promote the integrity of accounting professionals and hence maintain their reputation. However, Western professional ethics are rooted in their cultural characteristics such as universalism, impartiality, individualism and justice (von Weltzien Hoivik, 2007). The ethical principles in the Western COE may not be suitable for other countries due to different cultures and socioeconomic conditions (Cohen, Pant, & Sharp, 1992). For example, through studying accounting regulations in Japan, McKinnon (1984) find that the US concept of auditor independence, introduced to post WWII Japan, does not fit well with the interdependent nature of social and business relations in Japan. Jeffrey et al. (1996) also argue that

the notion of an autonomous profession is based on Western individualist values, which requires professional members to give their allegiance to an abstract professional code of ethics. These are attitudes that run counter to those of a collectivist culture where group decisions are preferred to an individual judgement... (cited in Waldmann, 2000, p. 27)

Extant studies show that culture substantially influences professional decisions in those situations involving ethical dilemmas (Fleming, Chow, & Su, 2010; Patel, Harrison, & McKinnon, 2002) (section 2.2.4.5). This is because ethical values are part of culture (Hofstede, 1991). Therefore, what is perceived to be ethical in Anglo-Saxon countries may not be necessarily viewed as being ethical in Asian countries, and vice versa. Given that Confucianism is the foundation of Chinese culture, the second theme of the current study investigates how a Confucian-heritage culture impacts on Chinese professional ethics under the backdrop of a contemporary society. It examines obstacles (if any) in exercising independent and objective judgements under the influences of Confucianism. The purpose of this research question is to understand the impact of cultural values on professional judgement; hence, it is a relevant indicator to assess the implementation of the new CAS.

The outcomes from this study may reveal practical obstacles in implementing IFRS-converged standards in China. It hopes to provide an in-depth understanding of how a Confucian culture impacts on accounting education and professional ethics. Because both

themes influence how professionals exercise judgement, the findings from this study may have implications for the *de facto* convergence of IFRS in China. It also aims to offer the IASB and Chinese accounting policy-makers an insight into the difficulties faced in the implementation of IFRS-based accounting standards in a country with a different environment from that of an Anglo-Saxon culture. Furthermore, although this study does not tend to generalise its findings, it may have some ramifications for other Asian countries, regarding decisions about the adoption of IFRS because some Asian countries share a similar Confucian culture. In order to answer the research questions, the current research employs semi-structured interviews and informal conversations as a research method, which is introduced in the following section.

1.5 Research method

The current research falls within the qualitative research paradigm. Qualitative research enables researchers to find an in-depth understanding of why and how for certain phenomenon (S. Taylor & Bogdan, 1998). This study tries to understand and explain how Confucianism influences accounting education and accounting professional ethics in China. Views and experiences from accounting professionals, academics, and students are sought. Their understanding of reality is subjective, according to their cultural background and experiences. In other words, constructed and multiple realities exist (Lincoln & Guba, 1985). Therefore, the researcher needs to seek meanings and interpretations attached to their experience and behaviour from their reality.

To answer the research questions, interviews are adopted as the preferred research method. Interviews enable participants to express themselves freely according to their own thinking, rather than using questionnaires that may constrain people's thinking with only a few alternatives to choose from (Ghauri & Gronhaug, 2005). In-person interviews were conducted with four groups of interviewees, namely accounting academics, students, practitioners and Western practitioners who had worked experience in China. Thirty-four semi-structured interviews were conducted in various locations in China and overseas.

1.6 Definitions of key terms

This section clarifies the understanding of some terms used in this study.

Chinese Accountants

Chinese accounting professionals in this study refer to both Chinese auditors and accountants. There are two accounting qualification systems in China: Chinese Certified Public Accountants (CPAs) and accountants who hold national Accountants Certificates (AC). The current research does not classify interviewees into these different designations because they share the same accounting education programme and a similar professional COE.

Chinese culture – Confucian heritage culture

Confucian heritage culture is not only limited to China and Confucianism is influential in many East Asian countries. However, this study only concerns Confucian influences in the People's Republic of China (PRC), or mainland China.

Western culture – Anglo Saxon culture

Western culture in this study refers to the culture group found in Anglo-Saxon countries such as United Kingdom, United State and New Zealand (Browaeys & Price, 2008). This cultural cluster is very individualistic with a low power distance (Hofstede, 1980). IFRS were developed in UK, which is influenced by Anglo-Saxon culture. Although the current study is not a comparative cultural study, it sometimes refers to Anglo-Saxon cultural traditions to inform discussions.

1.7 Organisation of this thesis

The introductory chapter is to present a broad overview of the current research. Chapter 2 provides a brief historical background of the Chinese accounting reforms and introduces the obstacles identified during the convergence with IFRS. The extant literature is critical of Chinese accounting education and many claim the development of students' "soft" skills is inadequate. Some literature also questions the professional ethics of Chinese accountants. Although the extant literature identifies the obstacles, little has been done to obtain an in-depth understanding as to how Chinese culture shapes and influences Chinese accounting education and Chinese professional ethics. The current research seeks to meet these gaps in the current literature. It is maintained that Confucianism is regarded as being the core of

Chinese culture (Y. Fan, 2000; Ronnie, 2011). For this reason, it is selected as the most relevant theoretical framework with which to interpret findings. Chapter 3 introduces Confucian philosophy, which maintains substantial influences over Chinese history, education, ethics and social values. To investigate how this Confucian-heritage culture affects accounting education and professional ethics in China, a database was constructed from 34 semi-structured interviews. Justification of the research methodology and method is documented in Chapter 4. Chapter 4 also records the research process and data analysis process. Findings on accounting education are reported in Chapter 5. The discussion on findings uses a Confucian lens to understand the nature of Chinese accounting education and the manner in which it is conducted. Chapter 6 elaborates the ethical issues faced by Chinese practitioners and explains how their behaviour and judgement is influenced by Confucian doctrines. Chapter 7 summarises key findings from both findings chapters and discusses the significance of the findings, the limitations of the current research, and makes suggestions for future research before providing a final conclusion.

Chapter 2 - Literature review

This chapter provides detailed information related to the convergence with IFRS in China through a review of the relevant literature. The chapter aims to provide an overview of current Chinese accounting systems and the obstacles identified with the convergence. It is organised in the following way. It begins with an introduction to the background of the Chinese accounting system, followed by a review of the issues associated with the convergence with IAS/IFRS from Chinese political, economic, legal and cultural perspectives identified in previous studies. It then narrows down the focus to problems related to the Chinese accounting education system and the professional ethics of Chinese accountants. Finally, a summary is provided to identify gaps in the literature.

2.1 Background of Chinese accounting systems

This section provides an overall historical background of Chinese accounting systems. It first introduces a brief picture of the Chinese accounting system before the economic reform, followed by the progressive stages of convergence with IAS/IFRS after the economic reform. For the purpose of this study, the accounting system refers to the financial accounting system.

2.1.1 Chinese accounting system before economic reform

Chinese accounting has had a long history. Governmental accounting was fairly sophisticated in the Western *Zhou* Dynasty (西周) more than three thousand years ago (Z. J. Lin, 2003). It was single-entry based system to record the movement of money or physical goods. During the sixteenth and seventeenth centuries, the Chinese double-entry system emerged, which was called *Longmen Zhang* (龙门帐) (D. Guo, 2008; Z. J. Lin, 2003). However, due to the dominant feudalistic values during the Ancient China, the development of commerce was suppressed and slow. Consequently, the Chinese double entry system was not developed properly (D. Guo, 2008).

Following the Opium War in 1840, China became a semi-colonial country. In the early twentieth century, colonialists from Britain used their own accounting systems in the enterprises they established in China. In addition, during the early twentieth century many Chinese students studied abroad and returned to China. These students brought Western accounting principles and practices to China (M. W. Chan & W. Rotenberg, 1999; D. Guo, 2008). Gradually, an accounting education system was established, and bookkeeping and

accounting courses were taught at university and college levels (M. W. Chan & W. Rotenberg, 1999). Traditional Chinese accounting and Western accounting were practised simultaneously in China before 1949. Professional accounting bodies were also established in 1918 (Hao, 1999; Z. J. Lin, 1998). However, their development was very slow due to social instability and the relatively poor status of industry and commerce (Z. J. Lin, 1998).

The PRC was founded in 1949. China became a communist country with a centrally planned economy. The accounting system was specifically designed for this type of economy (Winkle, Huss, & Chen, 1994). The objective of accounting was stewardship and accountability and the government was the only user of financial information (L. M. Chow et al., 1995; Q. Tang & Lau, 2000). The accounting system was copied from the Soviet material production model and accounting was merely a bookkeeping exercise. The Soviet model of accounting focused on recording the allocation of funds and maintaining the control over physical production (M. W. Chan & W. Rotenberg, 1999; Zhou, 1988). Chinese accounting standards were finely classified into industry sectors with rigid and specific rules (Yunwei Tang, 2000). Public accounting was suspended when the PRC adopted a form of the Soviet centrally planned economy and accounting system (J. Ge & Lin, 1993; Hao, 1999). “There were no professional public accountants and auditors, and no external markets existed for accounting services” (Hao, 1999, p. 290). In the 1950s, Russian accounting experts came to China to help train accountants and to assist in developing accounting education programmes in universities and Soviet accounting models replaced all Western accounting models (Hao, 1999).

Accounting suffered from a series of dramatic political events in China from the late 1950s to the 1970s (Graham & Li, 1997). The “Great Leap Forward” (1958-1961) introduced the idea of “accounting without books” (M. W. Chan & W. Rotenberg, 1999; Winkle, Huss, & Tang, 1992, p. 180). Accounting journals and records were eliminated. Later, during the Cultural Revolution (1966-1976), accounting practices were even condemned (Chan & Rotenberg, 1999, Winkle et al, 1992). Accountants were considered to belong to the “bourgeois class” and suffered both mentally and physically. Accountants in enterprises were dismissed and the accounting departments in universities were closed (Yapa & Hao, 2007). During the ten-year Cultural Revolution, people experienced fear, xenophobia, and mistrust (Ip, 2009a). Economic activities almost ceased and the centrally planned economy failed to

bring wealth to the country. As a result, China faced a desperate need to change its economic structure.

2.1.2 Chinese accounting system after the economic reforms

The “Open door” policy was announced at the Third Plenary Session of the Eleventh Central Committee in 1978, which marked inception of the Chinese economic reforms. MOF re-introduced the industry-based accounting system (Xiao et al., 2004). However, this old accounting system was unable to accommodate the diversified ownership structures of Chinese industrial and commercial entities. Prior to the economic reforms, the Chinese economy was made up of SOEs and collectively owned entities. After the economic reform, joint ventures, foreign owned and privately owned entities have prospered. The growth of Sino-foreign joint venture entities has created the need to converge with internationally accepted accounting standards and practices (Xiang, 1998). Consequently, the MOF with assistance from the World Bank started an accounting reform. The World Bank funded a 10-year project (2000-2009) to converge Chinese accounting practices so that they are compatible with the accounting principles used in Western economies (H. H. Yang, 2012). The reform encompasses a few phases.

2.1.2.1 Landmarks to convergence

Due to the growth of joint venture entities, MOF promulgated *The Accounting Regulations for Joint Ventures (the 1985 regulation)*. The 1985 regulation applied to joint ventures entities in China. This regulation followed the international accounting standards and an independent auditing system for joint ventures was also established (Hao, 1999; Xiao et al., 2004). This was the first attempt to introduce international accounting practices into China, which represented a radical departure from the fund-based accounting system (L. M. Chow et al., 1995; Xiang, 1998). The joint venture accounting system was regarded as being successful and was believed to promote foreign investments in China (Hao, 1999).

With the development of economic reform, there were pressures from both internal and external sources to push the convergence with IAS (later IFRS). In 1991 China established its own capital markets: the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE) (C. J. P. Chen, Gul, & Su, 1999; Xiao et al., 2004). As a result, there were increasing numbers of external investors demanding financial information (Q. Tang & Lau,

2000). Moreover, there was pressure from the World Bank and the International Monetary Fund to make financial statements understandable. As a result, MOF issued the *Accounting System for Companies Experimenting with a Shareholding System* and the *Accounting Standards for Business Enterprises (ASBE)* in 1992 (Xiao et al., 2004).

The 1992 ASBE became effective from 1 July 1993 and introduced accounting principles that were modelled after the IAS. The ASBE was a step further from the 1985 accounting regulations, which applies to all Chinese entities. It was a milestone of the Chinese accounting reforms (Scapens & Hao, 1995; Yuwei Tang & Liu, 1997) and regarded as a turning point in Chinese accounting history (Q. Tang & Lau, 2000). The 1992 ASBE represented “a shift in focus from providing information for a central-planned economy to a socialist-market economy” (Peng, Tondkar, van der Laan Smith, & Harless, 2008, p. 452). After the 1992 ASBE, MOF issued three other sets of accounting regulations, the 1998, 2001 and 2006 standards (Peng & van der Laan Smith, 2010). Each of these brings the Chinese accounting system one-step closer to IAS/ IFRS.

As mentioned in Chapter 1, the latest set of Chinese accounting standards were released in 2006, and consists of Basic Standards and 38 Practical Standards. They converge to the IFRS to a maximum extent. Substantial convergence between the 2006 ASBE and IFRS is considered to have been achieved (IASB, 2006). For example, it adopts the concepts of fair value, accounting for inventory, goodwill and corporate income tax (D.-m. Wang & Yu, 2008). The allowance for doubtful debts should be based on the assessment of collectability of the debts. This value of inventory should be measured based on the lower of cost or net realisable value (CICPA, 2009). Sir David Tweedie (former Chairman of IASB) commented on the issuing of the 2006 regulation:

The benefits of these accounting reforms for China are clear. The new Chinese standards that incorporate accounting principles familiar to investors worldwide will encourage investor confidence in China's capital markets and financial reporting and will be an additional spur for investment from both domestic and foreign sources of capital (Deloitte, 2006).

After the issuance of the 2006 CAS, the standards will “remain relatively stable” (Yuting Liu, 2007). After the 2006 standards, MOF aimed to achieve full convergence, so that CAS can be equivalent to IFRS (Yuting Liu, 2007; Y. Liu, 2010). The proposed roadmap indicates

the completion of the Chinese convergence programme would be in 2011. Once it is completed, all large and medium size entities are required to apply the revised standards as at 2012 (Deloitte, 2009).

The changes in Chinese accounting standards have attracted a number of researchers to assess the convergence between CAS and IFRS. Some of these studies measure the degree of convergence in the standards. For example, Peng and van der Laan Smith (2010) analysed the detailed changes in Chinese GAAP in relation to the convergence progress. They compared and analysed the changes in a series of Chinese GAAP (1992, 1998, 2001 and 2006) over a 15-year period. They find an improved level of convergence between Chinese GAAP and IFRS, from 20% in 1992 to 77% in 2006, and conclude that Chinese standards have achieved significant convergence with IFRS. This is agreed by Qu & Zhang (2010) who used fuzzy clustering analysis to test the convergence. However, a convergence of standards does not necessarily mean a convergence in practice.

Some studies compare the gaps in reported earnings of listed companies prior and following the issuing of a new version of ASBE/CAS to measure the degree of convergence (C. J. P. Chen et al., 1999; S. Chen, Sun, & Wang, 2002; Kuan & Noronha, 2007; C. Liu et al., 2011; Olesen & Cheng, 2011; Peng et al., 2008). To evaluate the degree of convergence between the 1992 ASBE and IAS, Chen et al. (1999) studied listed companies issues of both A shares (domestic share markets, compliance with ASBE) and B shares (overseas share markets, compliance with IAS) from 1994 to 1997. They find that the reported earnings under ASBE are 20-30% higher than the earnings restated under IAS. These differences are due to the accounting practices relating to bad debts allowance, depreciation, inventory valuation, long-term investment and foreign currency transaction (C. J. P. Chen et al., 1999). They conclude that reported earnings based on the 1992 ASBE are significantly different from those based on IAS.

To test the gap between the 1998 CAS and IAS, Chen et al. (2002) analysed 75 listed companies that issued both A shares and B shares from 1997 to 1999. They find that 80%, 59% and 69% of the sample companies reported higher earnings under CAS than under IAS in 1997, 1998 and 1999 respectively. There is no significant reduction for the reported earnings after the introduction of the 1998 CAS. Therefore, they conclude that harmonisation

in accounting standards does not lead to harmonisation in accounting practice and that the convergence fails to meet expectations.

MOF issued the 2001 CAS to replace the 1998 regulation. Peng et al. (2008) tested 79 listed companies that issued both A shares and B shares for the years 1999 and 2002. Although they still find that reported earnings are higher under the 2001 CAS than under IFRS, a reduction in the earnings gap over the three years is found. They conclude, which is contradictory to previous studies, that the progress of convergence has been remarkable. Similarly, Kuan & Noronha (2007) studied a sample of 30 companies listed in A shares and H shares (Hong Kong Stock Exchange) in 2004. They find that there are significant discrepancies in operating income. When excluding operating income, no significant difference shows in *t-tests* between the paired figures of sales revenue, income before tax, net income, assets, debts and equity. They also conclude that the harmonisation progress has advanced remarkably. The two studies indicate that the 2001 CAS is a step closer to IAS than its predecessors.

To examine the gap between IFRS and the 2006 CAS, Olesen & Cheng (2011) tested a sample of 47 companies listed in A shares and H shares from 2006 and 2007. They find that 64% of companies show a reduction in profit gap and 47% show a decreased gap in equity. However, 23% of companies report an increased gap in profit and 32% report an increased gap in equity. They also find that some companies adopted fair value in the H share accounts, but used historical value in their A share accounts. They conclude that the convergence in standards has not led to convergence in practice. In contrast, taking a different approach, Liu et al. (2011) tested whether accounting information quality has improved after the 2006 CAS. They examined 3240 listed firms in the A shares market from 2005-2008 and find that “value relevance of reported earnings increased while earning smoothing decreased with the standard change” (p. 672). This indicates that the 2006 CAS (the IFRS-converged standards) have improved the quality of financial information after 2007. They conclude that IFRS are relevant to China despite the fact that China has a regulated market. Similarly, Lee, Walker & Zeng (2013) find that the IFRS-converged CAS has increased the value relevance of reported earnings since 2007. This benefit is more pronounced in the manufacturing sector and among firms with greater reliance on external capital. The above studies show the convergence progress in China.

Convergence does not mean adoption in China, some differences between CAS and IFRS exist. KPMG (one of the Big 4 accounting firms) reported the differences between the CAS and IFRS based on the 2011 version of the standards. First, certain accounting options are permitted under IFRS, but not under CAS. For example, IFRS allows both cost and revaluation models for Property, Plant and Equipment (PPE), but CAS only allows cost model. Second, CAS contains specific requirements on common issues encountered in China. For instance, for a business combination involving entities under common control, CAS requires that pooling of interests method to be used, whereas IFRS encourages acquisition methods in business combination though other methods maybe considered. Third, there are some specific requirements of IFRS on matters not commonly encountered in China. CAS covers the general principles in its Basic Standards rather than detailed requirements. Share-based payment plans involving the supply of goods is rare in China, thus CAS does not contain specific requirements for such transactions (KPMG, 2011). The differences are largely owing to Chinese economic environment, which is further discussed in Section 2.2.1. In addition to the convergence project, Chinese government has also revived the public accounting profession, which is the focus of the next section

2.1.2.2 Re-establishment of accounting profession

Due to an increase in foreign trade and the rapid growth of international capital inflows, foreign investors, creditors and other interested groups require independent auditing to assure the creditability of accounting information (J. Ge & Lin, 1993; Yapa & Hao, 2007). Therefore, the demand for public accountants has re-emerged (Q. Tang & Lau, 2000). The Chinese Institute of Certified Public Accountants (CICPA), which is governed by the MOF, was re-established in 1988 (Hao, 1999). The number of Chinese CPAs has grown rapidly in the last two decades. According to the CICPA official website, by June 2012, the number of CPAs exceeded 250,000. This is still relatively small when compared to the size of the Chinese economy.

Apart from the CPA qualification, China has another set of accounting qualification systems called Accountancy Certificate (AC) (Hao, 1999). This is a ranking system for salaried accountants. There are four tiers of accountants: senior accountant, accountant, assistant accountant and junior accountant. The senior accountant title is normally awarded according to experience. The junior and assistant level titles are obtained through taking examinations.

The AC system is also regulated and administered by MOF. There is no direct relationship between CPA and AC (Hao, 1999). Both systems are under government control and MOF is responsible for examinations of both qualification systems.

This section provides a historical account of the Chinese accounting system and accounting reform. It shows the major role that the government has taken in the accounting reform and the re-establishment of the accounting profession. Although CAS appears to be very similar to IFRS, many authors doubt the feasibility of the IFRS-converged standards in practice (Yin Chen et al., 1997; Davidson et al., 1996; Ding, 2000; Peng & Bewley, 2010). The following section analyses obstacles in China that may hinder the convergence of IFRS.

2.2 Key obstacles in converging with IAS/ IFRS

In June 2010, the Institute of Chartered Accountants of Scotland (ICAS) issued a report on China's adoption of IFRS-based standards. It considers that the 2006 CAS has converged with IFRS, though a few differences remain. The report shows that some interviewees believe that the full adoption of IFRS in China is unlikely to occur and that China would continue to converge with IFRS principles in a manner that is suitable for the Chinese economy and business environment. Some argue that the Chinese government pushes for convergence with IFRS because of political pressure (Peng & Bewley, 2010; Xiao et al., 2004) and hence a uniform accounting system is preserved as a consequence of China's special circumstances (Xiao et al., 2004). Graham and Li (1997) also argue that because of Chinese special circumstances, "... change [in accounting standards] will be implemented only in conjunction with Chinese needs" (p. 247). As mentioned in 1.3, a number of studies in the area of convergence or adoption maintain that it is difficult to transplant IAS/IFRS into another country, which has a different political, economic and cultural environment. The special Chinese circumstances have contributed to the difficulties in the *de facto* convergence with IAS/ IFRS, including (1) strong state ownership in business enterprises and the economy, (2) a weak equity market, and (3) the difficulties in applying professional judgement by Chinese practitioners. These circumstances are discussed as follow.

2.2.1 Political and economic environment

This section introduces the Chinese political and economic circumstances that are different from Anglo-Saxon countries from which the IFRS are derived. First, the IFRS are based on a "free market" economy, whereas the Chinese economy features government control.

Because the Chinese market is not “free”, there is a lack of reference for fair value accounting. Second, the Chinese equity market structure features a low demand for quality financial information.

2.2.1.1 Chinese market is not “free”

Fair value is an important and essential concept in IFRS. It requires professional judgement to determine fair value. Although fair value accounting (FVA) is adopted in CAS, the flexibility of using it is limited to particular circumstances. Peng & Bewley (2010) find that in the 2006 Chinese standards, there is a high degree of adoption of FVA for financial instruments, but many discrepancies for non-financial long-term asset investments. For example, fair value is not allowed for Property, Plant & Equipment (PPE) where there is an absence of an active market. Options to choose fair value and historical value lead to a predominant use of historical cost in practice. Because fair value is a central concept of IFRS, a limited adoption of FVA in CAS casts doubt on the “substantial convergence” between IFRS and CAS (Peng & Bewley, 2010). The reasons for China’s reservations on FVA can be multifaceted, and are discussed below.

First, the Chinese government plays “the dominate role in the macroeconomic management of the economy and providing direct and indirect supervision over business enterprises” (Davidson et al., 1996, p. 60). Although privatisation is growing in China, the State still owns land and controls many lucrative industries such as defence, electricity production and distribution, telecommunication, coal, transportation and so forth (Yin Chen et al., 1997; Davidson et al., 1996; Graham & Li, 1997; S. Li, 2010). Under the strong influence of the government, SOEs often need to aid political objectives such as providing employment, assisting other SOEs and so forth. Moreover, the government tends to bail out underperforming SOEs through artificially propping up asset values (S. M. L. Wong, 2006). Sometimes “acquisition price might be lower than the fair value when the firms have a special relationships with suppliers or receive favourable treatment from the government” (Davidson et al., 1996, p. 72). Hence, the Chinese market is featured with government intervention and is unable to provide a reference of fair value (Davidson et al., 1996; Y. C. Liu, 2010; Xiao et al., 2004). The free market has not been fully developed in China (ICAS, 2010) and thus it is difficult to apply FVA.

Second, FVA requires professionals to exercise judgement. However, the subjective nature of judgements has been viewed as an opportunity for earnings management (Harding & Ren, 2007). For example, He et al. (2012) find that FVA on available-for-sale securities has been used as an earning management tool to meet earning targets. Some authors argue that if FAV is fully adopted it can be misused as a means to manipulate financial information (Y. C. Liu, 2010; Peng & Bewley, 2010).

Because of the divergences related to adopting FVA, Peng & Bewley (2010) maintain, “full convergence in standards is not possible now, and is unlikely to happen in the near future. China has developed a made-for-China version of FVA that differs from IFRS” (p. 1004). The authors contend that the “implementation [of IFRS-based standards] is successful only on the surface” (p. 1004). The convergence with IFRS in China may merely reflect the fact that China would like to be seen as a part of the global community. Peng & Bewley (2010) argue that in China the motivation to converge with IFRS appears to be political rather than for economic reasons.

The benefits from the IFRS convergence project in China may be seem as more political than economical... emerging economies can signal an image of improved financial quality by donning the brand name of IFRS (Peng & Bewley, 2010, p. 1005).

The government not only controls the macro economy, but also dominates the Chinese share-markets. The next section discusses how Chinese share-market structure devalues the quality of accounting information.

2.2.1.2 Structure of Chinese Share-market

The formation of Chinese share-markets directly influences the re-establishment of public accounting. Chinese share markets have grown quickly from 10 companies in 1990 to 2063 companies in 2010. The total value of market capitalisation was more than 26 trillion (RMB) in 2010 (National Bureau of Statistics of China, 2012). Despite this rapid growth, the Chinese equity markets feature strong government control, strong market speculation and weak investor protection (S. M. L. Wong, 2006; Xiao et al., 2004). These characteristics result in a low demand for high quality accounting information (Defond, Wong, & Li, 2000; Xiao et al., 2004).

There are three types of shares in the stock markets, including state shares, institution shares and individual shares. State shares are not tradable. Institution shares are tradable in blocks in a designated market. Individual shares, including A shares (trading in RMB) and B shares (trading in USD) are tradable in the stock exchanges (K. H. Chan, Lin, & Mo, 2006; Defond et al., 2000). The State is the largest shareholder. There are 65% of listed companies which are SOEs, and these account for 89% of the market capitalisation (X. He et al., 2012). The share markets are a source of capital for SOEs (Defond et al., 2000; S. M. L. Wong, 2006).

Because the state shares are not tradable, the government and local governments have little incentive to maximise share prices. Moreover, since the government or local governments have control over the management of SOEs, they do not have to rely on external financial statements (Xiao et al., 2004). This means the demand for quality financial information and the demand for independent auditing theoretically comes from the minority individual shareholders; such a demand is low (K. H. Chan et al., 2006; Defond et al., 2000). Moreover, Defond et al. (2000) find that the independence of large Chinese auditors improved significantly after adopting international auditing standards in 1995. However, this improved independence is followed immediately by a decrease in the market share of the large auditors who issued qualified opinions. This ‘flight from quality’ in the Chinese auditing market indicates that there is low demand for independent auditors (Defond et al., 2000). A senior audit partner who was involved in setting auditing standards in China points out in an interview “In China, nobody wants “true” accounting information, not even the government” (Xiao et al., 2004, p. 210).

This low demand for quality financial information is likely to be reduced even further where the majority of individual investors are speculative (S. M. L. Wong, 2006; Xiao et al., 2004). They buy and sell shares based on speculation, rather than as long-term investments because there is a high perception of earning manipulation (Xiao et al., 2004). Wong (2006) examined that the average dividend yield (0.85) was lower than the average interest rate (1.78) from 1992-2003. The low value of long-term investments encourages short-termism.

Furthermore, China does not have a transparent equity market. “China’s stock markets are frequently ranked as the one of the least transparent of the world’s large economies” (Piotroski & Wong, 2012, p. 204). The issue with opacity exists to cover expropriation and/or, the use of relationship based contracting and social connections. Consequently, these issues

may prohibit Chinese entities disclose quality financial information to the market participants. Without a transparent equity market, some argues although China has converged with international accounting and auditing standards, it possibly amount to “window dressing” to ameliorate the concerns from foreign investors and institutes without any meaningful change take place in the information environment or governance practices (Piotroski & Wong, 2012).

This section outlined the obstacles to converging with IFRS in the Chinese political and economic environment. The concept of fair value cannot be fully utilised in China because of the absence of a free market. The demands for external financial information are low due to the large proportion of non-tradable state shares and investors’ opportunism. These two factors imply that the value of converging with IFRS is likely to be undermined in China. As Chen et al. (1997) conclude,

...the Anglo-American accounting principles and standards have been developed over a long period of time in a market economy based on private ownership, they cannot be successfully transplanted overnight to the PRC (p. 150).

In addition to the political and economic factors, which do not fully support the implementation of IFRS-based standards; Chinese accounting professionals also have difficulties in exercising professional judgement as is required by the standards.

2.2.2 Difficulties in exercising professional judgement

Exercising professional judgement is crucial to the application of principle-based standards. For instance, IFRS involve a set of broad principles and “uncertainty expressions” such as “probable”, “significant control”, “fair” “reasonable” and “substantial” (Chand et al., 2011). These uncertainty expressions and the interpretation of accounting standards are subject to the judgements of accounting professionals (both preparers and auditors) (Chand et al., 2011; L. M. Chow et al., 1995). These judgements need to be made in the public interest. Hence, the financial statements can be useful for external users (ICAS, 2010). However, many writers show their concerns about the difficulties for Chinese accountants to exercise judgement because of (1) a rule-based accounting tradition, (2) a conservative culture and (3) accounting education. For example ICAS (2010) reports

Several interviewees noted that the culture was one in which accountants were strongly averse to making judgement of the kind that were needed to

support a more principle-based accounting regime. When combined with a relative lack of education and experience of IFRS accounting, the significant challenges of implementing the new Chinese Accounting standards become clear (p. 5)

This section analyses extant literature on the aforementioned three issues.

2.2.2.1 Traditional rule-based accounting system

Many writers maintain that the inability to exercise professional judgement is due to the majority of Chinese professionals being accustomed to the traditional rule-based accounting system (Ding, 2000; ICAS, 2010; Z. J. Lin & Chen, 2000; Z. J. Lin et al., 2001; Xiao et al., 2004). As introduced in section 2.1.1, China adopted a Soviet accounting system under a centrally planned economy regime in the 1950s. These accounting standards were rule-based, which did not require judgements. Chinese accountants, who were trained under a rigid rule-based accounting system, often have little education or training for the new accounting standards which require interpretation and exercise of professional judgement (Ding, 2000; Z. J. Lin & Chen, 2000; Xiao et al., 2004).

This unfamiliarity with professional judgement is likely to hinder the implementation of the new CAS. This is supported by Lin et al (2001)'s study, which find that both the users and providers of financial information support reducing the "free choice" of accounting alternatives in accounting standards. The authors argue that this desire for not to have free choice may reflect the fact that "most Chinese accountants are accustomed to mechanically follow the authoritative and detailed accounting regulations and rules... They lack the ability of professional judgement" (p. 41). *Ruoshan Li*, Chair of the Finance Department at *Fudan University* (a top university in China) shows a similar concern:

...[in China] senior accountants who can master international and domestic accounting standards and help enterprises with tax planning are rare. Principle-based accounting, a well-developed concept in the West, depends on subjective judgements to a great extent and would not be easily applied today in China. System-oriented accounting standards, which clearly tell accountants what is and is not allowed, are more applicable (Trombly, 2005, p. 16).

Similar concerns also apply to Chinese auditors. Under an IFRS regime, professional auditors need to independently exercise professional scepticism and judgement to evaluate the

financial statements (IAASB, 2012). Professional scepticism is fundamental in performing a high-quality audit. IAASB (2012) emphasises that auditors need to have a sceptical mind-set throughout the entire process of auditing. Without scepticism, auditors are unlikely to recognise the conditions that may cause material misstatement of financial statements. However, Lin & Chan (2000) find that although the Chinese auditing standards are very similar to ISA, Chinese auditors do not necessarily exercise their professional judgement during an audit. They believe there are two factors that contribute to the difficulties in exercising professional judgement when performing an audit. First, professional judgement is not emphasised in Chinese accounting education. Second, because judgements involve a certain degree of uncertainty, as Chinese culture is conservative it tends to avoid uncertainty. Consequently, auditors prefer to follow detailed rules and guidelines because they are less uncertain.

2.2.2.2 Cultural considerations on exercising judgement

Much research shows that culture is a pervasive factor, which leads to the different interpretations and applications of principle-based accounting standards. Accounting professionals from different cultures make different judgements based on a common requirement from IFRS (Doupnik & Riccio, 2006; Doupnik & Richter, 2003; Tsakumis, 2007; Tsakumis et al., 2009).

The main concern for Chinese accountants is that Chinese culture tends to be risk-averse. Accounting professionals prefer to operate under the rules (ICAS, 2010). Judgements often involve uncertainty and hence are of higher risk. This is contra to Chinese conservative culture with its strong avoidance of uncertainty. Harding and Ren (2007) tested the ambiguity tolerance level of first year and final year accounting students in China and Australia. They find that final year accounting students in China are less tolerant of ambiguity compare to their Australian counterparts, but there are no statistically significant differences in the levels of ambiguity tolerance between first year accounting students in the two countries. The study used final year accounting students as surrogates for junior level accountants, and hence Chinese junior level accountants have a strong tendency to avoid uncertainty. The authors argue that Chinese people tend to preserve group harmony and they tend to avoid offering individual ideas that might violate group harmony. Moreover, under a large power distance environment, people incline to follow the decisions made by supervisors. They hesitate to

make decisions themselves in fear of breaking the hierarchy. Similarly, Chand et al. (2011) find that Chinese students appear to be more conservative and secretive than Australian students. These cultural differences influence their interpretation and application of IFRS, which contain uncertainty expressions. Chinese students tend to “assign a higher mean probability to the uncertainty expressions that related to the disclosure decisions compared to Australian accounting students” (p. 20). Furthermore, the Chinese students involved in this survey are educated in Australia, which lead the authors to conclude that education does not moderate the cultural effects on interpretation of IFRS. These studies indicate that culture is a pervasive factor that affects accountants’ judgements when applying IFRS.

In summary, Chinese accountants are unfamiliar and feel uncomfortable about exercising professional judgement (ICAS, 2010). The inability to exercise judgement may be caused by both historical and cultural factors. Arguably the unfamiliarity of exercising judgement could be reduced through education and training. However, as shown in the next section, there appears to be a mismatch between Chinese accounting education and the desirable skills required to practise IFRS. The next section introduces issues identified in Chinese accounting education.

2.2.3 Chinese accounting education

The weaknesses and inexperience in exercising professional judgement may reveal some issues in the accounting education in China. This section analyses recent literature that directly focused on Chinese accounting education following the 1992 ASBE. This is because the 1992 standards marked a significant progress in the convergence with the internationally accepted accounting standards and practice. For the purpose of this study, the accounting education refers to a tertiary level of accounting education.

As a result of economic reform, the demand for accounting and auditing professionals has grown rapidly in China (Xiang, 1998). In response to changes in the economic structure and accounting standards, Chinese accounting education has also undertaken reforms since 1990’s. The changes and achievements of accounting education because of economic reform have been documented (Z. J. Lin & Deng, 1992; Yongze Liu & Chi, 2008; Yunwei Tang, 1997b; Winkle et al., 1992). The detailed accounting programme structure has been described (Yunwei Tang, 1997b; Woodbine, 2007; Xiao & Dyson, 1999). The strengths and weaknesses of Chinese accounting education and research have been identified (M. W. Chan

& W. Rotenberg, 1999; C. W. Chow, Chung, & Wu, 1997; Yongze Liu & Chi, 2008; Yunwei Tang, 1997b; Woodbine, 2007; Wu & Tong, 2004). The skills development of students and trends of accounting education have been analysed (L. Chen, 2009; Z. Guo, 2008; Z. J. Lin, 2008; Z. J. Lin et al., 2005). Chinese students' perceptions of good accounting teaching have also been examined (Xiao & Dyson, 1999). This section summarises the above literature and analyses the strengths and challenges of Chinese accounting education. This section comprises three parts: (1) a brief historical background of accounting education in China, (2) an introduction to the Chinese accounting education structure and (3) issues identified in the education system.

2.2.3.1 Background of Chinese accounting education

As noted in section 2.1.1, during the 1950s under the communist central planning economy, the Soviet accounting system was adopted. Russian accounting experts assisted with the development of accounting programmes in Chinese universities. Accountancy textbooks were also copied from Soviet accounting models (Hao, 1999). During the Cultural Revolution, tertiary education ceased and faculty members and accountants were considered to be intellectuals. They were sent to agricultural communes or factories and assigned physical labour so that they could re-develop the proper attitudes towards the labour class (Yapa & Hao, 2007). The Cultural Revolution marked the darkest period of management and accounting education (Wu & Tong, 2004). The universities re-opened after the Cultural Revolution in 1977. Accounting programmes in universities were highly specialised and industry oriented, which was in response to the industry-specific accounting standards. Even after the inception of the economic reforms, in 1986 the State Education Commission found that accounting was divided into ten broad divisions: Accounting, Financial Accounting, Industrial Accounting, Agricultural Accounting, Commercial Accounting, Material Accounting, Management Accounting, Banking Accounting, Tourism Accounting and Petroleum Accounting (Yunwei Tang, 1997b).

Economic reforms have created a growing demand for accounting professionals. Chinese accounting education is undertaking reforms in response to the economic reforms and a market-orientated economy since the 1980s. To reform the over-specialised accounting education, in 1987 the State Education Commission invited a number of foreign business educators to a Joint Symposium on Curriculum Development for Business Education (M. W.

Chan & W. Rotenberg, 1999; Yunwei Tang, 1997b). As a result, Western accounting courses, together with some teaching methods, have been incorporated into the Chinese accounting curriculum (J. Ge & Lin, 1993). Under this new curriculum, some of the new accounting textbooks are more conceptually oriented (Yunwei Tang, 1997b). Accounting programmes are re-designed in most educational institutions across the country (J. Ge & Lin, 1993). There are 508 universities and polytechnics offering Bachelor level accounting programmes in 2007 compared to 53 institutions in the early 1950s. Many Chinese universities now affiliate with overseas universities through student exchange programmes, visiting scholars, joint research and collaboration on Bachelor or Masters' Programmes (Yongze Liu & Chi, 2008).

This rapid growth in enrolments has not met the growing demand for qualified accountants due to the size of the Chinese economy (Xiao & Dyson, 1999). The convergence with IFRS in China appears to be revolutionary, so it is unrealistic to expect widespread training within a short period to produce a sufficient number of accounting professionals to implement the frequently updated accounting standards. This has led to a lack of qualified professional accountants to practice the new accounting standards (Yin Chen et al., 1997). The next section outlines the structure of Chinese tertiary accounting programmes before giving an analysis of the issues currently found in the accounting education system.

2.2.3.2 Structure of Chinese tertiary accounting education

This section outlines the structure of tertiary accounting education in China. Woodbine (2007) observed the Chinese accounting education system during his employment at Shenzhen University from 1998 to 2003 (Shenzhen is one of the wealthiest cities in the south-east region of China). Table 2-1 illustrates the subjects included in a Bachelor's degree, which is a rigidly structured four-year programme. The author compared the accounting curriculum at Shenzhen University to that of the Shanghai University of Finance and Economics and found striking similarities between the two. Woodbine (2007) argues that the sameness of accounting programme structure across different universities reflects a centrally managed curriculum regulated by the Ministry of Education. The weight given to the study of socialist ideology is still substantial.

Table 2-1 Accounting curriculum in Chinese university

Category of subjects	Number of subjects	Percentage (%)	Credits
Ideological subjects	5	13	36
General knowledge and skills	18	45	46
Business related units	7	17	26
Accounting units	10	25	43
Final business project			12
Total	40	100	163

(Source: Woodbine, 2007)

The ideological subjects include Military Theory and Practice, Morality, Marxist Philosophy, Introduction to *Mao Zedong* Thought, Introduction to *Deng Xiaoping* Theory and Political Economy. These subjects are normally completed in the first two years across all disciplines. General studies include English, Physical Education, Chinese Literature and Mathematics, which make up almost half of the overall programme. Business related subjects include Advanced Mathematics, Economics, Statistics, Marketing, Finance and Management. Accounting subjects include Accounting Principles, Intermediate Financial Accounting, Cost Accounting, Management Accounting, Auditing and Accounting Theory. These subjects are normally assigned to students and there are a very limited number of elective subjects available. Students have little say in selecting and arranging the subjects that they study. Overall, there is sufficient weight given to subjects related to communist ideology, but only one-quarter of the subjects are accounting related papers. By contrast, a typical Western Bachelor degree major in accounting devotes one-half of its programme content to accounting subjects. The inadequate assessment method and teacher-centred learning approach encourages rote learning and plagiarism (Woodbine, 2007). The challenges in accounting education under the background of convergence with IFRS are discussed in the next section.

2.2.3.3 Issues in Chinese accounting education system

Despite the effort made in accounting education reform, Chinese accounting education still has the following issues highlighted in the literature.

2.2.3.3.1 Lack of qualified teachers

There is a lack of qualified teachers to teach the appropriate accounting courses. Many of the instructors have been transferred from other disciplines such as statistics or operational research. They were educated under the framework of Marxist political economics (M. W. Chan & W. Rotenberg, 1999; Wu & Tong, 2004). “The majority of instructors lack business and practical experience”, and their teaching is solely based on information from textbooks, with little or no practical use (M. W. Chan & W. Rotenberg, 1999, p. 46). Woodbine (2007) also find that compulsory accounting papers concentrate on a practical process with an emphasis on management and cost accounting, whereas auditing and corporate accounting matters are poorly understood, probably because teachers have limited knowledge of these areas. It is also noted in the IFAC 2004 report that educators may have limited knowledge of international standards because they are normally not directly involved in applying and implementing these standards (P. Wong, 2004).

Due to a lack of qualified teachers, Chinese universities forge collaboration with their Western counterparts (Yunwei Tang, 1997b; Wu & Tong, 2004), introduce English textbooks and incorporate Western teaching methods. However, some of the Western teaching may not be relevant to the Chinese environment (M. W. Chan & W. Rotenberg, 1999). For example, Liu (2006) finds that many MBA programmes offered by Chinese universities adopt Western textbooks, cases and teaching methods.

However, there is no evidence to show that such approaches have successfully cultivated the creative and innovative abilities of the future manager’s abilities [which are] crucial for Chinese enterprises to compete in the global market (p. 7).

Liu argues that Western teaching methods and textbooks do not accommodate local culture and the way that Chinese people learn.

2.2.3.3.2 Teacher-centred pedagogy

Although some Chinese universities has introduced Western teaching methods, many writers comment that a teacher-centred education approach is dominant in China (M. W. Chan & W. Rotenberg, 1999; Yongze Liu & Chi, 2008; Yunwei Tang, 1997b; Xiao & Dyson, 1999). Under this teaching approach, teachers are responsible for the delivery of knowledge and

students passively receive the knowledge without questioning (Yongze Liu & Chi, 2008; Xiao & Dyson, 1999). Classes are structured and communication is one-way from teacher to students (M. W. Chan & W. Rotenberg, 1999). “Accounting textbooks were basically ‘regulation plus explanation’ and teaching pedagogies ‘lecture plus memorisation’ with little analysis on real cases” (Harding & Ren, 2007, p. 11). Students are primarily assessed by end-of-semester examinations, which involve the regurgitation of the knowledge learnt (Woodbine, 2007). Rote learning and repetition is encouraged in order to pass examinations. Liu (2006) asserts “the teacher-centred education has created a strong dependence on expert knowledge that represses initiative and creativity on the part of learners” (p. 9). Because of this reliance on teachers’ knowledge, Chinese students have little or no experience of critical evaluation or independent thinking (S. Chan, 1999; Cho, Roberts, & Roberts, 2008). To master knowledge, Chinese students normally first commit it into memory, and then try to understand and apply such knowledge (Watkins & Biggs, 1996). Students spend a considerable amount of time memorising and practising, even if they are bored and tired. The influence of such an education can extend to people’s adulthood and form their work values and behaviour. As a result, Chinese education is likely to lead to hard-working students, but students may be less responsive to changes (Bond, 1991).

2.2.3.3 Weak in soft skill development

With a fast changing business environment, the function of accounting has evolved from bookkeeping to decision-making. Some authors advocate that accounting education should shift from having a technical nature to a broad knowledge approach with an emphasis on skills development (Z. J. Lin, 2008; Z. J. Lin et al., 2005; Wu & Tong, 2004). The International Accounting Education Standards Board (IAESB) (a sub-board within IFAC) issued a set of the International Education Standards (IES 1-8). IES 3 prescribes five categorical skill-sets required to qualify as professional accountants, including (1) intellectual skills, (2) technical and functional skills, (3) personal skills, (4) interpersonal and communication skills, (5) organisational and business management skills (IAESB, 2010b). The acquisition of these skills, as described in paragraph 10 IES 3, is a way to help students to

become broad-minded individuals who think and communicate effectively and who have the basis for conducting inquiry, carrying out logical thinking and undertaking critical analysis (p. 48).

IES 2 also suggests that knowledge taught in professional accounting education programmes can be used to develop professional skills which are likely to benefit professionals in the long-run (IAESB, 2010a). However, many writers share the view that the current accounting education places emphasis on the delivery of technical knowledge, but that the development of generic skills is largely ignored (M. W. Chan & W. Rotenberg, 1999; Z. J. Lin, 2008; Z. J. Lin, X. Xiong, & M. Liu, 2005; Yunwei Tang, 1997a; Xiao & Dyson, 1999). For example,

The weakness in traditional Chinese teaching is that they are quite passive with one-way delivery of lectures and test-paper examinations at the end of each semester. Such teaching methods are ineffective at fostering the development of judgement in accounting professionals (M. W. Chan & W. Rotenberg, 1999, p. 46).

As a result of a lack of emphasis on soft skills development, many students find it difficult to deal with open-ended questions involving elements of analysis and evaluation (Woodbine, 2007). Others also suggest that Chinese accounting education tends to gloss over or avoid mention of the important theoretical and conceptual issues (L. M. Chow et al., 1995; Wu & Tong, 2004). This suggests that analytical skills and critical thinking abilities of accounting students have not been developed sufficiently. Critical thinking skills are defined by Jones (2010, p. 10) as “ability to analyse and evaluate, construct an argument, thinking independently and be conscious of both professional responsibilities and an ethical dimension”. Analytical skills relate to the ability to recognise the importance and implication of information and the ability of logic and reasoning to form an understanding of relationships between objects, information and individuals (Mohamed & Lashine, 2003). These skills are perceived to be very important in the job markets of the West (Kavanagh & Drennan, 2008; Albrecht & Sack (2000) cited in Z. J. Lin et al., 2005).

Furthermore, Chabrak & Craig (2013) suggest that accounting students need to understand that accounting and its concepts are neither natural laws nor absolute truth. “Students should be encouraged to appreciate the contestable character of concepts, to think of alternatives and other possibilities, and to consider ethical values as they do so” (p. 102). A lack of focus on conceptual issues in accounting education may indicate that students are unlikely to

understand the principles behind accounting. Although they may mechanically follow the debit and credit rules, in order to make judgement, an understanding of the principles behind the standards is necessary.

Some studies also suggest that the importance of critical thinking and analytical skills have not received proper attention from educators, students and practitioners. For example, Lin et al. (2005) find that the importance of soft skills such as analytical abilities, critical thinking, decision-making and written and oral communication are not sufficiently recognised by Chinese educators and students. Moreover, Chen's (2009) study finds that while practitioners think that verbal communication skills and change management are the top two most important skills, English and critical thinking skills are perceived as the least important by accounting practitioners. Lin et al. (2005) speculates the reason behind the perceived unimportance of analytical skills and critical thinking skills is that Chinese accountants have to follow the compulsory and detailed government regulations, hence the need for critical thinking and professional judgement is minimal in practice. These studies indicate that although the global trend of accounting education is skill-development; such skills may not be needed or valued in Chinese context.

2.2.3.3.4 Accounting research

Accounting research is a relatively new requirement for Chinese academics. In 1990s, Chinese accounting research seldom included empirical research (Yunwei Tang, 1997b). With the increasingly frequent exchanges of visiting scholars, accounting research has been further developed in the recent years. Chinese accounting research has been mainly followed techniques, research designs and even topics that were developed in North America (Q. Chen & Schipper, 2008). The Chinese government has also introduced a research assessment exercise in which tertiary institutions are ranked according to the number of publications and the frequency of citations. Whether this increased awareness of research can improve teaching quality and change pedagogy is still a question.

Overall, this section shows the issues that exist in Chinese accounting education. The teacher-centred approach appears to hinder the development of soft skills such as critical thinking ability and analytical skills. Because teaching and learning are influenced by cultural

traditions and social customs, the next section introduces literature that considers cultural effects on education in China.

2.2.3.4 Cultural considerations on education

Since “teaching and learning are deeply embedded cultural activities and social practices” (C. K. K. Chan & Rao, 2010, p. 337), in order to demonstrate the link between Chinese culture and education, this section explores literature which considers Chinese students and their cultural context.

Pratt et al. (1999) surveyed conceptions of “effective learning” from the perspectives of Chinese students, Chinese teachers and Western expatriate teachers. Their data was collected from four universities in Hong Kong. Their study shows the differences in the concepts of knowledge between Chinese respondents and Western teachers. From Chinese respondents’ perspective, knowledge is perceived to be authoritative and hence is unchallengeable. Teachers are perceived to be the experts of knowledge and therefore should be respected. In contrast, knowledge is “less certain, less stable, more contentious and subject to interpretation” (p, 246) from Western perspective. Western teachers are more like facilitators who encourage students to think independently. In China, academic success is directly measured by the results from examinations. Chinese learners focus on memorisation through repetition and drill. Their findings suggest that the “conceptions of teaching are mirrors of the cultural, historical and social structure within which they are enacted” (p. 251). These cultural and historical structures are further discussed in section 3.2.6.

Other studies have investigated the perceptions of Chinese undergraduate students on what is effective teaching and what kind of teachers are good teachers (Tam, Heng, & Jiang, 2009; Xiao & Dyson, 1999). Their studies show similar results and reflect the presence of Confucian culture in the education system. Both Tam et al. (2009) and Xiao & Dyson (1999) find that Chinese students think the most important characteristic of good teachers is being knowledgeable. Chinese students like their teachers to be responsible and care about them. In terms of teaching methods, students like their teachers to motivate them and make teaching interesting, but they do not like teachers who merely teach for the examinations. As in Confucian tradition, teachers are portrayed as virtuous role models. “Effective teachers are therefore often described as having a close, protective, caring relationship with students, similar to that of a parent” (Tam et al., 2009, p. 156). Moreover, Chinese accounting students

also think independent thinking is important, which may be due to the Western influence since the economic reforms (Xiao & Dyson, 1999).

Furthermore, a strand of literature looks into the paradox that Chinese learners, who are perceived to be rote learners and rely on memorisation, achieve comparably better academic results than their Western peers (S. Chan, 1999; Cooper, 2004; Saravanamuthu, 2008; Watkins & Biggs, 1996). These articles show the differences in learning methods between Chinese and Western learners, which highlights cultural differences in learning approaches. For example, Cooper (2004) assessed the scores for learning approach between Malaysian Chinese and Australian accounting students. He finds the Malaysian Chinese respondents score higher for both surface approaches and deep approaches learning and conclude that although Chinese students use repetition and memorisation to learn, their understanding is deepened through this process. His findings are consistent with the earlier studies done in this area (Biggs, 1991; Watkins & Biggs, 1996). Although Malaysian Chinese cannot be a proxy for Chinese students, the study illustrates a different learning approach is adopted because of cultural differences. This learning approach arguably reflects a Confucian education tradition, which will be further discussed in section 3.2.6.1.

The issues in accounting education are likely to have implications for the implementation of the new CAS. The accounting standards rely on professional judgement. However, Chinese accounting education appears to be weak in the area of preparing students for exercising judgement, which is a result of cultural factors. In addition to education, professional ethics is an essential factor influencing professionals to make fair judgements. The next section reviews the literature on the professional ethics of Chinese accounting professionals.

2.2.4 Professional ethics of Chinese accountants

IFRS-based standards provide wide scope for professional discretion. A strict adherence to professional ethical standards is crucial to make sound and fair judgements in order to deliver “true and fair” financial information. Therefore, professional ethics are considered the cornerstone for making sound professional judgements, particularly under a principle-based system. This means integrity outweighs the technical skills required of an accountant (ICAS, 2010).

The most challenging aspect of operating in a principles-based environment is the need to apply professional judgement effectively, consistently and fairly.

To support such an environment, accounting professionals have to be trained, ethics have to be upheld and additional guidance must be provided to make principles operational (ICAS, 2010, p. 3).

Both accountants and auditors are required to have sufficient knowledge, experience and objectivity to form a decision based on subjective accounting matters. Knowledge can be dealt with through education and training. Objectivity requires an independent mind to exercise judgement without bias. Therefore, professional ethics are highly likely to impact on the application of CAS in practice. However, a high number of Chinese business scandals have revealed that professional ethics is a serious issue in China.

2.2.4.1 Scandals and earning manipulation

Major business scandals normally call for people to question business ethics and professional ethics e.g. the Enron and Lehman Brothers scandals (A. H. Chu, Du, & Jiang, 2011). The publicised scandals can be a reflection of professional ethical status. This subsection gives a narrative account of recent business scandals involving falsified accounting information in China.

The MOF carried out practice reviews of accounting firms from July 1997 to March 1999. As a result of these reviews, 360 accounting firms lost their practice licences. A further 1,187 accounting firms received warnings of possible suspension of operation. Another 735 firms were ordered to make improvements within a given period, and 342 other firms faced punishment after further inspection. According to Tang (2000, p. 100), “this accounted for 42.46% of the total number of accounting firms at [that...] time”. Thousands of CPAs were also warned about ethical breaches. Lin & Chan (2000) observe that “the lack of adequate adherence to ethical standards by Chinese CPAs has been serious (p. 567)”. The drama does not stop here.

A wave of major scandals involving Chinese listed companies surfaced early this century including *Zhengbai Wen* (March 2000), *MonkeyKing* (February 2001) and *Yorkpoint* (April 2001). The largest scandal *YinGuang Xia* (August 2001) was called the Chinese “Enron”. The company fabricated sales and non-existing assets to manipulate its earning. Its auditor *ZhongTianQin*, the largest audit firm at the time, was brought down by the Chinese Securities Regulatory Commission (CSRC). These scandals contributed to a market crash in 2001. In

2002, 105 listed companies received official notices indicating deficiencies in reporting, and 19 companies were publicly censured (Rich, 2004).

Some studies on earning management reveal that Chinese firms utilise discretionary accruals to inflate earning in order to advance an initial public offering (IPO) (Aharony, Lee, & Wong, 2000). Jian & Wong (2010) also find that Chinese listed companies use related party sales to their unlisted parents to increase earning and meet targeted earnings. Through studying 257 Chinese listed firms' IPOs during 1999 and 2000 in both A shares and B shares, Chen, Cheng & Xiao (2011) investigated the relationship between operating performance and the use of RPTs of pre- and post-IPO. They find that

Chinese firms' post-IPO performance deterioration is the result of the artificial inflation of their pre-IPO operating performance through both operating RPTs (related party transactions) and accruals management ... (p. 179).

Research suggests that listed Chinese firms shows a spike of reported Return on Earnings (ROEs) at three levels: 0, 6 and 10 percent from 1999-2001 as per Figure 2-1 (Q. Liu, 2006). The three level ROEs have significance for Chinese listed firms. The CSRC requires that a firm needs to maintain 0% of ROEs to avoid the status of "special treatment" and if the firm make loss in three consecutive years, it will be suspended from the stock markets. As shown in Figure 2-1, there is an absence of loss-making firms in China. Moreover, a listed company has to keep a minimum of 6% of reported ROEs and a 3-year average of 10% (currently 8%) of ROEs to obtain the rights to offer new shares. The results indicate the financial statements of Chinese listed firms are likely to be manipulated to meet the benchmarks issued by the CSRC.

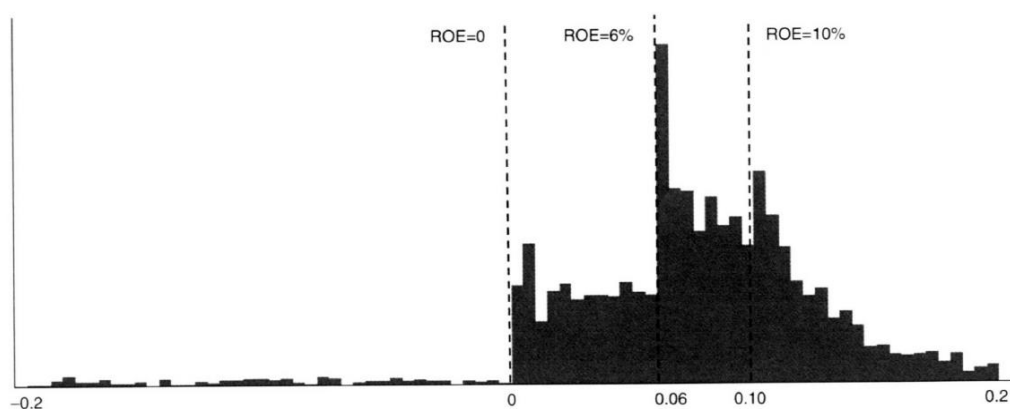


Figure 2-1 Histogram of ROE for China's listed companies from 1999-2001

Source: Liu (2006)

Earning managements do not appear to stop after the convergence with IFRS. Williams & Taylor (2013) selected a sample of 50 firms from the top 100 Chinese listed firms on *Shanghai* and *Shenzhen* Stock Exchanges and studied the 2010 annual reports of these firms. They find that abnormal sales to related parties are higher for firms whose ROEs had fallen close to 0% to avoid the “special treatment” status and consequently the risk of delisting. Other researchers study how the Chinese auditors are involved to help their clients improve the “special treatment” status, which is evident in the research below.

Chu et al. (2011) assessed special treatment (ST) firms' voluntary interim audits as a reflection for auditor independence. They tested only on ST firms, which were listed firms facing imminent danger of delisting from 2001-2008. Therefore, these firms had a strong incentive to manipulate earnings to avoid delisting. They find ST firms, which pay for voluntary interim audits, are more likely to improve their listing status. These firms are found to report greater discretionary accrued earnings, higher non-operating earnings, and higher returns on assets in the ensuing annual reports. Chu et al. (2011) argue that their results “indicate that ST firms buy auditors' cooperation by paying the auditors to conduct non-compulsory interim audits to manipulate earnings and improve their listing status” (p. 137). This shows that auditor independence is questionable (Section 2.2.4.4)

Many researchers reporting on earning managements in China describe the problem to be rampant and widespread (Williams & Taylor, 2013). According to research conducted by the National Accounting Institute (NIA) in 2001, 216 CFOs were surveyed in 23 regions. It finds that only 2.5% respondents believe that the financial reports of listed companies are reliable (National Accounting Institute, 2003). Similarly, Lin et al. (2001) assert that “the reliability of accounting information produced by Chinese enterprises is perceived as less than satisfactory” (p. 41). The authors maintain that both ineffective enforcement of accounting standards and improper auditing practice resulted in the low reliability of accounting information. Business scandals and the studies on earning management can be a proxy for the ethical status of Chinese accountants.

More recently, 19 Chinese companies were delisted in the United States from December 2010 to May 2011 for alleged frauds or scandals, including *DuoYuan* Global Water, China Media Express and *Longtop*. These scandals put accounting professionals’ independence into the spotlight again (“In recent 3 months 19 Chinese companies delisted or deregistered from American stock exchange,” 2011; Mayhew, 2012). *Weiguo Zhang*, the former chief accountant of the CSRC, stated that the Chinese accounting profession “needs senior accountants, not only those with expertise in handling business, but also with high professional ethics” (Trombly, 2005, p. 15). Many Chinese accounting scandals have provoked researchers to examine professional ethics in China. The following section analyses extant literature on Chinese accounting professional ethics.

2.2.4.2 Chinese Professional Code of Ethics

IASB encourages the adoption of universal accounting standards, auditing standards and professional ethical standards after the Global Financial Crisis in 2008 (M. G. Chen, 2009). As stated in Chapter 1, MOF not only converges Chinese accounting standards with IAS/IFRS, but also adopts a set of international auditing standards (Defond et al., 2000). Moreover, following the spirit of the international professional ethical standards issued by IESBA, COE for Chinese professional accountants was issued in 1996 in Mandarin (M. G. Chen, 2009). The most up-to-date version of this COE became effective in July 2010. The Chinese version of the COE appears to be very similar to the international codes issued by IESBA. The fundamental principles of Chinese professional ethics comprise the following:

(translated literally) overview, integrity, independence, objectivity and fairness, professional competency, confidentiality and professional behaviour and appendix (CICPA, 2010).

The ethical principles are prescribed to guide the behaviour of professionals and ensure the integrity of the profession (Cohen et al., 1992). However, many researchers have criticised the idea of professional independence and objectivity. The profession is intertwined with many conflicting interests and therefore it is unrealistic to be independent or objective, as evident by the many accounting scandals around the world. The ethical principles prescribed in COE aim to legitimatise the accounting profession and secure a good public image (Hooper & Xu, 2012; Mitchell, Puxty, Sikka, & Willmott, 1994; Neimark, 1995; Velayutham, 2003). This study recognises these arguments, but it does not attempt to evaluate the COE itself. Rather, this study aims to reveal how Western ethical concepts are implemented in a Chinese context (if they are applicable at all).

2.2.4.3 Overview of the dependent accounting profession

Despite the introduction of international COEs, many researchers express concerns over the ethics of Chinese accounting professionals (Z. J. Lin, 1998; Z. J. Lin & Chan, 2000; Yunwei Tang, 2000; Xiang, 1998). For example, Xiang (1998) acknowledges that there is a new demand for financial information as a result of foreign investments and changes in ownership structures in SOEs. However, he challenges the desirability of the adoption of IAS in China due to the lack of professional independence. The lack of professional independence consists of two levels: a dependent accounting professional body and dependent accounting professionals. The former is a result of government involvement in accounting reforms and its power over the Chinese accounting professional body, the CICPA. The latter could be a consequence of Chinese relation-based society.

In China, the government initiates the accounting reforms and their convergence with IFRS. It is also the government that re-established the Chinese public accounting profession to accommodate the needs for public accounting (Hao, 1999). The CICPA, which is governed by the MOF, does not have sufficient authority to lead Chinese accounting professionals and enforce accounting regulations (Yunwei Tang, 2000). In contrast with Western countries, the accounting profession is reasonably autonomous from the State.

Because the accounting profession is dependent on the government, it is likely to serve primarily the interests of the government. Yee (2009) argues that the CICPA and the Chinese government exhibit a Confucian “father and son” relationship, where the “father” gives directions and the “son” obeys commandments. The “father-son” relationship is one of the relationships in the notion of five relationships, which stipulates hierarchical interpersonal relationships (section 3.2.4). This hierarchical relationship between the government and the CICPA is likely to continue, because the Chinese government will maintain its sovereignty over accounting matters in the foreseeable future (ICAS, 2010; Lu, Ji, & Aiken, 2009). Moreover, Lu et al. (2009) argue that despite the increased influence from the West, “China has been centralised for over 2000 years and government has invariably been very powerful. Accounting cannot be immune from state influence” (p. 309). The government-control over the Chinese accounting profession may reflect a Confucian heritage. This section shows an overview of the dependent status of the Chinese accounting profession. The next section analyses extant literature on issues related to the professional independence of Chinese auditors.

2.2.4.4 Chinese auditor independence

The scandals mentioned in section 2.2.4.1 caused people to question the ethical status of accounting professionals. In particular, these business scandals, coupled with auditing failures, put Chinese auditors under the scrutiny of researchers.

An independent auditing profession is very important for the implementation of principle-based standards. The role of the auditing profession is to challenge management and to assess preparers’ judgements in order to provide assurance to external investors (ICAS, 2010). A credible auditing profession is likely to enhance the credibility of financial reports (Z. J. Lin & Chan, 2000). Because auditing has a function to assess whether financial statements are prepared according to applicable accounting standards, an independent auditing profession is also crucial to enforce the implementation of the new CAS (ICAS, 2010; L. Yang, Dunk, Kilgore, Tang, & Lin, 2003). This section reviews extant literature on auditing independence in China. Many factors, which compromise auditor independence in China, are identified from the literature, including (1) low litigation cost, (2) government affiliation, and (3) *guanxi*.

2.2.4.4.1 Low Litigation cost

The Chinese judicial system is not independent from the government. Judges are appointed and their salaries are paid by local governments and the majority of them are members of the Chinese Communist Party (Lubman, 2001). They tend to serve the interest of local governments, which may influence the outcome of litigation. Furthermore, *guanxi* “is often employed to influence outcomes that on many occasions pervert justice” (Lubman, 2001, p. 1741). Under such a judicial system, Chinese legal enforcement is weak. As reported by a Chinese manager, cited in von Weltzien Hoivik (2007)’s study, the manager reveals that Chinese people are fast to forget laws. Normally, Chinese law is powerful at the beginning, when the government promotes it. Once the campaign is over, the law is weak in implementation. The issue is not because of a lack of legislation, but because of a weak enforcement of the law (L. Yang et al., 2003). This weak legal enforcement is arguably influenced by Confucian virtue-based philosophy, which is further discussed in section 3.4.2.

The Chinese share market structure together with the legal system combines to result in weaker investor protection compared to that found in common law countries (Ding, 2000; F. Liu & Xu, 2002; Lu et al., 2009). The legal process of litigation involving auditors is ambiguous. Even if auditors are proven negligent, the compensation for shareholders is small. Therefore, the litigation costs are very low for auditors (F. Liu & Xu, 2002). “Chinese auditors have enjoyed an almost litigation free environment” (Xiao et al., 2004, p. 212).

As mentioned earlier, a series of business scandals at the beginning of this century led to a stock markets crash in China in late 2001. To calm angry investors, the government strengthened the regulatory environment. The CICPA reviewed seven CPA firms and issued revocation or suspension on a case-by-case basis (S. Chen, Sun, & Wu, 2010). The Supreme Court promulgated the *Private Securities Litigation Rules* in early 2003. To test the effectiveness of an improved regulatory environment on audit quality, Chen et al. (2010) used a sample of 8917 client firm-year observations from 1995-2004. They find that a client’s relative importance impaired auditing quality at individual auditor level from 1995-2000, when the institutions for investor protection were weak. From 2001-2004, within an improved regulatory environment, the probability of receiving a modified auditing opinion for important clients was higher. Their results indicate an improved auditing quality within a

tougher regulatory environment post 2001. However, the improved auditing quality found in this study may not necessarily mean an independent profession as shown in other studies.

2.2.4.4.2 Government affiliation and auditor independence

Traditionally, accounting firms were established by government organisations or universities (K. H. Chan et al., 2006; Z. J. Lin & Chan, 2000; Xiang, 1998). The auditors were part of the government organisations. For example, accounting firm A is associated with a local mining bureau and is asked to audit a local mining company. Therefore, independence is unlikely to be preserved. To improve accounting firms' independence, a disaffiliation programme was carried out from 1997-1998. Some find that auditor independence improved after the disaffiliation programme (Gul, Sami, & Zhou, 2009; L. Yang, Tang, Kilgore, & Hong, 2001).

Yang et al. (2001) examined the audit reports of all listed companies from 1993-1998 and found that the number and percentage of non-standard auditor opinions significantly (qualified/modified opinion) increased. There were 9.06% of companies received non-standard opinions in 1996, 12.33% in 1997 and 18% in 1998. Gul et al. (2009) studied 3635 firm-year observations which covered the period 1995-1996 (pre-disaffiliation) and the period 1998-2000 (post-disaffiliation). The study shows that the likelihood of receiving qualified opinion for companies significantly increases after the disaffiliation programme. This is the case for both affiliated and non-affiliated auditors (auditors who did not affiliate with clients before the disaffiliation programme). Both studies conclude that the disaffiliation programme improves auditor independence. However, other studies show a less optimistic picture of auditor independence.

Chan et al. (2006) asserts that although accounting firms are officially disaffiliated, the personnel ties between auditors and government agencies remain. Some Partners in local auditor firms are ex-bureaucrats of local government (Q. Wang, Wong, & Xia, 2008). Many auditing firms rely on local governments to find new clients and to retain existing clients (K. H. Chan et al., 2006). In a government-intervened market, audit firms depend on the local governments for businesses.

Local government officials have an incentive to influence auditors to issue an unqualified or unmodified opinion to SOEs (K. H. Chan et al., 2006). Many listed SOEs are owned by local governments or government agencies. Economic development in the region largely relies on

the performance of local SOEs. The political career advancement of local government officials is assessed based on the region's economic development (H. Li & Zhou, 2005). A qualified opinion, which marks unsound financial performance of a SOE, is not desirable for local government. The local governments have the power to pressure auditors to issue unqualified opinions. Therefore, within a hierarchical society, local auditors tend to please local government officials and issue unqualified opinions for local SOEs (K. H. Chan et al., 2006; J. Liu, Wang, & Wu, 2011; Q. Wang et al., 2008).

Chan et al. (2006) used a sample of 6229 firm-year observations for the period from 1996 to 2002 and find that Chinese entities can shop for unqualified audit opinion through switching their non-local auditors to local auditors. Local auditors in Chan's study means that the auditors are located in the province as their clients. Wang et al. (2008) examined a sample of 5759 listed companies from 1993-2003 and arrived at a similar finding. SOEs like to hire small local auditors because of the SOEs' lack of demand for non-local large auditors, small local auditors' superior local knowledge, and their affiliation with local governments (K. H. Chan et al., 2006; Q. Wang et al., 2008). Both studies highlight that on one hand Chinese auditors face pressure from local governments; on the other hand, they rely on local governments for business, which reflects on the importance of having political connections or *guanxi* with government officials.

2.2.4.4.3 Guanxi and auditor independence

Guanxi (关系) can be translated as connections, interpersonal relationships, or networks. *Guanxi* is a Chinese custom that derived from a collectivist society (section 3.3.1). It is a feature of the Chinese economy. There is research on *guanxi* in the business field in China. *Guanxi* is found to be one of the critical factors that contributes to business success in contemporary China (Vanhonacker, 2004; Yeung & Tung, 1996). For example, *guanxi* provides competitive advantages for business, such as reducing transaction costs, sourcing cheaper suppliers, securing resources and information (Ambler, 1994; Luo, 1997b; Tsang, 1998). It is also regarded as being the most effective and efficient way of marketing (Luo, 1997a). In a poll conducted by the People Daily (a Chinese newspaper), 91% of Chinese respondents are of the view that rich people in China benefit from political connections (Rui, 2012). Although *guanxi* is necessary in order to succeed in a business operation, it is often

seen as being synonymous with corruption and bribery (Y. Fan, 2002; Gold, 1985; Su & Littlefield, 2001). The impact of *guanxi* on auditor independence is inconclusive.

Liu et al. (2011) examined the effect that two types of *guanxi* (state ownership and management affiliations) has on auditor independence, based on Chinese mainland data. They used a sample of 3048 firm-year observations, which covered the period from 1998 to 2007. They find that both state ownership (firm-level connection) and management affiliations (personal connection) with the external auditors increases the possibility of receiving an unqualified opinion in China. Therefore, they conclude that auditor independence is likely to be impaired because of the above connections. Management affiliations are more important to non-SOEs than to SOEs. The finding suggesting that state ownership impairs auditing independence is in line with Chan et al. (2006) and Wang et al. (2008). The three studies show that *guanxi* with government is a factor compromising auditor independence in China.

Moreover, Au and Wong (2000), using surveys involving ethical dilemma cases, studied the effect of *guanxi* on auditors' professional judgement. Based on a survey of 70 professional auditors in Hong Kong, they conclude that "auditors' professional judgement could be affected by the existence of *guanxi*" (p. 91). They also argue that the higher the level of ethical reasoning, the lower the likelihood that auditors would compromise their independence.

However, Fan, Woodbine & Scully (2012) suggest different types of *guanxi* would have different impacts on the ethical judgement of auditors. Fan et al. (2012) break down *guanxi* into "favour-seeking" type and "rent-seeking" type. They find that favour-seeking *guanxi* is positively related to auditors' ethical judgement and rent-seeking *guanxi* is negatively associated with auditors' ethical judgement. They also find that young and less experienced auditors are more likely to leverage on rent-seeking *guanxi* compared to older and experienced auditors. Nevertheless, as Hwang and Staley (2005, p. 227) state, "*guanxi* has the potential to undermine the high standards of auditor independence, audit quality, and ethical behaviour to which auditors must adhere". Similarly, Hua et al. (2010) argue that an "audit firm's reputation is established and maintained by fulfilling the obligations of *guanxi*, rather than by reporting modified opinions fairly and trustfully" (p. 3) in China.

The above research on Chinese auditor independence shows a mixed result. Auditor independence is found to have improved as a result of (1) adoption of a new set of auditing standards in 1995 (Defond et al., 2000), (2) the disaffiliation programme in 1998 (Gul et al., 2009; L. Yang et al., 2001), and (3) changes in the regulatory environment in 2001 (S. Chen et al., 2010). Others questioned auditor independence due to (1) connections with local governments - even after the disaffiliation programme (K. H. Chan et al., 2006; Q. Wang et al., 2008); and (2) *guanxi* (J. Liu et al., 2011). Therefore, further research is needed to clarify and explain whether the improved independence means that the level of independence of Chinese auditors is satisfactory.

2.2.4.5 Cultural impact on ethical judgement of accounting professionals

Ethical decision-making is influenced by personal values (Hunt & Vitell, 1986; Yates & Lee, 1996) and personal values are formed by one's cultural environment (Hsu, 1967; Roxas & Stoneback, 1997). Therefore, culture is an influential factor to attribute to the differences in ethical decision-making (Fleming et al., 2010; Patel et al., 2002). This section summarises the literature that investigates cultural influence on ethical judgements of Chinese accounting students and Chinese auditors (Dunn, 2006; Fleming et al., 2010; L. Ge & Thomas, 2008; Gul, Ng, & Wu Tong, 2003; Smith & Hume, 2005; J. Tsui & Windsor, 2001; S. L. Tsui, 1996).

Many studies on auditors' judgement across different countries have used cultural dimensions theory, developed by Hofstede (1980) and Hofstede and Bond (1988), to draw theoretical explanations between cultural differences and auditor judgement. For example, Tsui & Windsor (2001) find that auditors in Hong Kong and China have lower ethical reasoning scores than Australian auditors. They argue that higher ethical reasoning scores are the result of high individualism, low uncertainty avoidance and a relatively equal relationship among people. By contrast, Chinese culture is characterised as collectivist, with high uncertainty avoidance and hierarchical relationships among people. Consequently, Chinese respondents are more likely to compromise their professional independence. Similarly, Ge & Thomas (2008) find that Canadian accounting students exhibit higher deliberative ethical reasoning scores than Chinese accounting students in an auditing ethical dilemma case. The lower ethical reasoning of the Chinese accounting students is ascribed to the high power distance, high collectivism, and the long-term orientation prevailing in China.

Furthermore, Fleming et al. (2010) used three cases to compare US accounting students' ethical reasoning with that of Chinese accounting students and Chinese auditors. Two of the three cases involve Chinese cultural attributes, namely power distance and collectivism. The third case is culturally neutral. They find that Chinese students show a lower level of ethical reasoning than their US counterparts in the two scenarios involving cultural characteristics. However, Chinese students score slightly higher on the third case. Chinese students show a higher level of ethical reasoning than do Chinese auditors. This reveals that culture affects Chinese students' level of ethical reasoning. Findings from these studies demonstrate that accounting professionals from different cultural backgrounds are likely to make different decisions in the same ethical dilemma scenarios.

Moreover, some research suggests that respondents with higher ethical reasoning scores are less likely to engage in unethical conduct compared to those with lower ethical reasoning scores (eg. Au & Wong, 2000; L. Ge & Thomas, 2008; Gul et al., 2003; J. Tsui & Windsor, 2001; S. L. Tsui, 1996). This appears to imply that Chinese respondents who scored lower than their Western counterparts are less ethical. These studies largely adopt a Western lens to measure the behaviour of Chinese professionals. This is probably because business ethics and accounting ethics today are largely Western-oriented due to the advancement of Western research and literature (G. K. Y. Chan, 2008; von Weltzien Hoivik, 2007). Western enterprises enter into different emerging economies and apply their way of doing things, including their business ethics, to these countries (von Weltzien Hoivik, 2007). However, Western civilisation is founded upon principles of freedom, equality and universal fraternity, which results in ethical values such as fairness, impartiality and transparency (Z. J. Lin & Zhang, 2011). These principles are not necessarily applicable to a Confucian culture.

The above studies, with a reliance on Hofstede's (1980) five cultural dimensions or one or two of the cultural dimensions, are useful to highlight cultural differences. However, reliance on this framework alone may limit understanding of the influence of culture in accounting phenomena (Harrison & McKinnon, 1999), because culture is much more complicated and richer than these five dimensions. For instance, Patel, Harrison & McKinnon (2002) investigated cultural influences on auditors' judgements in an auditor-client conflict resolution. They surveyed senior auditors in the Big-six (at time of data collection) accounting firms from Australia, India and Malaysia. They find that Australian auditors, in

comparison to their Indian and Malaysian Chinese counterparts, are less likely to accede to clients in an auditor-client conflict situation and are less accepting of resolving conflicts in this way. They argue the findings reflect that Australian culture emphasises individual identity and equalitarianism. In contrast, both Indian and Malaysian Chinese cultures stress on maintaining harmony in interpersonal relationships through acting properly according to one's position in the hierarchical social order. This study shows that culturally, Asian respondents hold different values to Australian respondents. Ethical attitudes are normally affected by the cultural and institutional environment in which businesses operate (Christie, Kwon, Stoeberl, & Baumhart, 2003). Therefore, to understand cultural influence, Harrison & McKinnon (1999) suggest that future research draw on the broader and richer descriptions of culture from historical and sociological literature about the countries under study.

The above studies clearly indicate there is a strong link between culture and ethical judgement. Chinese culture, with its characteristic large power distance and collectivism, appears to have a negative influence on Chinese accounting practitioners' ethical judgement. The next section further explores the values and ethical awareness of accounting professionals.

2.2.4.6 Ethical awareness and values of Chinese accounting professionals

Different culture is likely to shape different values and ethical awareness, which may lead to difficult judgements and conducts. From this angle, Lin & Zhang (2011) investigate the ethical awareness of Chinese managers and accountants and their views on using off-book accounts. They collected 334 useable questionnaires from EMBA and MPAcc (Master of Professional Accounting) classes in three key Chinese universities. The Chinese respondents generally show appropriate ethical judgements on explicitly unethical business behaviours such as untruthful advertising, the substitution of low piece or poor quality parts in products, use of unlicensed computer software, and overspending on entertainment by senior executives. However, they also show tolerance towards business behaviours that do not obviously violate general business ethics, such as "delay payments to suppliers, lure to hire key employees of competitors, kick back from sales, cut R&D or other expenses to boost profits, and sending gifts to higher authorities" (p. 152). The authors argue that the Chinese business environment and traditional business practices have attributed to such ethical awareness. Sending gifts to higher authorities to establish *guanxi* or receiving kickbacks is

considered necessary for mutual benefits in business operations. Under the tradition of *mianzi* (face) and loyalty, the Chinese hesitate to confront directly the wrongdoings of others. As evident in their study, Hwang et al. (2008) also find that Chinese people (in Taiwan) are less likely to blow the whistle if they have good *guanxi* with people who are involved in wrongdoing or fraud.

Furthermore, Lin & Zhang (2011) find that in general, Chinese accountants show a higher level of ethical awareness than do Chinese business managers. The authors suggest that accountants need to undertake more ethical education and training in order to fulfil the requirements of professional qualifications. However, Lam & Shi (2008) find that university education has no significant effect on ethical attitudes. This could be because ethical education was omitted in university education. The authors call for examination of the current education system.

An understanding of professional accountants' values may be useful in explaining their ethical conduct. Lan, Ma, Cao & Zhang (2009) surveyed 454 accounting practitioners and 126 accounting students in China on their personal values and value type (sets of interrelated values). Their results reveal that health, family security, self-respect, and honouring parents and elders, are the top four personal values for both the accounting students and the practitioners. The value type "security" is ranked highest by both groups, which indicates concerns for safety, harmony, and the stability of society, of relationships and of self. Conformity is also ranked in the top four of the value types, whereas the value type of "traditions" is ranked last by participants. What is worth noting is that the relatively high rankings for the personal values of "honouring parents and elders" and the value types of "security" and "conformity" reflect Chinese Confucian traditions. In contrast, "traditions" is ranked as the lowest value type for both groups. Perhaps such traditions are embedded unconsciously in the respondents' minds. The authors maintain that the findings show that Chinese accounting professionals are influenced by a mixture of their traditional culture, communist ideologies and Western values.

The personal values and value types of Chinese accounting practitioners and students are related to the Chinese cultural traditions, the impact of communism and social reforms, and to the influence of Western values that have penetrated into Chinese society (p. 73).

With rapid economic development, more and more foreign cultural values enter into China. These Western influences are likely to impact on contemporary social values. These changes in social values may have implications on personal values and thought. Consequently, such changes may influence the way judgements are made. The next session reviews previous studies on changes in social values post the economic reforms.

2.3 Social values in contemporary China

The economic reforms have brought about great changes within China, not only to the economic structure and the market, but also to social structure, cultural values and people's thought patterns (Whitcomb et al., 1998). Some authors argue that the market-economy has influenced people to seek materialism and personal worth, while communist values and Confucian values have eroded (Chiu, Ting, Tso, & Cai, 1998; Redfern & Crawford, 2004; Woodbine, 2004). Chinese accounting professionals may be also under such an influence. For example, Tang (1999) argues that due to China undergoing a transition period "moral standards are not well established [...] and there may appear a period of moral vacuum like that being experienced in the Chinese accounting profession" (p. 27). Consequently, professional ethics have been neglected by many CPAs because it is acceptable to become rich through work (Yunwei Tang, 2000). This mentality may explain the accounting and business scandals and questionable professional independence (sections 2.2.4.1 and 2.2.4.4).

Some studies examined the changes in personal values of Chinese respondents to measure the changes in social values. Chiu et al. (1998) find that young adults in *Guangzhou* (an economically developed province in south-east China) place a much higher value on salary and a much lower value on the social standing of an occupation compared to the older generation. Similarly, Lin & Zhang (2011) also find that younger respondents (below 30 years old), in comparison to older respondents, demonstrate a higher level of acceptance of unethical business behaviours and the use of off book accounting. They assert that the younger generation, which has grown up during the period of economic reform, is influenced by motivation for profit and wealth maximisation and has less exposure to ethical training. These studies appear to suggest that the economic reforms have changed social values in recent decades. As Ip (2009) observes

A culture of profit began to take root and people were pursuing profit for themselves and very often with socially undesirable consequence. Old values

and norms were either thrown into doubt or perceived to be irrelevant, and abandoned. However, new norms and values had yet to be established to provide the basic guidance for people's behaviours (p. 214).

Previous studies demonstrate that ethical decisions reflect a mixed influence of Confucian values and a growing “market ethic” (Ahmed, Chung, & Eichenseher, 2003; Redfern & Crawford, 2004; Whitcomb et al., 1998). Ahmed et al. (2003) investigated business students’ perceptions of ethical business practices from the following six countries: China, Egypt, Finland, South Korea, Russia, and the USA. They find that all of these groups have a “basic agreement on what constitutes ethical business practices, differences are found in the respondents’ tolerance of damage resulting from unethical behaviour” (p. 89). In particular, the Chinese and Russian students respond similarly, seeing less harm arising from suspect business ethical scenarios. The authors suggest that students from the two emerging economies, China and Russia, have recently experienced market reform and that their markets have not been conditioned by long-term reputational effects. Hence, the respondents from these two countries exhibit a higher tolerance of opportunistic business conducts compared to the respondents from the other four countries. The study further reveals a difference between Russian and Chinese students. The Chinese students demonstrate “a relatively strong inclination not to personally act in a potentially unethical fashion” (p. 99), while Russian students show “a higher propensity to pursue the same course of (unethical) practices action” (p. 99), as described in the business ethical scenarios. Ahmed et al. (2003) argue that the paradoxical responses of the Chinese students may be the result of a profit orientated market economy and “a perhaps residual moralistic tenor in reluctance to personally engage in potentially unethical business behaviour” (p. 99).

The literature on ethics reviewed above shows that Chinese professional ethics are in a state of flux. It seems that Chinese traditional culture is mixed with a culture of profit. The above authors share a common view that, due to the Chinese economy’s transition to a more market orientated economy, the associated culture of pursuing profit by any means has penetrated into Chinese society. Such changes are likely to influence the ethical decision-making of accounting professionals and their judgements when applying principle-based standards.

2.4 Summary and gap in literature identified

This chapter introduced the historical background of the Chinese accounting system, the progress made in converging with IFRS and obstacles associated with the convergence. Overall, the literature shows that MOF has made progress towards the convergence with IFRS. In particular, the 2006 CAS is considered to be substantially converged with IFRS in terms of the content of the standards. The accounting profession is fast growing and accounting education has become popular since the 1990s. On one hand, the 2006 CAS accounting standards appear to improve accounting information quality. On the other hand, there is inconsistency in accounting treatments adopted by reporting entities under the 2006 CAS and those employed under IFRS. FVA, allowed under the 2006 CAS, is utilised as a tool for earning management by some Chinese businesses. These studies show that the convergence with IFRS in the standards does not necessarily mean a *de facto* convergence.

Many have questioned the feasibility of the convergence in practice, due to China having a different political and economic structure, including the extensive state ownership of business enterprises, the absence of a free market and a state controlled profession. The Chinese market does not fully support FVA. Many listed SOEs are found using related party transactions and accruals to manipulate earnings. In addition, due to the structure of Chinese share markets, there is little demand for quality financial information and hence a reduced need for independent auditing. These Chinese characteristics differ from those of the economic structure from which IFRS is derived. There is a considerable amount of literature that addresses how the Chinese political and economic environment hinders the convergence with IFRS. Therefore, the study will not investigate these two perspectives further.

The application of principle-based standards relies largely on the professional judgement of both accountants and auditors. Many writers note the difficulties for Chinese practitioners to exercise judgement because of (1) their rule-based training background and/or (2) Chinese strong uncertainty avoidance culture. This highlights a need for accounting education and training, which is the first theme of the current study.

The issues of Chinese accounting education identified in literature include a lack of qualified teachers and a teacher-centred pedagogy with a weak focus on soft skill development. Despite the identified obstacles, none of the literature provides a theoretical understanding of Chinese accounting education. This current study explains how the Confucian heritage

impacts on accounting education in contemporary society. It aims to provide an in-depth understanding of the current accounting education and what it implies for the implementation of the IFRS-based standards.

The second theme of this study focuses on Chinese professional ethics. Many extant studies examined Chinese auditor independence. Some studies show a weak demand for an independent auditing profession. Research on Chinese auditor independence reveals different results, which need further clarification. Some suggest that auditor independence has improved. Others suggest that auditor independence is compromised.

Studies on ethical reasoning generally show that Chinese respondents exhibit a lower ethical reasoning score compared to their Western counterparts, which suggests that they are more likely to breach professional ethics. Many previous studies in this strand of literature have used Hofstede (1980) and Hofstede and Bonds' (1988) culture dimensions to outline the difference in culture (section 2.2.4.5). These studies highlight cultural influences on professionals' ethical judgement. However, Chinese civilisation has developed over five thousand years and its culture is much richer than the five culture dimensions. Furthermore, some researchers contend that since the Open door policy, Chinese social values and individual ethical awareness have changed. With the influence of the free market and forces of modernisation, "market ethics" seem to promote a profit-driven culture, within which professional accountants can be affected (section 2.3).

Synopsising the aforementioned literature on Chinese professional ethics as a whole, some argue that Chinese accounting professionals are more likely to engage in unethical conduct because of Chinese culture i.e. collectivism and large power distance (section 2.2.4.5). Others maintain that the economic reforms have promoted a profit-orientated value, while Chinese traditional values appear to have been eroded. This appears to be a paradox. This study aims to provide a deeper understanding of Chinese culture through exploring the impact of Confucianism on accounting professional ethics within a contemporary backdrop. Because culture has a significant influence on professional ethical judgement, the outcomes from this research question may be useful to answer the paradox of whether Confucian culture undermines a judgemental, or whether the erosion of cultural values referred to in the literature is responsible for undermining a judgemental approach. The study aims to evaluate the implementation of IFRS-based accounting standards in the light of this paradox. The

outcome from this study may have implications on the implementation of the IFRS-converged standards.

The issues of professional ethics in China as documented in the literature also happen in the West as is evident by many corporate scandals. This study does not seek to compare Chinese practices with Western practices. The causes for corporate scandals maybe different from one country to another. The study tries to explain the obstacles encountered in China within a Chinese cultural context. It does not assume that Western practice is better or worse than China, but to show that the Chinese culture does not necessarily support the environment IFRS wishes to promote.

In order to investigate the two themes, this study needs to understand the cultural context in China. The next chapter presents an understanding of Confucianism. It draws on rich literature on Confucian philosophy and the sociological characteristics of Chinese culture.

Chapter 3 - Understanding Confucianism

3.1 Structure of this chapter

As introduced in the previous chapter, to fulfil the gap in the literature, the current study aims to investigate the impact of the Confucian heritage on Chinese accounting education and accounting professional ethics in Chinese contemporary society. In order to understand Chinese accounting practitioners' behaviour, an understanding of Confucianism is essential to this study. As Hwang (2001) points out "an understanding of Confucian cultural traditions is crucial to a comprehensive understanding of Chinese social behaviour" (p. 179). There is a considerable amount of literature on Confucianism, ranging from sociology to philosophy. This study does not attempt to engage in a philosophical or psychological debate on Confucianism. It merely focuses on key aspects of Confucianism that influence Chinese society. This chapter first introduces the historical background of Confucianism. Second, it articulates the key themes of Confucianism, including the concept of harmony, familial collectivism and Confucian ethics, embraced in the notion of the five relationships. Third, criticisms of Confucianism are discussed. Finally, it justifies the use of Confucianism as the theory framework before presenting a summary of the chapter.

3.2 Confucianism (儒家, *Rujia*)

Confucianism is a complicated system of moral, social, political, philosophical and quasi-religious thought that has had a tremendous influence on the culture and history of East Asia (Yao, 2000). Confucianism forms the basis of the moral, intellectual, political and social systems in Chinese society.

Confucianism is basically the behavioural or moral doctrine that is based on the teaching of Confucius regarding human relationships, social structures, virtuous behaviour and work ethics (Y. Fan, 2000, p. 4).

The ways in which people think and behave are heavily influenced and cultivated by their culturally shared values and beliefs (Y. Fan, 2000; Kirkbride et al., 1991). Confucianism has been influencing Chinese culture in the past two millennia. Although Confucianism appears to have lost its glory during the industrialisation of the modern world, "beneath the surface a way of life, a system of beliefs and a core for national resurgence could not be easily dislodged" (Rozman, 2002, p. 14). Many argue that the essence or foundation of Chinese culture is primarily shaped by Confucianism (Y. Fan, 2000; Kirkbride et al., 1991; Oh, 2012;

J. Wang & Mao, 1996). Confucianism arguably lies at the core of China's deepest sense of self (Ronnie, 2011). Therefore, Confucianism is the best available philosophy to explain the professional ethics of professional accountants and the accounting education system.

3.2.1 Historical background of Confucianism

During the Spring and Autumn Periods (770-476 BC) and the War States Period (475-221BC) in Chinese history, there were constant wars and social instability. Perhaps this unrest forced people to reflect and seek ways to establish a more stable society. As a result, many thinkers and philosophers appeared who were called "Hundred Schools of Thought" (诸子百家) in Chinese history (Gunde, 2002). This marked the flourishing of Chinese philosophies in Chinese history, which contributed to the formation of traditional Chinese culture. There were four major schools of thought: Confucianism, Taoism, Mohism, and Legalism during this period (Chai & Chai, 1962). Although these schools of thought were diverse, and sometimes competed with one another, they had lasting influences on Chinese culture (Chai & Chai, 1962; Y. Fan, 2000). Nevertheless, the most influential philosophy on Chinese culture is Confucianism (Y. Fan, 2000).

Kong Fu Zi (孔夫子 Master Kong) or Confucius (551-479 BC) was the founder of Confucianism (Gunde, 2002; Morton & Lewis, 2005). Confucianism has developed continuously during Chinese history. The classical age Confucian scholars were including Mencius (孟子 372 – 289 BC) in the War States and *Dong Zhongshu* (董仲舒 179-104 BC) in the *Han* dynasty (206 BC – 220 AD) (Tu, 2002). Confucianism was the state orthodoxy and shaped the political and social structure from the *Han* dynasty to the collapse of the *Qing* dynasty in 1912.

Confucianism can be studied through its classical texts such as Five Classics (五经) and Four Books (四书). The Five Classics are treated as faithful records of ancient culture and as the primary source for learning about Confucianism. They are *Book of Changes* (*Yijing* 易经), *Book of poetry or the Book of Songs* (*Shijing*, 诗经), *Book of History* (*Shangshu*, 尚书), *Book of Rites* (*Liji*, 礼记) and the *Spring and Autumn Annals* (*Chunqiu*, 春秋). The Four Books are *Analects* (*Lunyu*, 论语), *Great Learning* (*Daxue*, 大学), *Book of Mencius* (*Mengzi*, 孟子) and *Doctrine of the Mean* (*Zhongyong*, 中庸). The dominant position of

Confucianism in Chinese society has not always been without threat during the course of Chinese history. Confucian learning gradually lost its supremacy under the rapid development of Daoism and the doctrines of Buddhism. To revive Confucianism, a new interpretation of Classical Confucian teachings was explored, expanded and deepened by Confucian scholars, particularly in the *Song* dynasty (960-1279 AD) and the *Ming* dynasty (1368-1644 AD), which is referred to as Neo-Confucianism (Yao, 2000).

A revival of Confucianism was brought about by the Neo-Confucians who developed an inclusive humanist vision that integrated personal self-cultivation with social ethics and moral metaphysics in a holistic philosophy of life (Lam, 2003, p. 155).

Neo-Confucians followed the teaching of Classical Confucianism. One of the representatives of these Neo-Confucian thinkers was *Zhu Xi* (朱熹 1130-1200 AD). He edited and commented on most of the classical texts of Confucianism. *Zhu* not only established a systematic Confucianism based on the Four Books, but also incorporated ideas from the *Book of Xunzi*, the *Book of Changes*, the School of Yin-yang and Five Elements, Buddhism and Daoism. Because of *Zhu*'s inputs into the Four Books, they gained their supremacy from the *Song* Dynasty to the end of *Qing* Dynasty. *Zhu*'s version of the Four Books became the official textbooks for Imperial Examination during the *Yuan* Dynasty. *Zhu* is regarded as Master *Zhu* after Confucius and Mencius in developing Confucianism (Yao, 2000).

The study examines the key themes of Confucianism that are most relevant to Chinese accounting education and professional ethics. The relevant themes of Confucianism in this study include harmony and collectivism, ethics (五常, *wuchang*), the notion of five relationships (五伦, *wulun*), and the applications of these doctrines in Chinese society, such as *guanxi* and *mianzi* (face). Because not many Chinese people would actually read Confucian classical texts (Bond, 1991), this chapter discusses the philosophical ideal of Confucian doctrines as well as the social norms derived from them. The most distinguishing feature of Confucianism is the emphasis on a harmonious society through and by appropriate social norms of interpersonal relationships (K. K. Hwang, 1987).

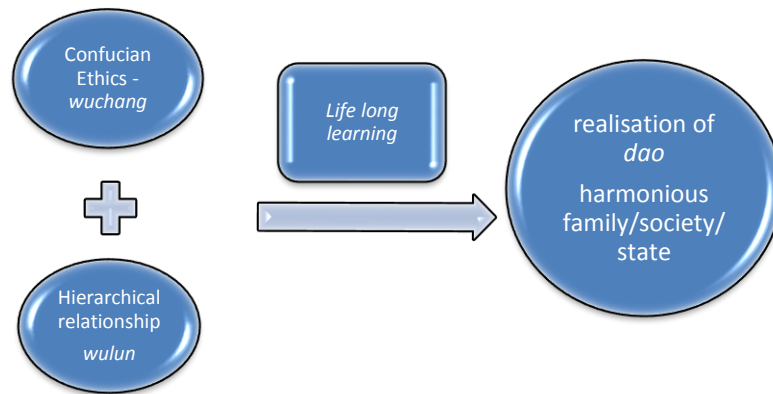


Figure 3-1 Key Confucian Themes

Figure 3-1 illustrates how the key aspects of Confucianism related with one another to achieve a harmonious and stable society. Confucius's thoughts were developed during a chaotic period, thus his doctrine aimed to fix the world when it was falling apart (Rainey, 2010). In short, Confucianism can be understood as an ethics system that regulates individuals' behaviour according to their various positions in the family and society, so that a harmonious society can be achieved. Confucians believe that individuals need to learn and cultivate these ethical principles through interaction with others. Learning and applying Confucian ethics is a lifetime commitment. The following sections introduce aspects of Confucian teachings and show how they are interrelated with one another.

3.2.2 The Way (*Dao*, 道) and harmony (*He*, 合)

According to Confucius, there are three forces in the organic metaphysical world, *Tian* (天, Heaven), *Di* (地, Earth) and *Ren* (人, Humans). The three forces work together in an organic universe.

Heaven, Earth and humans are the origin of all things. Heaven generates them, Earth nourishes them and humans perfect them" (Chunqiu cited in Yao, 2000, p. 139).

The three dimensions have a harmonious relationship. Heaven is the transcendental power, which governs and regulates the world. Heaven and earth are sometimes together referred as the metaphysical world, in which humans live.

Confucius' understanding of Heaven is not about a deity figure or God, but an ultimate transcendental power or Ultimate Reality in the universe, which creates all forms of life (YuLi Liu, 2004; Yao, 2000). Confucius contemplated the sacred nature and reflected on the power of Heaven as the Master said, "Does Heaven say anything? The four seasons run their course and all things are produced. Does heaven say anything?" (Analects 17:19 cited in YuLi Liu, 2004, p. 368). (Analects is a selection of Confucius' saying, which were recorded by his disciplines). Confucius was amazed with the sacred nature of the cosmos. Everything in the universe functions together with a sense of order, harmony and purpose (YuLi Liu, 2004). He believed that if humans followed the Way of Heaven, there would be a harmonious society. The close relationship between Heaven and secular human life is documented in the first paragraph of the *Doctrine of the Mean*:

What Heaven imparts to humans is called human nature. To follow our nature is called the Way. Cultivating the Way is called education. The Way cannot be separated from us for a moment. What can be separated from us is not the Way (W. T. Chan, 1963, p. 98).

The Way is a translation from the Chinese word *dao* (道). It means a path, or a way of life, which leads to a harmonious and stable society and a fulfilling life. The perfection of human virtues is in harmony with the Way (Yao, 2000). A fulfilment of *dao* is to achieve the harmonious oneness or unity of Heaven and humanity.

The Way of Heaven is the "spiritual" side of Confucianism and is the metaphysical foundation to Confucian ethics. Confucians believe that the Way of Heaven lays down the ontological foundation of Confucian moral principles. Humans have a natural desire to understand the Way of Heaven through acknowledging and seeking good. Mencius affirmed this belief of the goodness of human nature.

All men...have a mind that cannot bear to see the suffering of others...if men suddenly see a child about to fall into a well, they will without exception experience a feeling of alarm and distress (cited in Hummel, 1960, p. 15).

Confucians believe that human beings are born with self-awareness and conscience, and must practice moral principles in order to fulfil their heavenly ordained purpose (K. K. Hwang, 2001; YuLi Liu, 2004). In other words, following the Way of Heaven not only leads to a virtuous way of life, but also to fulfilment of the very purpose of one's life. However, if

humans violate the Way of Heaven, Heaven will withdraw its mandate, which will lead to destruction (Yao, 2000). Because “heaven is not only the creator of life, the supreme governor of the universe, but also a just administrator of human affairs” (Yao, 2000, p. 145).

Harmony in Chinese is called *he* (合); in some contexts, *he* can be rendered as harmonisation (Ip, 2009b; C. Y. Li, 2006). The notion of harmony can occur at various levels: (1) harmony between man and nature, (2) between man and heaven, (3) between man and man and (4) intrapersonal harmony. “Harmony is the basic and overlapping goal of familial, organisational, communal and political lives” (Ip, 2009b, p. 466). The ideal harmony is to achieve a grand harmony throughout the universe, as illustrated by Li (2006)

When a plant is harmonised with its surroundings it thrives; when one is harmonised with one's environment, one flourishes. The ideal of an individual is to harmonise not only with one's own person but also with other individuals. The ideal of a society is to harmonise not only with the society but also with other societies the human ideal is to achieve harmony not only among the members of human community but the rest of the cosmos as well (p. 589).

The harmony between heaven, earth and human is the foundation for things to flourish. Under Confucianism, “the difference between harmony and disharmony is like that between right and wrong, good and bad, and success and failure” (C. Y. Li, 2006, p. 588). Behaviours that disturb harmony are wrong, but behaviours that bring harmony are right. Confucian ethics (section 3.2.5) are designed to achieve harmony. The goal is to achieve the continuation of harmonious relationships within a family, a local community, a society and a nation (W. T. Chan, 1963; Kirkbride et al., 1991; Yao, 2000).

The concept of harmony marks the Confucian ethos as being anti-individualist (R. Fan, 2010). *Doctrine of the Mean* “urges individuals to adapt to the collectivity... to avoid confusion, competition and conflict, and to maintain inner harmony” (Kirkbride et al., 1991, p. 367). Therefore, Kirkbride et al. (1991) suggest that harmony may lead to members of a society or a group forgoing their individual interests to maintain a harmonious relationship with the other members. Consequently, maintaining harmony is likely to lead to avoidance of conflict through compromise (Ho, 1979).

In summary, Confucians believe Heaven is the Ultimate Reality that generates lives and sustains the cosmos. The way of humanity should follow the Way of Heaven because the Way of Heaven leads to harmony. Violating the Way of Heaven would lead to destruction and disharmony. The Confucian idea of harmony starts with a family and then expands to a society. The next section introduces the collectivist nature of a Confucian family and the concept of self within a collective society.

3.2.3 Familial collectivism

Under Confucianism, family is the foundation of Chinese society (C. K. Cheng, 1944). A harmonious society starts with a harmonious family because a family is the basic unit of human community (R. Fan, 2010; Yao, 2000). A Chinese family assumes many fundamental social functions. This section discusses the role of family in Chinese collectivist society.

3.2.3.1 A traditional Confucian family

Chinese culture is often described as being collectivist (Hofstede, 1980; Watkins, 2002). Collectivism is primarily reflected in the close ties within each family and a family is the most important group to an individual (K. K. Hwang, 1987). A family was an effective basis for government in the ancient Chinese society. The Chinese concept of family is broader than that of the Western nuclear family and includes other relatives and members of the family clan (D. B. K. Hwang & Staley, 2005). Traditionally, a Chinese family typically included husband and wife (or wives in some households), their children, the parents and grandparents of the husband, the brothers and unmarried sisters of the husband, the husband's brothers' wives and children. When children grow up and married, the size of the family was likely to increase by the natural process of propagation. It was not uncommon to have thirty to forty relatives living in the same household (C. K. Cheng, 1944). A large family was required and desired in the agricultural economy, particularly in Ancient China. A family was a basic economic production unit. Each family rented land from their landlord and worked on it to earn a living. The bigger a family was, the greater the economic power a family had (C. K. Cheng, 1944; Jacobs, Gao, & Herbig, 1995).

Within each family in the agricultural economy, infants were treated as the continuation of the family. When children were five or six years old, their parents believed they were old enough to understand social affairs. The parents would begin to teach them the cultural norms

of being a good person and required them to be respectful and polite to their seniors. As the children grew older, the adults in the family would teach them social wisdom, such as keeping their promises to their friends. In this way, children grew up with a teaching that was congruent with Confucian ethics, without necessarily receiving any formal education in Confucianism (K. K. Hwang, 1999).

3.2.3.2 Multiple functions of a family

Due to the size and complicated ties within a Chinese family, it normally embraces multiple functions, including economics, religion, education, and recreation. It also assumes many functions otherwise assigned to government, such as supporting the aged and settlement of disputes between family members (Chai & Chai, 1962). Through this multiplicity of functions, most individual needs are met within the broader family (L. M. Chow et al., 1995; Hsu, 1967; K. K. Hwang, 1987). The strength and functionalities of the family can lead to an indifference to those who are not tied to one's family (Bond, 1991). This may explain why Chinese are less helpful to strangers (K. K. Hwang, 1987).

This indifference to strangers may also be reflected in Confucius' version of "the Golden rule", which is recorded in Analects 12:2 as "... not to do to others as what you would not wish done to yourself..." In comparison, the Western golden rule states: "... do to others what you would have them do to you..." (Matthew 7:12, New International Version). Bond (1991) argues that the former emphasises refraining from wrongdoings towards others, whereas the latter emphasises an active offer of help to others. As a result, "the Chinese society is not a society that emphasizes cordial, trustful relations between strangers" (R. Fan, 2010, p. 23). The public trust in Chinese society is considered to be low (S. Li, 2010).

With the development of the economy and modernisation, Yang (1988) finds that cultural ideas about the family are resistant to change in Taiwan, Hong Kong and Mainland China. The mutual interdependence of family members is still characteristic of Chinese families (cited in K. K. Hwang, 1999).

3.2.3.3 The concept of self in relation to others

Under a family-based society, an individual's self-identity is defined through his or her relationships in the world, which is called a relational self (R. Fan, 2010; Ip, 2009b; YuLi Liu, 2004). There is no "me" which exists in isolation from others (Waldmann, 2000). Every

member of a family shares his/her identity and life with the other family members. Because of this relational-self, it is not surprising to see how important *guanxi* is in Chinese society (section 3.3).

With this socially embedded self, a person's identity and place in the world are to be understood through his or her social attachments and positions in the social hierarchy...his or her social bonds are the sources of his indebtedness and obligations that he or she should fulfil with regard to these relationships. The concept of a relationship-based person fits comfortably with the collectivism and guanxi (Ip, 2009b, p. 465).

People's conducts and actions are considered in terms of their relationships to others. The interdependency and interconnection of affective relationships is a characteristic of a Confucian civil society (R. Fan, 2010).

The relational-self also influences the decision-making process of individuals. "In making decisions what is most important is not one's liberty or self-determination, but is the harmony of shared-determination among family members" (R. Fan, 2010, p. 30). For example, it is common to see parents having a significant say in what major their children should study at university. Children may listen to their parents' advice even when they are interested in another major in order to maintain harmony with their parents.

In contrast, individualism is seen as a basic characteristic of Western societies. The concept of self in an individualist society is an "autonomous self". Western society is based on the equal rights of individuals with an emphasis on freedom, autonomy and social justice (R. Fan, 2010). Having maximum freedom is very important to ensure the development of individuality or self-identity (Bedford & Hwang, 2003).

The origin of individualism is arguably derived from Christianity, which believes that humans are all created by God and individuals have their own direct relationship with God. Therefore, all humans have equal rights. Since a person makes his or her own decisions in following God, each individual is responsible for their own actions (Alexander, 1998; Bedford & Hwang, 2003). Individualism can be regarded as a moral force, an institutional fact, and a set of interactional practices (C. Taylor, 1989). Under individualism, people are morally independent of one another in the West. People have equal rights to choose the way they would like to live and to be free from the intervention of others, which sets a foundation

of civil society based on social contract (R. Fan, 2010). Fei (1948) contrasted a Western individual identity with a Chinese one (cited in K. K. Hwang, 1999, p. 173).

Individuals in a Western society of individualism are akin to wooden sticks, which may be bound together by their social organisation just like a bundle of sticks. The structure of Chinese society is like ripples caused by throwing a stone into a pond. Everybody is situated at the centre of water rings that are extended to reach an edge of one's social influence.

Overall, Confucians pay tremendous attention to the functionality of a family. This is because individuals are born into families and their self-identities are initially defined by their relationships within their respective families. The concept of the relational-self influences individuals to make decisions, which considers their relationships with others. The next section introduces *wulun* (the notion of five relationships) which specifies duties and responsibilities that apply to different relationships.

3.2.4 *Wulun* (五伦, Notion of five relationships)

This section introduces some fundamental doctrines of Confucian ethics and their applications within *wulun*. A harmonious society is achieved through individuals conducting themselves according to their roles in the various relationships they are involved. The notion of the five relationships, or five cardinal relationships (*wulun*), prescribes a clear hierarchical structure within a family and a society, which enables people to apply appropriate conducts according to their roles (Ho & Ho, 2008; Hummel, 1960; Kirkbride et al., 1991; Yee, 2009). The five relationships are between:

1. Ruler and Subject
2. Father and Son
3. Husband and wife
4. Elder brother and Younger brother
5. Elder friend and Younger friend (or friend and friend)

The five types of relationships cover most social relations in Chinese society. Within the five relationships, three are family relationships, between parents and children, a husband and his wife, and between elder and younger siblings. This implies the importance of the role that families play in a Confucian society (Y. Fan, 2000). Although Confucius used the male

versions of language in describing these relationships, this does not mean that females are excluded. A daughter needs to respect her parents and to do the same to her parents-in-law after she is married. She cares for her children and enjoys respect from them. Nevertheless, the social status of a female was considered lower than a male during Imperial China.

These hierarchical relationships have their origin in the Confucian belief of heaven and earth. When Heaven and earth are in harmony, which means when they function according to what they should be, things flourish and prosper (Section 3.2.2). Therefore, “just as Heaven is above the earth below, so too the sovereign is placed over his ministers and subjects, parents over their children, and a husband over his wife” (Yao, 2000, p. 148). *Wulun* legitimises superiors’ ruling power over their subordinates. Hence, social hierarchy is accepted as social norm in Chinese society.

Although superiors appear to have more rights and privileges, these rights and obligations are inseparable. Greater power attaches greater responsibility. These relationships are structured to deliver the optimum benefits for both parties. In a Confucian society “no one grows up imagining that he has rights alone. Rights and obligations go hand in hand” (Hummel, 1960). Power without virtue is what Confucius despised. Through studying Chinese ancient history, Confucius thought that a good ruler was one who cultivated his character with virtues, performed rituals with reverence and governed his people with benevolence. For instance, a good ruler was diligent; he would reduce tax when the harvest was poor. He would take care of the suffering when there was a natural disaster. In contrast, if a ruler failed to do so, such as by abusing his power, ignoring or violating rituals and ignoring people’s suffering, this would violate the Way of Heaven and therefore led to social unrest and disharmony (Yao, 2000).

Confucians believe that hierarchy carries both privileges and duties within each pair of relationships. In general, the superior owes the subordinate a duty of benevolence and care, the subordinate owes the superior the duty of obedience or duty of filial piety (Yee, 2009). More specifically, the detailed duties that are attached to the individual’s role are recorded in the *Book of Li* Chapter 9

What are the things which humans consider righteous (yi)? Kindness on the part of the father, and filial duty on that of son; gentleness on the part of the elder brother, and obedience on that of the younger; righteousness on the part

of the husband, and submission on that of the wife; kindness on the part of the elders, and deference on that of juniors; benevolence on the part of the ruler, and loyalty on that of the minister. These are the ten things which humans consider to be right (as cited in K. K. Hwang, 1999, p. 169).

According to the ten principles of righteousness recorded in the above passage, individuals who assume the roles of ruler, father, elder brother, husband or elder should behave according to the principles of benevolence, kindness, gentleness, righteousness and kindness respectively. Those who assume the roles of minister, son, younger brother, wife or junior should behave according to the principles of loyalty, filial duty, obedience, submission and deference respectively. Through complying with these role-specific principles, society will be in order and harmony can be achieved (Ho & Ho, 2008; Kirkbride et al., 1991; Yee, 2009).

However, the Confucian ideal may not be what occurs in practice. Ideally, when superiors exercise power, it should be based on benevolence and for the benefit of inferiors. In reality, power can be misused, particularly when there is absence of benevolence. As Ip (2009b) points out

Hierarchy in loving family relationships may be benign. However, in less than loving situations, it can be a source of coercion and domination. When hierarchy is aligned with prescribed authority, domination and subjugation may be its natural consequences... (p. 466)

Hierarchical relationships facilitate conflict resolution through practising virtues and unequal power distribution. However, due to the very same reason, Confucianism was partly responsible for absolute obedience at the expense of subordinates. For example, it is believed that children are responsible for the conflicts between them and their parents. Hence, children should self-criticise and apologise in order to be reconciled with older generations. “For a long period in history, this solution contributed to a stable family structure at the price of children, and its prejudice against children was open to extreme applications” (Yao, 2000, p. 181). Therefore, the “natural” order of power, derived from *wulun*, regulates people to submit to authority. If conflicts arise, the subordinates who possess less power in a relationship are expected to compromise and to accommodate their superiors’ wishes (Kirkbride et al., 1991). Therefore, many writers share the view that China has an authoritarian culture and is an authoritarian society (Bond, 1991; De Mente, 2009; G. Wang, 2004; Wright, Szeto, & Cheng, 2002). The practical implication of *wulun* in the accounting field will be discussed further in

Chapter 5 and Chapter 6. For now, this chapter focuses on the theoretical discussion of Confucian virtues.

3.2.4.1 Why Confucian virtues are role-specific

Confucius believes that a person's roles i.e. father, son, ruler, and brother carry significance in human existence. Normally, in a society, there are certain expectations of a specific role. For example, the expectations for parents are that they will love and care for their children. They should also provide for and educate their children. If parents fail to conduct themselves according to these expectations, Confucians believe that they do not deserve to be called parents (Rainey, 2010). Fan (2010) provides a vivid example to illustrate the importance of human roles:

If a father...is defined simply as a man who had a sexual intercourse with a woman and obtained a child as a result, then the man would only be a natural entity, and the sexual affair only a natural effect determined by the laws of nature. This definition would fail to distinguish human beings from the beasts, which distinction Confucianism stresses as vitally important for an authentic way of human life (p.173).

In Confucian society, to be a father is not merely to pass on his genes. The role of father attaches a social entity with specific duties and responsibilities. As Hummel (1960) states "if one is a father or a son, one should live up to the relationships which the name (role) implies" (p.14). In other words, the roles of an individual define the appropriate duties and conduct one should perform. A Confucian father should love, protect, nurture and cultivate his son's personality and teach him to follow rituals. The father is held accountable if his son does not behave appropriately and does not carry out filial duties to his parents (Yao, 2000). Meanwhile, a son owes the duty of filial piety to his parents. Fulfilling this duty is not only for the sake of his parents, but also a reflection of his own moral integrity and a fulfilment of his true personhood (Hummel, 1960; YuLi Liu, 2004) (section 3.2.5.4). As Confucius summarised:

When the father is father, the son is son, the elder brother is elder brother, the husband is husband, and the wife is wife, then the family is in proper order. When all families are in proper order, all will be right with the world (cited in Hummel, 1960, p. 14).

Wulun creates hierarchical personal relationships. Such relationships aim to bring social order and harmony. An individual should behave according to expectations and duties attached to his or her roles. The next section introduces the Confucian fundamental ethical principles.

3.2.5 Confucian ethical principles: *ren*, *yi* and *li*

Confucian ethics are core to Confucianism. Confucian ethics are more than a theory of ethics that guide individual conduct. It also covers a wider sphere including political and social governance and spiritual wellbeing. As Yao (2000) states:

Confucian ethics are not only about what we mean by moral issues, but also about politics, religion, education, psychology and metaphysics. All these aspects are integral to Confucian ethics. As morality is integrated with religion and politics, moral virtues become essential both for governing and for religious activities (p34).

For Confucians, ethics should underlie political governance and the legal system. Ethics are not only “providing the state with an ideological format, but also equipping the authorities with the standards to judge behaviour and thoughts”(Yao, 2000, p. 34). Law and punishment can only prevent people from malpractice through coercive power, but do not improve people’s characters. If people cultivate their characters based on virtue, they will be far above the requirements of the law (R. Fan, 2010; K. H. Kim, 2004; Tu, 2000). However, the drawbacks of such a Confucian legal system is discussed in section 3.4.2.

There are Five Constant Virtues or Five Constant Regulations prescribed in Confucian classic text, namely, *Ren* (仁 humanity, benevolence, compassion), *Yi* (义 righteousness, rightness), *Li* (礼 propriety, rites and rituals), *Zhi* (智, Wisdom) and *Xin* (信, fidelity) (Y. Fan, 2000; Tu, 2002; Yao, 2000). The most commonly referred to in literature are the first three core virtues: *ren*, *yi* and *li* (Cheung & King, 2004; Ip, 2009a; Lam, 2003). Overall, *ren* (as love), is the motivation or drive for people to act upon. *Yi* as righteousness is the principle to judge rights and wrongs. *Li* are rituals, which are prescribed codes of conduct. Such conduct is exemplified of the virtues of *ren* and *yi*. Hence, Confucian ethics involve both principle-based concepts and a series of practice-based conducts.

Confucius believed that if a man abides by these principles, and is motivated by love or benevolence, stands on righteousness, and acts in accordance with the rites, he can be called a *junzi* (君子, true gentleman). The status of *junzi*, which is a virtue-based personhood, is the desired goal for a Confucian person to reach. In Ancient China, all these virtues supposed to guide people's behaviour, including that of emperors. In this way, these virtues are extended from personal moral codes to social and political areas.

However, these virtues lack a systematic exposition of its basic ideas. Perhaps Confucius was not concerned much with epistemology and theory construction, but the practical relevance of such principles (Chung, 2012; Cua, 1989). Therefore, this section introduces the Confucian ethical principles *ren*, *yi* and *li* with an emphasis on how they are applied.

3.2.5.1 *Ren* – the fundamental virtue

As noted in section 3.2.3, family is the basic and most characteristic Chinese institution (Chai & Chai, 1962). A family is the starting place for an individual to learn and to cultivate ethical principles. People first and foundationally learn virtue and obligations within a family structure. Therefore, Confucian ethics are primarily concerned with relationships within families.

The love within a family is the basis of Confucian ethics. According to Confucianism, humans are essentially family beings and therefore relational beings. An individual is born to be someone's daughter or son, brother or sister. This relational or familial way of human existence is not chosen, but given. The parent-child relationship is the most important human relationship. The love from parent to child is the most noble and significant aspect of human nature, which illustrates humans' ability to sympathise with one another. "The love between parent and child sets down the root of the fundamental human virtue, which is *ren*" (R. Fan, 2010, p. 15). This ability to love and care reflects the way of humanity.

Ren is translated as benevolence, compassion, humanity or love in different literature. *Ren* is mentioned throughout the *Analects*. For example, *Analects* 4:4 states, "The Master said: A heart set on love will do no wrong" (Eliot, 1980, p. 13). As stated in section 3.2.2, the way of humanity follows the Way of Heaven. The virtue of *ren* is an application of the way of humanity. Cultivating the virtue of *ren* can lead to the realisation of the Way.

Ren as love is the foundation to Confucian ethics. Love needs a foundation to empower itself. For example, the love underlying Christianity is based on the creative tie between God and man; the love underlying Ancient Greece was a romantic union between man and woman. The love underlying Confucianism is a blood tie between parent and child (R. Fan, 2010). The parent-child love has a deep affection and selfless care for each other. This love goes beyond any sense of contract, as it is not necessarily reciprocal. As Fan (2010) puts it “the parental love of one’s children or the children’s love of their parents is not the granting of privileges in return for similar privileges from the other side in the future”(p. 16). The application of *ren* is reflected in the love and care parents have for their children and the reverence children have for their parents (section 3.2.5.4).

Unlike the Western moral position, Confucianism does not advocate for equal rights of an individual or equal consideration to another’s interests (R. Fan, 2010). “...kinship love, the priority of family love over love for others who are outside the family, is central to Confucian moral epistemology” (R. Fan, 2010, p. xii). According to Mencius, practising benevolence should start with service to one’s parents. “There has never been a benevolent person who neglected his parents” (The Work of Mencius cited in K. K. Hwang, 2001, p. 190). Hence, Confucian ethics begin by looking after one’s own family and then extend to others. This shows a hierarchical structure of intimacy, which indicates that a person should prioritise the needs of their own family before others (K. K. Hwang, 1999). In other words, it is ethical for an individual to consider the interests of people according to the degree of closeness of their relationship. This is a principle underlies the dynamic of *guanxi* (section 3.3).

3.2.5.2 Yi – defines right or wrong

Yi is translated as righteousness, rightness or a sense of right or wrong (C. Cheng, 1972). *Yi* has complicated meanings. Cheng (1972) defines *yi* as “the fundamental principle of morality that confers qualities of right and wrong on human actions and that produces a situation which intrinsically satisfy the moral agent” (p. 269). That means if a conduct satisfies a moral agent based on his or her understanding of right and wrong, the conduct is complying with *yi*. If an individual’s action violates the virtue of *yi*, the moral agent would know through feeling ashamed. The feeling is referred to as a sense of shame.

Mencius explains *yi* is rooted in a sense of shame and can be cultivated through the sense of shame. According to Mencius, “the feeling of sympathy is the beginning of *ren*, the feeling of shame is the beginning of *yi*; the feeling of modesty is the beginning of *li*...” (cited in C. Cheng, 1972). The reliance on feelings reflects that virtues are intrinsic human nature. Confucians believe that humans have an innate knowledge and capability of good as their relationship to the Way of Heaven (C. Cheng, 1972) (section 3.2.2). However, this does not mean that *yi* is a subjective moral intuition. The application of *yi* requires intellectual judgements based on circumstances. Therefore, the appropriate applications of *yi* require cultivation and wisdom (Rainey, 2010). The exercise of *ren* depends on *yi*, which means the expression of affection must follow what is right and reasonable in a given situation. Likewise, the exercise of *yi* must be imbued with the virtue of *ren* (Cua, 1989).

For example, if a son steals a sheep to feed his starving family and his father finds out about it. Although this behaviour is probably driven by *ren*, it is not according to *yi*. The father should return the sheep and discipline his son, but without reporting his son to the authorities (see section 3.4.2 for more discussion). From the son’s perspective, the act of stealing triggers a sense of shame for both himself and his family. Therefore, the action violates the virtue of *yi*. From the father’s perspective, he knows that his son’s motivation is good. However, he also needs to consider *yi*. In other words, the father needs to consider the appropriateness of his son’s behaviour. *Yi* is a principle that people need to apply in judging whether an action can be regarded as virtuous (C. Cheng, 1972). The father is in a situation that requires him to balance the call of *ren* and the call of *yi* when they are not pointing in the same direction (R. Fan, 2010). *Yi* is also an essential characteristic of a *junzi*. A *junzi* is capable of judging and evaluating whether a certain action is honourable or righteous under different circumstances. He or she acts according to the principle of *yi* without other preferences (Analects 4:10).

3.2.5.3 *Li* – the codification of *ren* and *yi*

Li is translated as rites, rituals, ceremonies, moral codes or the rule of propriety (Yao, 2000). The *Book of Li* divided *li* into two types: *yili*, ceremonial rituals, and *quli*, daily rituals. Ceremonial rituals include weddings, funerals and worshipping ancestors, where the procedures for these rituals are standard. Daily rituals are informal practices and are rituals

in ordinary human interactions and behaviours. Confucian rituals involve eating, drinking, dressing, speaking, sitting and every aspect of life (R. Fan, 2010) .

Li, as the social standard for conduct, is not only based on the occasion, but also on individuals' roles and status in Chinese collectivist society (Lai, 2008; YuLi Liu, 2004). For example, to show respect to the older generation, the younger generation was required to bow or kneel down to say "good morning" every day. "If everybody acts in accordance with *li*, then the world would be peaceful and orderly, ruled without ruling, governed without governing, and ordered without ordering" (Yao, 2000, p. 192).

The purpose of *li* is to nurture virtues of *ren* and *yi*. *Li* needs to be followed with a sincere heart rather than by conforming to the rules without having corresponding feelings. Without *ren*, acting according to *li* is pointless. Confucius repeatedly emphasised "for if a person lacks humaneness (*ren*) within, then what is the value to performing rituals? ..." (Analects 3:3 cited in Yao, 2000, p. 32). The performances of rituals also cultivate the understanding of *ren* and *yi*. Fan (2010) provides a good example

if I teach my children that bowing to their uncle is showing respect to him, they will know what to do; but if I only tell them that they should respect to their uncle, they will not know what to do (p. 177).

In this example, respecting elders is implied in the virtue of *ren* and bowing to elders is the ritual to reflect such respect. Hence, rituals provide clear guidance as to how to behave properly in society (R. Fan, 2010). Failing to observe such rituals would lead to a sense of shame, embarrassment or loss of face. Because *li* is a codification of moral experiences based on *ren* and *yi*, *li* can be revised or changed based on the principles of *ren* and *yi* in different circumstances (Cua, 1989; R. Fan, 2010). Cheng (1972) summarised the relationships between *ren*, *yi* and *li* as follows.

While ren gives substance to human virtue by way of extending oneself to others in terms of one's concern and love for others, yi gives meaning to human virtues by way of defining oneself in understanding one's end and the relation of oneself to the totality of all man. Similarly, while li actually exhibits virtues of human behaviour and formulates rules by which human virtues can be stabilised and harmonised, yi confers on li the sanction of being relevant to realisation of ren and an awareness of self-realisation and self-justification (p. 273).

Ren is the motivation for humans to act. *Yi* is the principle evaluating the appropriateness of an action in a particular situation. *Ren* and *yi* form and change *li* according to circumstances. *Li* must be followed in order to cultivate *ren* and *yi*. In this sense, *li* is the means to realise *ren* and *yi* (Cua, 1989).

3.2.5.4 Filial piety, loyalty and obedience

Filial piety (*xiao*, 孝) is a fundamental application of *ren* in hierarchical parent-child relationship. “It means respect and reverence for one’s parents...” (Rainey, 2010, p. 24). As recorded in the *Classic of Filial Piety*: “Filial piety is as the constant in Heaven, as rightness on earth, and the path of human beings” (cited in Rainey, 2010, p. 29). Through practising filial piety, one is able to cultivate the virtue of *ren* and to be a *junzi* as recorded in *Analects* 1:2 “Filial piety and fraternal submission—are they not the root of all benevolent actions?” Because of this importance, Confucius appeared to think there is no limit to filial piety. As recorded in *Analects* 2:5 a student (*Meng*) asked about the treatment of parents. Confucius answered with two words “Never disobey”.

Another student (Fan) asked “in what sense did you mean it? The Master said, while they are alive, serve them according to ritual. When they die, bury them according to ritual and sacrifice to them according to ritual” (The Analects, 2000).

The notion of filial piety must be practised based on love and through appropriate rituals. According to *Analects* 2:7, if filial piety is practised without affection, humans would not be much different from animals. Therefore, filial piety is the path to realising the virtues of *ren* and *yi* (Y. Li, 2012).

Confucians believe that only when an individual practises filial duties toward the person’s parents, will the person be loyal to other elders and teachers and so can be entrusted with greater responsibilities in society (Y. Li, 2012). A filial son at home is likely to have an attitude of respecting authority and the individual carries this attitude of respecting authorities in social interactions outside the family. In this sense, loyalty is based on filial piety and is an application of *ren* towards others outside the family. Some scholars think that filial piety has shaped Chinese people’s attitudes towards authorities (Rainey, 2010).

The difficulty in understanding filial piety is that though there appears to be no limit to it, it is not equivalent to blind obedience (Cua, 1989; Y. Li, 2012). The *Classic of Filial Piety* verse 15 records that disciple Zeng asked Confucius if simple obedience to the demands of one's father could be accounted for as filial piety. Confucius responded:

In ancient times, if the Son of Heaven (means the ruler) had seven ministers to advise him, he would not lose his empire, even if he were imperfect. If a prince had five good men to counsel him, he would not lose his country. If a father had one son to reason with him, he would not be engulfed in moral wrong. Thus if a father contemplates moral wrong, a son must never fail to warn his father against it, nor must a minister fail to perform a like service for his prince. In short, when there is question of moral wrong, there should be correction. How can you say filiality consists of simply obeying a father? (cited in K. K. Hwang, 1999, p. 176)

From this verse, it appears that the duty to warn does not contradict to filial piety. Whenever there is misconduct committed by a ruler or a father, a minister or a son should warn him. What is worth noting is that there is a difference between father-son and ruler-subject when the superior party violates moral principles. When a parent does something wrong, the son can remonstrate. However, if the parent does not listen, the son has to continue to serve his parent with reverence. A well-quoted passage recorded in the *Book of Rites* states:

If a parent has a fault, the son should quietly, with a gentle voice and a blank expression, point out the problem. If this has no effect, the son should increase his reverence and filial piety. Later the son can repeat his point. If the parents are displeased, the son should strongly state his point, rather than let them do something wrong in the neighbourhood or countryside. If they are even more angry and more displeased, and, even if the parents beat the son till the blood flows, the son should not dare be angry or resentful, but instead should show increase his reverence and filial piety (cited in Rainey, 2010, p. 26).

This passage indicates that a son should repetitively point out the wrongdoing of his parents, but his responsibility for warning his parents does not change the virtue of filial piety. This is because the son is bound to his parents by blood, which is unchangeable. However, as there is no blood tie in the ruler-subject relationship, if the ruler conducts malpractice and does not accept repeated advice from the subject, the subject should choose his morality and leave the ruler. If the ruler is tyrannical, the subject should supersede the ruler and console the people (K. K. Hwang, 1999). However, the Confucian ideal is not necessarily fulfilled in reality.

In summary, Confucian ethics hold the primary importance in regulating people's behaviour. An ideal Confucian society is one that is harmonious and hierarchical. People should follow the virtue principles of *ren*, *yi* and *li*, and behave according to their roles as specified in the notion of the five relationships. Because of the importance of Confucian virtues, education is about learning virtues, so that people can conduct themselves properly. The next section discusses Confucian heritage in learning and education.

3.2.6 Education and the Imperial Examination system (*Keju* 科举)

The idea of a lifelong learning commitment and the Imperial Examination system (IE) has pausibly contributed to the dominant position of Confucianism in Chinese history. Confucius emphasised the importance of education and viewed education as a way for moral development. He required his students to genuinely commit to a lifelong learning process (Perkins, 2006). "For Confucius, learning is a lifelong effort of aiming for forging a morally excellent life and of becoming a virtuous person" (K. H. Kim, 2004, p. 117). As Confucius stated "is it not pleasant to learn with a constant perseverance and application? Is it not delightful to have friends coming from distant quarters?" (*The Analects*, p. 1:1). For Confucians, it is enjoyable to learn and practice what is learnt constantly. Such joy is similar to the feeling one has when a friend visits from afar. It is important to understand the Confucian idea of education because it explains the Chinese way of teaching and learning, and consequently its impact on accounting education. This section discusses the purpose of learning and IE.

3.2.6.1 Purpose of learning

A Confucian way of life is to strive to be a *junzi*, who knows how to conduct himself appropriately, righteously and to live in harmony with others. These moral principles need to be learnt and cultivated in the context of life, hence it is a continuous learning process (K. H. Kim, 2004; J. Li, 2001; Tu, 1979). According to Confucius, learnings have intrinsic value. Confucianism recognises the imperfect nature of humans and stresses the innate desire to become good. Therefore, learning is the way for self-cultivation and to obtain wisdom (Lai, 2008). Learning is for the sake of perfecting one's characteristics and for self-realisation (W. O. Lee, 1996). It is a lifelong devotion which requires endurance and perseverance. Through learning one can ultimately understand the unity between heaven and humanity, that is the

potential to reach sagehood. In other words, through learning, a person is to realise *dao*. Confucians believe one should remain humble to listen and to learn so that one can improve continuously and children need to be taught about the right rituals and attitudes (Ho & Ho, 2008).

Dardees (1983) argues that (cited in T. Kim, 2009, p. 861) Confucians believe that there is a body of absolute truth, which consisted of moral principles and cosmological laws. This body of absolute knowledge was understood and recorded by the Confucian sages. Others argue that Confucians are not concerned about the notion of truth, which is central in Western epistemology (J. Li, 2003). Rather, Confucians focus on the “truth” of “how to live as a person in an interdependent community” (K. H. Kim, 2004, p. 118). Confucius was concerned about how to become a genuine, sincere, and humane person through learning (J. Li, 2003) and to eventually achieve the status of unity of Heaven and humanity (R. Yang, 2011). As a result, Confucian education is more practically focused rather than being based on theoretical reasoning (K.-K. Hwang, 1999). It is a life-long process in searching for the way in which a virtuous life should be lived (K. H. Kim, 2004; T. Kim, 2009; J. Li, 2003). Yang (2011) argues that because Confucian doctrine focuses on self-realisation, an understanding of self would lead to an understanding of the natural world. In contrast, Western thinkers endeavour to explore the natural world. Therefore, from ancient times, Chinese thinking “has been oriented to a central focus on human society instead of the natural world” (R. Yang, 2011, p. 35). This may hinder the exploration of the physical world and the development of science.

The purpose of learning is for self-realisation, therefore the Confucian tradition of learning inclines a “deep learning” approach (W. O. Lee, 1996). As Confucius said “seeing knowledge without thinking is labour lost; thinking without seeking knowledge is perilous” (Analects 2: 15 cited in Biggs, 1991, p. 30). To reach sagehood, learning is a process of understanding, reflective thinking and inquiry. As Master *Zhu* points out regarding the purpose of reading:

Generally speaking, in reading, we must first become intimately familiar with the text so that its words seem to come from our own mouths. We should then continue to reflect on it so that its ideas seem to come from our own minds. Only then can there be real understanding. Still, once intimate reading of it and careful reflection on it, have led to a clear understanding of it, we must continue to question. Then there might be additional progress. If we cease

questioning, in the end there'll be no additional progress (cited in H. Chu, 1990, p. 135).

This indicates that memorising (become intimately familiar with the text) is a means to developing deep understanding (W. O. Lee, 1996; Pratt et al., 1999). Through reflecting on understanding, one should continue to question and thus the development of knowledge can be achieved. Therefore repetition and memorisation are used as strategies for deep understanding, which are not the same as mechanical rote learning as perceived by the West (Cooper, 2004; Watkins & Biggs, 1996).

Confucius recognised the differences in human intelligence, but he believed that everyone could be educated. His disciples were from different backgrounds: poor, rich, released prisoners, different ages and different regions (Weiyuan Zhang, 2008). Individual's willpower and effort towards learning is more important than intelligence. Therefore education is considered to apply to everyone, regardless of social status, economic status, age, and level of intelligence (W. O. Lee, 1996). Confucius left a legacy of the equality of education, which is still influential in Chinese education today (Weiyuan Zhang, 2008).

Because Confucian learning stresses effort rather than intelligence, failure reflects a lack of effort from a student (Weiyuan Zhang, 2008). Learning is perceived to be difficult and is sometimes a painful activity, as reflected in a famous Chinese poem: "Diligence is the path to the mountain of knowledge, hard work is the boat through the endless sea of learning" (书山有路勤为径，学海无涯苦作舟). To succeed in learning, effort and diligence are considered to be key. The Chinese way of learning cultivates "learning virtues" including "diligence, endurance of hardship, steadfast perseverance and concentration" (J. Li, 2010, p. 48). These learning virtues enable Chinese students to develop humility and self-discipline. Consequently, Chinese people have a reputation of being hard-working (Y. Fan, 2000).

Because of the purpose of learning and the influence of *wulun*, Chinese pedagogy is teacher-centred. The "teacher-student relationship is modelled after the father-son relationship" (Ho & Ho, 2008, p. 73). This reflects the Chinese culture of respecting elders and teachers, which is derived from *wulun* (section 3.2.4). Teachers not only pass their knowledge to their students, but also "serve as moral embodiments that children are to emulate" (J. Li, 2001, p. 132). Teachers are highly regarded as role models who cultivate children on a journey of

lifelong learning. Teachers and students can have a lifelong relationship, as reflected in a Chinese saying “One day as teacher amounts to a lifetime as father” (Ho & Ho, 2008, p. 73). A stern teacher with a caring heart is appreciated in Chinese culture as discipline is part of learning (J. Li, 2001). In return, respect for teachers reflects an attitude of filial piety. However, the teacher-centred pedagogy is criticised as being stifling of creativity.

Although the intention of Confucian learning is for moral development through a deep learning approach, sometimes the practice is not always what Confucius intended. Perhaps IE was one of the social factors that changed the intended purpose of learning.

3.2.6.2 Significance of IE

Because learning is for the purpose of moral development, educated people are considered to be wiser and more righteous and therefore they should become government officials. As recorded in *The Great Learning* IV, a person should “cultivate himself, then regulate the family, then govern the state, and finally lead the world into peace”. Moreover, Confucians recognise that people are different from one another. Some may be more sincere than others in practising virtue and love. Therefore, in return, they deserve more respect and honour than do those who are not (R. Fan, 2010). Hence, cultivated personalities should become officials to extend their good influence and gain nobility (K. H. Kim, 2004). IE was an examination system which was established based on these beliefs. It was a meritocratic system which aimed to select the best people to become state officials (J. Li, 2001). IE was open to every male adult, regardless of his background, which reflected Confucius’ belief on equality of education. It offered a fair chance to every male to become a member of the gentry and promised a privileged life (*Ancient imperial exams with modern relevance* 2006).

IE had a long-lasting influence in Chinese history. Chinese historian Liu (2008) suggests that IE can be traced back to the *Han* Dynasty (206 BC – 220 AD). IE was officially launched in 605 AD during the *Sui* dynasty, although it remained relatively small in scale until the *Song* Dynasty (960-1279) (H. Liu, 2008). The examination system has three levels: the local district, regional and national levels. The highest level examination, which ran every three years, was often hosted by the Emperor himself in the palace. Ceremonies were performed prior to the examination to honour these elite scholars (T. I. C. Lee, 1985). The examination

could last up to 72 hours and each candidate stayed in a small individual room (as show in Figure 3-2) to complete their essays.



Figure 3-2 the Imperial Examination Hall

The examinations concentrated on Confucian classical texts i.e. the *Four Books* and *Five Classics*. IE reinforced the dominant position of Confucian doctrines and led to a development in education. Many educational insitutions were established as a result. For example, a school named *Guozijian* (国子监) in *Nanjing* during the *Ming* Dynasty (1368-1644) had 9,000 students (L. He, 2009). This examination system ended in 1905 when the *Qin* Dynasty collapsed, which had lasted for 1300 years (Crozier, 2002; H. Liu, 2001).

Success in IE brought the extrinsic reward of learning. It not only brought wealth and position, but also honour to one's family and ancestors (W. O. Lee, 1996). Though the examinations were very difficult and pass rates were very low, both extrinsic rewards and intrinsic values motivated the scholars to study hard. Therefore learning and education are highly regarded in Chinese culture, as reflected in the old Chinese saying "learning is the noblest of all human pursuit" (万般皆下品,唯有读书高) (cited in Weiyuan Zhang, 2008

p.553). Academic achievements bring *mianzi* (face) to an individual and his or her family (section 3.3.3).

However, IE was criticised for limiting the development of modern science and technology in China. The rigid examinations did not encourage individuals to further their own interests in other areas. While the West was studying natural science, sociology and engineering, Chinese intellectuals were focusing on the rote learning of Confucian texts (Crozier, 2002; J. Y. Lin, 2012). Candidates had to memorise numerous Confucian texts, but “never needed to demonstrate the ability to either theorise or challenge a particular premise” (T. Kim, 2009). Because there were great external rewards such as fame, wealth and honour attached to passing IE, many people were attracted to devoting their life to learning and memorising Confucian texts. They lost the intrinsic motivation for learning but wanted to pursue the external rewards. In other words, they were learning for the purpose of passing examinations. This encouraged the rote learning of the Confucian Classics without reflection or application. Many Confucian scholars became frustrated or even insane due to failure in IE (*Ancient imperial exams with modern relevance* 2006; Crozier, 2002).

The influence of IE still predominates in the current Chinese education system. The Chinese examination-driven education system can be seen as a legacy of IE. For example, the National College Entrance Examinations (NCEE, *Gaokao* 高考) system is very much the contemporary version of IE (Yu & Suen, 2005).

The NCEE aims to select students for higher education and is open to every student nationwide. Through passing NCEE, poorer students from rural areas can be recruited into top universities which are located in the metropolis. The top universities are often associated with better career choices and so potentially, economic success. Thus success in NCEE directly links to upward mobility. However, the current NCEE system is also criticised. As the stakes and pressure related to passing the examinations are very high, education and learning is no longer an end itself, but “is toward doing well on the exams” (Yu & Suen, 2005, p. 30). Students have to focus on the subjects for the examinations at the expense of ignoring other non-examinable subjects. This does not nurture the development of their individual talents and other skills. The psychological effect on individuals from failing examinations can be daunting. For example, some students need to take sedative medicine in

order to sleep prior to the examinations, or in some extreme cases, commit suicide (Yu & Suen, 2005).

Research shows that learners cannot be culture free (J. Li, 2010; Watkins, 2002; Watkins & Biggs, 1996). Culture shapes people's learning beliefs and the way of learning. An understanding of Confucian teaching regarding lifelong learning commitment and the influence of IE may offer insights into current Chinese accounting education in the light of convergence with IFRS.

The above sections introduce key Confucian aspects. The way that Confucianism is interpreted and applied by normal Chinese today is often different to the original Confucian ideology (Chang, 2000). The following section discusses Chinese social practices that are derived from Confucianism.

3.3 *Guanxi* (关系, relationships) and *mianzi* (面子, face)

Guanxi (关系, connections, interpersonal relationships, networks) is a well-researched concept that has complicated and multiple-dimensions (Y. Fan, 2002). The literature disagrees on whether *guanxi* is an indigenous Chinese cultural phenomenon or universal, but *guanxi* is more crucial for the Chinese than for any other culture (Gold, Guthrie, & Wank, 2002; Ma, 2011). The section explains the cultural root and typology of *guanxi*. Although the term of *guanxi* was not used by Confucians in ancient times, *guanxi* reflects many Confucian doctrines. It is regarded as one of most influential factors in business success in China (section 2.2.4.4.3). It also has profound influences on accounting practices in China, as reported in Chapter 6.

3.3.1 Confucian root of *guanxi*

Confucian doctrines concern how to interact with one another appropriately and harmoniously. Hence, *guanxi* is derived from the Confucian collectivist society and the principles underlying *guanxi* are derived from Confucian teachings (K. K. Hwang, 1987; Luo, 1997b). *Guanxi* includes much wider relationships than families, involving friends, colleagues, classmates, and other acquaintances (R. Fan, 2010). Chinese people are highly sensitive to the existence of others, which Ho (1995) calls “relational-self” which contrasts with the Western “autonomous self” (section 3.2.3). The concept of self for a Chinese

individual is defined through his or her *guanxi* both inside and outside the family (K. K. Hwang, 1999; Ip, 2009b). “There is no self outside of others” (Tan & Snell, 2002, p. 362). As Vanhonacker (2004) explains “the status of the people with whom you have relationships helps define your status” (p. 49). For example, it is common that when a person chooses a partner for marriage, the perspective spouse is often considered in relation to his family background.

The term “*guanxi*” is not recorded in Confucian classical texts. Dion (2010) argues that *guanxi* is intrinsically linked to Chinese culture, but not to Confucian philosophy. However, this view cannot be sustained because Confucius emphasised the relationships of a family and the behaviour codes for individuals within each set of relationships. *Guanxi* is therefore a ramification of Confucian teachings on how to conduct within variance relationships. Dion (2010)’s view of *guanxi* is probably a narrow view, where *guanxi* is only considered as connections to be used for personal interests.

Guanxi can tightly knit individuals together within a *guanxi* network or web. They are protective of one another and safeguard each other’s interests (M. Wong, 2010). Within these networks, people have obligations based on their roles, and hold high levels of trust, loyalty and altruism towards one another (Chun & Graen, 1997). *Guanxi* works on unspoken principles of trust, reciprocity and empathy. These principles are discussed below, according to each type of *guanxi*.

As stated in section 3.2.4, under Confucianism, people are expected to behave according to virtues and obligations within the relationships in which they are bound in *wulun*. The principles underlying *guanxi* should be similar to what is expected within *wulun* such as benevolence, loyalty, respect for authority, sincerity etc (Tan & Snell, 2002; Y. Zhang & Zhang, 2006). A passage in *Doctrine of the Mean* Chapter XX reveals how Confucian ethics are applied in treating the authorities and others, which manifested as principles of *guanxi*:

Benevolence (ren) is the characteristic attribute of personhood. The first priority of its expression is showing affection to those closely related to us. Righteousness (yi) means appropriateness; respecting the superior is most important rule. Loving others according to who they are, and respecting superiors according to their ranks gives rise to the forms and distinctions of propriety (li) in social life (cited in K. K. Hwang, 2001, p. 187).

The passage means that because of benevolence, people should give priority to others who have a close relationship with them. It is appropriate to respect superiors based on the assumption that they are considered morally cultivated. Respecting authority is a result from respecting morally cultivated people (section 3.2.6.2). Loving others according to the closeness of the relationships and respecting superiors according to their ranking is a performance of propriety.

This passage reveals three important principles underlying *guanxi*. First, favouring people with whom one has a close relationship is considered as *ren*. Second, respecting those who should be respected as required by the relationship is termed *yi*. Third, it is *li* to behave according to these social norms, such as performing different rituals according to different ranks of people. Therefore, the *ren-yi-li* system has provided basic ethical principles for ordinary people to interact with others in society (K. K. Hwang, 2001). Nepotism and favouritism is ethically justified. For example, “it is quite normal for Confucians to consider affective networks as a factor in evaluating the qualifications of a candidate for a social position” (R. Fan, 2010, p. 31). In the business field, this means that it is ethical for the Chinese to consider in favour of people with whom they have *guanxi* and to deal with them. Because accounting professionals are also involved in various *guanxi* in their work contexts, this may compromise their objectivity and independence.

The difference between *guanxi* and *wulun* is that *wulun* emphasises the hierarchy between relationships and *guanxi* emphasises the interpersonal dealing within the relationships. Because there are different types of relationships, *guanxi* is also classified into different categories according to the degree of closeness in the relationships.

3.3.2 Types of *guanxi*

Although the cultural root of *guanxi* is based on moral principles, many writers consider *guanxi* to be unethical as it links to corruption, bribery and unfair competition in contemporary China (R. Y. K. Chan, Cheng, & Szeto, 2002; Gold, 1985; Su & Littlefield, 2001; Tan & Snell, 2002). Others argue that *guanxi* is inherently different from corruption. The former is based on relationships and is long-term orientated, whereas the latter is based on transaction and short-term orientated (Vanhonacker, 2004). Corruption and bribery result from deficiencies in institutional frameworks. *Guanxi* is utilised to perform or hide such

unethical behaviour (Vanhonacker, 2004; von Weltzien Hoivik, 2007; Yeung & Tung, 1996). Li (2010) argues that unlike corruption, because *guanxi* is based on a high level of trust and obligation, it actually enhances efficiency and hence leads to a growing economy. *Guanxi* covers a wide range of relationships with different applications of the principles of *ren-yi-li* in each type of *guanxi*. It is sensible to analyse *guanxi* based on these different types.

Many studies have attempted to classify *guanxi* (C. C. Chen & Chen, 2004; K. K. Hwang, 1987; Luo, 1997b; Su & Littlefield, 2001; Y. Zhang & Zhang, 2006). This study uses Hwang's (1987) classification, namely expressive ties, mixed ties and instrumental ties, which are explained below.

First, the expressive type of *guanxi* is tied through blood and marriage. As mentioned in 3.2.3, family is the most important to an individual in Chinese traditional society. This type of *guanxi* is based on affections, responsibilities, loyalty and mutual trust among the family members involved (Y. Zhang & Zhang, 2006). Because this type of *guanxi* is the primary circle of relationships, under the virtue of *ren*, individuals should primarily take care of the interests of this group of people. The blood or marriage ties create obligations for individuals, such as parents are obliged to provide for their children. In Chinese society, it is common to see a successful family member taking care of brothers, sisters and cousins to give them better opportunities to succeed (R. Fan, 2010). If a family member is in a position to help others, but fails to do so, the person would be condemned within the family for failing his or her responsibilities (K. K. Hwang, 1987; Y. Zhang & Zhang, 2006).

The reciprocity of this type of *guanxi* tends to be long-term. The reciprocity between parents and children is that it is the parents' responsibility and obligation to nurture and educate their children. In return, when parents grow old, their children must assume a responsibility to support them (K. K. Hwang, 1987). Sometimes, this type of relationship may not be reciprocal, for example if people do not take the responsibility of looking after their aged parents (R. Fan, 2010).

Second, the mixed type of *guanxi* involves friends, neighbours, classmates, colleagues, or people who share common ground. This type of *guanxi* works on the unspoken social norms of *renqing* and reciprocity (K. K. Hwang, 1987; Y. Zhang & Zhang, 2006). *Renqing* is translated as sympathy or empathy. It consists of emotions such as happiness, anger, sadness,

fear, love and desire. A person who is versed in *renqing* is sympathetic to others in the situations they experience (K. K. Hwang, 1987). As a result of this feeling, people perform favours for others. The ability to feel sympathetic towards others is a reflection of *ren*. Kipnis (1997), based on his observations in a rural village in China, suggests that *guanxi* is inseparable from the emotional feeling of the parties involved.

Reciprocity for this type of *guanxi* reflects fraternal love outside a family. Chai & Chai (1962) illustrates the importance of reciprocity “what is called filial piety and fraternal love in the family is known as loyalty and reciprocity in the wider sphere of social relations” (p. 77). An old Chinese saying that reflects the norm of reciprocity as a moral obligation is, “If you have received a drop of beneficence from other people, you should return to them a fountain of beneficence” (cited in K. K. Hwang, 1987, p. 954). Therefore, it is an obligation to repay social indebtedness. The failure to do so is regarded as untrustworthy. This repayment can be both gifts and/or favours. Reciprocity is also an application of *yi*, which means it is appropriate and righteous to return favours generously. Repayments also reflect *li* because this is socially expected behaviour. The reciprocity encourages an individual to help the other party in the *guanxi* because the individual is entitled to anticipate a repayment at a time of need. A continuous reciprocity sustains and strengthens *guanxi* and reflects an interdependent way of living in China.

For example, if A and B are friends, because of their friendship (a form of *renqing*) A does B a favour. As a result, B would feel indebted to A. B would like and is expected to return A the favour handsomely, or at least equally, when A is in need (an application of *yi*). Failure to meet the *guanxi* obligation could damage the relationship between A and B, and B may also be accused of being untrustworthy as a friend (D. B. K. Hwang & Staley, 2005; Kirkbride et al., 1991). Eventually, their *guanxi* could break down and B may lose all trust from that *guanxi* circle. However, with a continuous exchange of favours and/or gifts, the *guanxi* can be strengthened and the trust is further developed. This reciprocal *guanxi* can last for a long time if both parties keep to the rules of *guanxi*. This type of *guanxi* sometimes can be as strong as a family tie. For example, *guanxi* with a very good friend can be as strong as a relationship with a sibling.

Third, the instrumental type of *guanxi* involves general acquaintances. This type of *guanxi* does not necessarily involve emotional attachment. This type of relationship serves as a

means to attain other goals. Once the goal is reached, the instrumental tie can be dissolved (K. K. Hwang, 1987). The instrumental type of *guanxi* can be established between two strangers of uneven ranks through an intermediary or intermediaries (Y. Zhang & Zhang, 2006). Within the Chinese hierarchical social structure, *guanxi* becomes a means to obtain resources (Gold, 1985; K. K. Hwang, 1987). The instrumental tie normally happens when a weaker party (the petitioner) requires help from the other party, who has more power (the resource allocator) within certain circumstances. The repayment is normally in material form. The reciprocity in this type of *guanxi* is based on the significance of the matter, or its perceived financial value. Normally the more serious a matter is, the more expensive a gift is.

These three types of *guanxi* can be mixed together in some circumstances and there is no clear division between the three categories. The following situation provides an example of this: a father asks a favour from a professor to accept his son into a good university. Once the favour is done, the father owes a favour to the professor. Suppose the father holds a position in provincial government. A close friend of the professor wants to win a tender for a piece of land that the provincial government puts up. The professor can ask the father to facilitate the winning of the tender for his friend as repayment for the favour he did for the son. This simple example illustrates the three types of *guanxi* woven together. It can be much more complicated in real life.

Some argue that *guanxi* is a universal phenomenon. For example, there is a Western saying about how relationships can get people ahead “who you know is more important than what you know” (cited in Ma, 2011, p. 25). However, as highlighted above, *guanxi* is far more important for Chinese as (1) *guanxi* is culturally embedded in self-identity; and (2) *guanxi* is a way of living and involves moral obligations. Investing and maintaining social relations is regarded as an unavoidable fact of life (M. Wong, 2010). Because of the importance that *guanxi* plays in Chinese society, the researcher utilised *guanxi* to recruit participants for this study. More details are introduced in section 4.4.2.

Guanxi is culturally rooted in Chinese collectivist society. The affection component of *guanxi* and reciprocity are manifestations of *ren-yi* and *li*. *Guanxi* can lead to ethical or unethical behaviour depending on what individuals want to achieve (Wright et al., 2002). The next section introduces another fundamental Chinese phenomenon, *mianzi*.

3.3.3 Face (面子, *mianzi*)

Like *guanxi*, face is another important concept that directs Chinese people's behaviour. It is called *mianzi* in Chinese and is translated literally as face. It is still a prevailing phenomenon in contemporary Chinese society and impacts on people's behaviour. A recent survey reported that 93% of the 1,150 sampled said that they pay considerable attention to their *mianzi* (Shan, 2005). It is hard to define the concept of face precisely (Ho, 1976). A famous Chinese writer, *Lin Yu-tang*, said that face is "impossible to define" and it is "abstract and intangible, it is yet the most delicate standard by which Chinese social intercourse is regulated" (cited in Ho, 1976, p. 867). *Mianzi* relates to dignity, a sense of honour, personal prestige and status, but is distinguished from them. It has universal applicability, but can be argued it has more salience in Chinese societies (K. K. Hwang, 1987; Kirkbride et al., 1991). For example, an old Chinese saying spells out the significance of face "Men live for face as trees grow for bark" (cited in Shan, 2005). This means *mianzi* for an individual is as important as the person's life. *Mianzi* is also derived from Confucian virtues.

Under Confucianism, a sense of honour and shame is a way to reward and to enhance the desirable behaviour. A sense of shame is an effective means to cultivate Confucian virtues (see section 3.2.5.2). For example, feeling ashamed is a way to educate children. "Among the Chinese, shame is a hyper-recognized emotion... Chinese children use the term shame as one of their first emotional words early in development" (Mascolo, Fischer, & Li, 2003, p. 382). *Mianzi* is a manifestation of this shame-orientated culture (Kirkbride et al., 1991).

Because Chinese people live for their face, loss of face is a very serious matter. If face is lost, people feel very embarrassed, humiliated and ashamed (Ho, 1976; K. K. Hwang, 1987). If face is gained, people feel honoured and proud. In a collectivist society, family honour or shame is often attached to an individual gaining or losing face. When face is lost, the inter-harmony of a person is disturbed. When someone causes others to lose face, the harmony of the relationship is interrupted. Therefore, Chinese people try to avoid "loss of face" and avoid making others lose face. "Saving face" for each other is an implicit behaviour in the society.

The adoption of face-saving behaviour in conflict situations is valued as a means to maintain a sense of harmony. The Chinese view it is shameful to disturb group or interpersonal harmony; a sensitivity that is ensconced in the culture and which is developed and reinforced through childhood rearing

practices based upon shaming techniques and group loyalty (Kirkbride et al., 1991, p. 369).

Some common strategies for saving face include: avoiding criticising others, especially superiors; using circumlocution and equivocation when they do not want to answer questions; avoiding public attention and trying to be quiet (K. K. Hwang, 1987, p. 962). When people save face for others, they also save their own face, especially if their comments are incorrect or if the recipients take them negatively. Therefore Chinese may say “yes” when they actually mean “no” because saying “no” in some circumstances can be utterly disrespectful. For Chinese people, if lying is necessary to maintain one’s face or save others’ face, it is considered appropriate (Bond, 1991). Face-saving behaviours are considered social norms; it is proper performance of *li* (A. K. K. Chan, Denton, & Tsang, 2003). For example, as required by *wulun*, juniors need to pay respect to seniors and authorities. This is a way of giving or maintaining others’ face as well as for oneself. This form of behaviour is reflected in findings in Chapter 5 and Chapter 6 in terms of the teacher-student relationship and auditor behaviour.

Mianzi is an important component in the dynamic of *guanxi* (Luo, 1997b). Individuals can leverage on their *mianzi* to ask for a favour (Bond, 1991). In this sense, *mianzi* is a form of social capital. When one asks for a favour, the decision on whether to help this person is sometimes based on how much *mianzi* the petitioner has. One needs to weigh up his or her “face value” before asking for a favour to avoid loss of face if rejected. A number of factors relate to the weight of *mianzi* including position, academic qualifications, wealth, *guanxi* with the powerful and so forth (Bond, 1991). For example, a person can boast about having *guanxi* with particular high-powered officials, by which face would be gained.

When asking for a favour, it is *li* for the petitioner to give gifts and praise to the allocator, as this demonstrates respect. If the gifts are not expensive enough, the *mianzi* of the recipient can be injured. Gifts can be in various forms such as meals, entertainment, expensive liquor, cash and so forth. If the recipient refuses the favour and rejects the gifts, the petitioner will feel loss of face. If the recipient accepts the gifts and does the favour, it means that he or she gives the petitioner face. As an example, an individual of low status invites a superior to dinner. If the superior agrees to come, the individual gains face because a kind of *guanxi* has been established with the superior. Hence, due to the importance of having face, the Chinese

are eager to “associate with the rich and famous, the use of external status symbols, sensitivity to insult, lavish gift-giving, the use of titles”... (Bond, 1991, p. 59).

This section explains two very important Chinese social phenomena, *guanxi* and *mianzi*. Both of them have origins in Confucian doctrines and guide Chinese people decision-making and behaviour. The next section introduces some criticism against Confucianism.

3.4 The criticism on Confucianism

Because Confucian virtues are the centre of Confucianism, the criticism of Confucianism is a result of such emphasis. This section discusses two negative influences from Confucian teachings.

3.4.1 Discouraging the development of commerce

Confucianism is often criticised as it is seen as discouraging the development of commerce (Yao, 2000). Historically, merchants were lowly ranked at the bottom of society, after civil servants, peasants and industrialists. Confucius and Mencius were very negative about the idea of profits (Lam, 2003). For example, in *Analects* 4:16 Confucius said “the mind of the superior man is conversant with righteousness; the mind of the mean man is conversant with gain (profits)”. Mencius once rebuked a warlord of a kingdom, as recorded in the *Book of Mencius* 1:1. “What is the point of mentioning the word ‘profit’? All that matters is that there should be benevolence and rightness” (Cheung & King, 2004; K. H. Kim, 2004; Lam, 2003). Confucians recognise that people are in a constant dilemma between ill will and the need for moral perfection (Cheung & King, 2004). Master *Zhu* warned that materialism could be a threat to morality. However, this does not necessarily mean that Confucians think that people should be poor. For example, in *Analects* 4:5, it reads:

Wealth and honours are what men desire; but abide not in them by help of wrong. Poverty and lowliness are what mean hate; but forsake them not by help of wrong....

It appears that wealth is acceptable as long as the profits are obtained with righteousness (Lam, 2003). Confucius emphasised the way that people pursue wealth should be righteous. He was not against wealth, because poverty could lead to discontent, and consequently could trigger social conflicts. There are teachings about the balance between morality and materiality from early Confucian thinkers (Yao, 2000). For example, Confucius placed

attention on “enriching people” before “educating people”. *Jan Ch’iu* (one of the disciples) asked Confucius, as recorded in Analects 13:9.

When the people have multiplied, what next should be done for them? The Master said, enrich them. Jan Ch’iu said when one has enriched them, what next should be done for them? The Master said, instruct them.

This reflects that Confucius thought that a certain level of material wealth is the foundation of education. Confucians recognise that the need for a decent life is based on material wealth. Meanwhile, they emphasise that virtues are the goal and purpose of life (Yao, 2000). Perhaps the absolute primary goal of being virtuous overshadowed the balance of materiality and morality. Furthermore, IE drove many scholars to devote their lives to studying the Confucian Classics and passing examinations. Hence, fewer people engaged in commerce (see section 3.2.6.2). The low social status of merchants arguably hindered the development of commerce in Ancient China.

3.4.2 Rule by man

One of the most substantial criticisms against Confucianism is its failure to realise a rule by law (R. Fan, 2010; Yijie Tang, 2008). Chinese society is characteristic of “rule by man rather than rule by law” (Han & Altman, 2009; Jacobs et al., 1995, p. 33). The rule-by-man phenomenon is caused by multiple factors. First, it is originated from the hierarchical structure required in *wulun* and the concept of filial piety. Second, it reflects Confucian’s emphasis of ruling based on virtues rather than law. Third, it demonstrates Confucian partiality, which is decided by the degree of intimacy of relationships.

The first reason is touched on in section 3.2.4; the notion of five relationships stipulates hierarchy. With the moral emphasis on loyalty and fidelity to the ruler, this easily led to dictatorship in a feudal society (Yijie Tang, 2008). In Ancient China, the officials had discretionary power. Normally, the higher the ranking, the greater the power a person had. The emperors had vast power to govern the country. This is also reflected in a bureaucracy with a highly centralised administrative system and a large power distance in current Chinese society (Hofstede, 1984). Furthermore, according to Ho & Lee (1974) the virtue of filial piety is likely to lead to authoritarianism, which means superiors are likely to demand obedience

and loyalty from subordinates. This indicates that “rule-by-man” is derived from both the hierarchical social structure and the psychological influence from the notion of filial piety.

Second, Confucian ethics place emphasis on governing with virtues, which lead to a less litigious system. Fan (2010) and Kim (2004) argue that Confucius did not think that relying on law or regulative rules was effective to keep society in good order for a long time. Law tends to lead people to behave merely within the legal boundary. Punishment manages people through a coercive power, which is likely to lead to fear and hatred. Confucius believed law does not nurture individuals’ characteristics and is for malicious people. By contrast, virtues cultivate characters through a sense of shame and observation of rituals. Rituals, in this sense, serve as a virtue-based ruling system. Well-cultivated personalities who observe rituals in every aspect of daily life would exceed the legal requirements as recorded in Analects 2.3

Guide the common people by edicts, keep them in line with punishment and they will stay out of trouble but will have no sense of shame. Guide them by virtue, keep them in line with the rites, and they will, besides having a sense of shame, improve themselves (cited in R. Fan, 2010, p. 178).

Properly cultivated personalities are likely to keep a harmonious and stable society and promote the common good of society in the long run, as asserted by Tu weiming (2000) who is a contemporary Confucian scholar.

Law alone cannot generate a sense of shame to guide civilised behaviour; it is the ritual act that encourages people to live up to their own aspirations. Law may provide the minimum condition for social stability, but only the cultivation of virtue through the practice of rites can create the cultural space for human flourishing (p. 205).

Confucians believe that living beyond the laws leads to a flourishing society. However, the emphasis on ruling by virtue has impeded the development of a ‘rule-by-law’ society and weakened the power of law.

Third, for Confucians, filial duties precede laws. For example, a debatable passage in Analects (13:18) recorded a conversation between a Duke and Confucius:

In our village there is someone called “zhigong”. When his father took a sheep on the sly, he reported him to the authorities.” Confucius replied, “those who are true in my village conduct themselves differently. A father

covers for his son, and a son covers for his father. And being true lies in this (cited in Li, 2012, p38).

There is a debate in the Chinese philosophical community about this puzzle, which questions why Confucius thought that concealing a theft committed by a family member was right, but in Confucian virtue theory, it is implied that concealing a theft is wrong. The popular explanation is that the conduct of theft is wrong, but handing the father or son to the authorities is not the best way to reform them. It shows that Confucians do not believe that laws are effective in developing personalities (Y. Li, 2012). This passage indicates that Confucians believe that family relationship is more important than following the laws. Individual moral development is a function within a family, while law is a less effective means to reform people's wrongdoings.

Within Chinese family-oriented society, a person is in favour of family, relatives and associates. Familial commitment is likely to lead individuals to bend the rules for the benefits of the family. People who administer the laws have their own commitments and obligations in their different *guanxi* circles. When they are asked to provide favourable treatment to people they have *guanxi* with, they are likely to fulfil their obligations under *guanxi*. Under this relation-based structure, legal systems are less effective and hence the “rule-by-man” phenomenon. Such tradition has created a society, which is less litigious than in the West.

The negative effect of “rule by man” may be evident by corrupt business practices through *guanxi* in China today. Even though China has established a comprehensive legal system, it may not be effective because of the influence of *guanxi* and the authoritarian social structure. As Jacob et al. (1995) point out

“Rule by man” is interpreted to mean not merely that top decision makers have the final authority. In China, this has come to mean that decisions should never be questioned. The problem with business management is that top decision makers have unlimited powers. On the other side, there is no mechanism to ensure that these powers are not abused (p. 31).

The intention of rule-by-man is to emphasise ruling with virtues. However, such power can corrupt when virtues are not well cultivated. Like the famous phrase by Lord Acton “Power tends to corrupt, and absolute power corrupts absolutely”. When a society is less litigious, it encourages people to use *guanxi* to secure their needs. Rule-by-man is a fundamental

criticism of Confucianism. The next section explains why Confucianism is a suitable theory for the current study.

3.5 Application to the current study

To illustrate how Confucianism is applicable to this study, this section briefly introduces the impact of Confucianism on Chinese society and the economy. Although Confucianism is an ancient philosophy, the Confucian heritage appears persistent and embedded. During the history of Chinese civilisation, Confucian doctrines have been reflected in Chinese society and the political structure.

China has been a society based on agriculture and clans. Family and gentry played leading roles in managing local affairs, with emperors holding overwhelming powers. In between the emperor and the family, the multi-tiered hierarchy coupled with the vastness of the land so diluted centralised power that it was often traditional morality that regulated civil behaviour (Weiwei Zhang, 2011).

This shows that ancient Chinese society was based on social order, hierarchy and morality. A few millennia of history and civilisation has formed unique Chinese characteristics compared to a relatively short history in the West (Weiwei Zhang, 2009, 2011). Some of these can be difficult to understand from a Western perspective.

Furthermore, Confucianism is not out of relevance even in the current economic environment. Confucianism is credited for the strong economic growth in China and other East Asian countries i.e. Singapore, Hong Kong and South Korea (Bond, 1991; Hofstede & Bond, 1988). Confucian values such as obedience, prudence, self-restraint and the importance of family arguably contribute to the “East Asian economic miracle” (Bond, 1991, p. 68). Fan (2010) also argues that this Confucian legacy has made the economic success in China possible. For example, under Confucianism, family plays a crucial role in individual lives. Individuals are motivated for family advancement. During *Mao* era family-based production was dissolved. In order to achieve equality, people were required to eat and live similarly within the people’s communes. However, this economic model eventually failed. Under the current economic reforms, the family-based production has restored. People become motivated to work hard because they are able to keep their harvest for their families if it is above the contracted delivery.

In comparison, Western society is based on beliefs regarding individual rights, freedom and equality (R. Fan, 2010). In order to maximise individual rights without interfering with others, people need to retain some of their own rights while agreeing upon certain laws and governance, which is called “social contract” theory (McKenna, 2005). Western government is a product under such contract to protect an individual’s right and people have power to vote for the government they like. The Western individualistic culture fundamentally differs from Confucian collectivist culture. As Fan (2010) points out

Humans, for Confucius, are not atomistic, discrete, self-serving individuals coming to construct a society by contract. They are first and foremost identified by the familial roles that they take on: husband, wife, father, son, mother, daughter, brother, sister, and so on (p. 15).

Confucianism heavily emphasises on the reciprocal duties and obligations between individuals (Waldmann, 2000). Chinese society is structured based on relationships. Because of this relation-based society, Zhang (2009) and Fan (2010) argue that Western liberal democracy does not suit Chinese circumstances. Good governance that is based on morality and an emphasis on social order is more important than the Western sense of democracy.

Although Chinese accounting standards are substantially converged with IFRS and China has adopted a Western COE, these Western standards developed based on individualist culture may not be suitable for China. Confucianism is likely to influence current accounting practices in China. The notion of harmony and *wulun* encourage obedience and loyalty to one’s superiors. Conflicts are solved based on compromises made by subordinates (L. M. Chow et al., 1995; Kirkbride et al., 1991). These teachings promote obedience and loyalty to superiors. In accounting contexts, this means that accountants are likely to prioritise instructions from higher management, which may at the expenses of professional independence and objectivity. Furthermore, family-based collectivism is likely to lead to a relation-based society, where the individual is defined by his or her relationships. Therefore, accountants are likely to consider their *guanxi* in business dealing. Because the influence of Confucianism on Chinese people is still pronounced and Confucianism primarily shaped Chinese culture, the interpretation of Chinese accounting professionals’ behaviour should be done through a Confucian lens.

3.6 Chapter summary

This chapter introduces some main themes of Confucianism. Confucian values constitute the fundamental social values and norms that have been shared in Chinese society for over two thousand years. Confucianism aims to achieve social harmony through individuals behaving appropriately, according to their roles and positions. *Wulun* creates hierarchical relationships and social order. Individuals need to abide in their role-specific behaviour within the hierarchy. Such behaviour should reflect Confucian ethics of *ren*, *yi* and *li*. Confucian families are the starting point to learn and cultivate these ethics. The cultivation of these ethics leads to a virtuous life and ultimately to realise the Way of Heaven. The purpose of education is also to develop proper behaviour and to cultivate virtues.

Confucian virtues are the centre of Confucianism. *Ren* is benevolence, which should be the motivation for actions. *Yi* is righteousness, which determines a sense of right and wrong. *Li* is rites or rituals, which are the expected behaviour code. These principles provide guidance for individuals to conduct themselves within the different relationships they are in. These virtues need to be learnt and cultivated continuously throughout lifetime.

Confucians believe that virtues are the base for political governance and a harmonised family/society. Therefore, morally cultivated personalities should be selected to govern the country. Hence IE was a meritocratic system which selected those who possess virtuous characteristics to become state officials.

Because Confucianism recognises that humans are essentially relational beings, the concept of self is defined through one's relationship with others. Therefore fulfilling one's obligations within *guanxi* is crucial for Chinese people. Confucianism is not about impartiality and equal rights, but quite the opposite. It is about treating people differently according to the degree of intimacy of their relationships (application of *ren*). Respecting people according to their rank and seniority (application of *yi*), and performing the appropriate behaviour or rituals towards them (application of *li*). *Mianzi* is a measurement for individuals to know whether they have conducted themselves according to the virtues or standard behaviour. A failure to conform to the obligation under *guanxi* and appropriate behaviour under *wulun* triggers a loss of *mianzi*.

The hierarchical structure prescribed in Confucianism suits the need of a strong centralised monarchy. Confucianism was the official orthodox in governing feudal society (Jacobs et al., 1995). As Ip (2009a) summarises, “Confucianism entails authoritarianism, paternalism, hierarchism, that perfectly provided moral legitimacy and enduring stability to the imperial power, society and family” (p. 217). According to Confucius, good government and stable society should be guided by virtues such as benevolence, righteousness, propriety, wisdom and fidelity. Therefore, Confucius did not encourage the development of an independent legal system (Jacobs et al., 1995). Confucianism has been blamed for hindering the modernisation of China in the early twentieth century during the republican period (after 1921) and the Cultural Revolution (1966-1976) (G. K. Y. Chan, 2008; Jacobs et al., 1995). Nevertheless, its influences can still be seen in modern Chinese society.

Confucianism is considered the most appropriate theory for this study. Confucian values not only shape how Chinese people think and behave, but also underpin social and organisational structures. As Chinese accountants are part of society, their thoughts and behaviours are arguably influenced by Confucianism. Meanwhile, the literature shows that Chinese contemporary culture combines elements of Confucianism, communist ideology and market ethic (Lan et al., 2009; Whitcomb et al., 1998). Due to the dominant position of Confucianism in Chinese culture, it is hoped that it can provide explanations to the findings presented in Chapter 5 and Chapter 6. The findings may also provide further support for the validity of Confucian theory. The next chapter introduces and justifies the research methodology and method adopted for this study.

Chapter 4 - Research methodology and method

This chapter discusses the research methodology and method of this study. The design of the research is determined by the nature of this study, which falls within a qualitative paradigm. Evidence is collected through semi-structured interviews with professionals and students in the accounting field. The chapter is organised in the following way. First, it recaps the research problem as identified in Chapter 2; second, it justifies the research methodology; third, it analyses the research method; fourth, it documents the detailed research process; and fifth, it introduces the handling of interview data and the process of data analysis. A summary is presented at the end of this chapter.

4.1 Research problem

As mentioned in Chapter 1, the study is trying to investigate how Confucian heritage culture impacts on the accounting education and professional ethics in China. It aims to understand the practical obstacles involved in the implementation of the new IFRS-based CAS within a Confucian culture. More specifically, the study investigates two areas: (1) tertiary accounting education and (2) professional ethics.

- What are the educational challenges facing Chinese accountants/students to enable them to competently implement CAS?
- How does Confucian-heritage culture impact on the tertiary accounting education system in China i.e. learning approach, “soft” skill development?
- Are Chinese accountants independent enough to facilitate CAS implementation given the clash of Western and traditional Chinese values?
- How do Confucian traditions impact on their professional ethics i.e. professional independence?

The next section explains why the current study falls within a naturalist paradigm from a theoretical perspective.

4.2 Research methodology

As noted, this study is inspired under the trend of convergence with IFRS. IASB is trying to develop a single business language globally and it has made some progress (Pacter, 2005). Many studies have questioned the feasibilities of the IFRS in China as discussed in section 2.2. However, few have considered accounting professionals’ views and experiences with

the convergence of IFRS in China, from a Chinese cultural perspective. To answer the research questions of this study, an in-depth understanding of Chinese accounting practitioners' experiences and thoughts are essential. This requires direct contact between the researcher and professionals in the Chinese accounting field. Such physical "proximity enables the researcher to obtain personal understanding of the realities and minutiae" (Patton, 2002, p. 151). A qualitative and interpretive research approach would be appropriate for the current study.

Qualitative research enables researchers to find in-depth understanding on "why and how" about things and/or behaviour. Qualitative methodology produces descriptive data that attaches meaning to certain phenomena (Taylor & Bogdan, 1998). This study falls within the qualitative framework, where understanding of human behaviour and experience is important. This study proposes interpretative qualitative inquiries into the experiences, opinions and behaviour of Chinese accounting professionals. The naturalist paradigm is particularly relevant to this study, where the researcher seeks meanings and understanding of accountants' experience and behaviour in their natural cultural setting (Tomkins & Groves, 1983). Naturalistic inquiry is defined as:

Studying real-world situations as they unfold naturally; non-manipulative, unobtrusive, and non-controlling; openness to whatever emerges- lack of predetermined constraints on outcomes (Patton, 1990, p. 40).

According to Lincoln and Guba (1985), there are five basic axioms underlying naturalistic inquiry as per Table 4-1. A discussion of how each of the axioms is relevant to the current study is presented below, which demonstrates the appropriateness of the naturalist paradigm adopted in this study.

Table 4-1 Axioms of the naturalistic paradigm

Axioms	Naturalist Paradigm
Ontology: The nature of reality	Realities are multiple, constructed, and holistic
Epistemology: The relationship of knower to the known	Knower and known are interactive and inseparable
The possibility of generalisation	Only time and context bound idiographic statements are possible
The possibility of causal linkage	All entities are in a state of mutual simultaneous shaping, so that it is impossible to distinguish causes from effects
Axiology: the role of values in inquiry	Inquiry is value-bound

Source: (Lincoln & Guba, 1985, p. 37)

4.2.1 Ontology – the nature of reality

Under positivism, reality is considered to be objective and single, which can be studied scientifically through dependent and independent variables and the statistical relationships between them (Tomkins & Groves, 1983). In contrast, under the naturalist paradigm, reality is considered multiple and constructed by individuals. It can only be studied holistically. Reality cannot be isolated from its context, nor can it be fragmented (Lincoln & Guba, 1985). The multiple realities exist due to the reality being constructed by individuals who have different backgrounds, including their experience, culture, their view of world and so on. Chinese ancient philosophy also touched on a principle for how to view the world. *Laozi* (580-550 BE) says in his classical text *Daodejing* (道德经) Chapter 54

the best way to understand everything is to view a person from the view point of a person, a family from the viewpoint of a family, a village from the viewpoint of a village, a state from the viewpoint of a state, and all-under-heaven (tian-xia, means cosmos) from the viewpoint of all-under-heaven (tian-xia) (as cited in Zhao, 2009).

This study attempts to understand Chinese accountants' behaviours in a complex Chinese cultural setting, which is largely influenced by Confucianism. Culture is likely to influence the way Chinese accountants behave and shape their values. Contemporary Chinese culture appears to also have multiple realities, as it comprises Confucian culture, communist ideology and Western values (Whitcomb et al., 1998). For example, why are Chinese accountants perceived as being less independent compared to their Western counterparts? How is their professional independence affected by Confucian culture and contemporary

social values? In addition, some scholars argue that Chinese culture is a holistic culture evidenced by the concept of *Yin and Yan* (Figure 4-1). Chinese people have a tendency of middle-way thinking and are accustomed to balancing multiple or even potentially contradictory beliefs (M. J. Chen, 2002; Gunde, 2002). This middle-way thinking also indicates that Chinese culture accommodates multiple realities. Hence, a single reality does not fit into the current research.

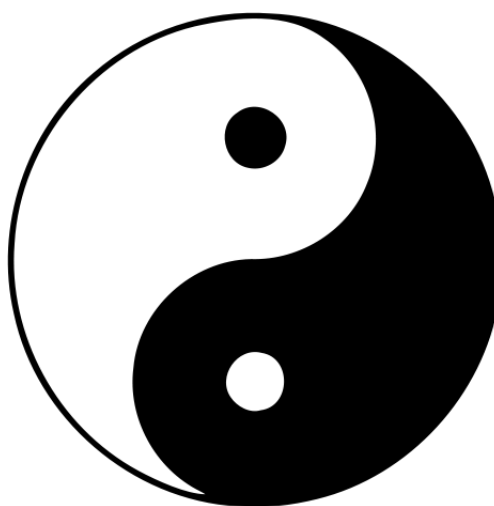


Figure 4-1 Picture of *yin-yang*

4.2.2 Epistemology – the relationship between the knower and known

Under naturalistic paradigm, the relationship between the knower and the known is inseparable. The knower actively involves with the known and determines the outcomes of the inquiry (Denzin & Lincoln, 2005). The actual involvement can unlock the knower's mental constructions through dialogues or interviews and hence shape the outcomes. Consequently, the outcomes are often criticised as being subjective or biased due to the involvement of the knower. "But how could humans stand outside of themselves, even in the research process?" (Guba, 1990, p. 70).

The researcher was born and raised in China. She has had a Chinese educational background and experience of working as an accountant in New Zealand. Her practical accounting experiences enable her to communicate effectively with Chinese accountants. Her understanding and experience of Chinese culture and education enable her to relate to her interviewees well. Furthermore, as noted in Chapter 3, Chinese culture can be considered as a relationship-orientated culture. Relationships (*guanxi*) are vital in society living.

Interviewees of the current research were recruited through various *guanxi* available to the researcher. Therefore, she is seen as a part, or an insider, of the Chinese accounting community, which enables her to better understand and appreciate the experiences shared by her interviewees.

4.2.3 The possibility of generalisation

Generalisability means the extent that findings from a research can be utilised or transferred to other settings (Kvale & Brinkmann, 2009). Under a naturalist paradigm, reality can be interpreted differently by different people based on a particular context. Therefore, the knowledge gained through the naturalistic inquiry is often contextual, relational and situational to the inquiry itself (Arksey & Knight, 1999). Consequently, the results from such inquiry may lack statistical generalisability (Denscombe, 2002; Lincoln & Guba, 1985; Patton, 2002). This current research does not seek to generalise the outcomes into any other settings. Rather, it tries to comprehend the experiences of Chinese accountants and students within the Chinese cultural setting during the period when interviews were conducted. The only generalisation of naturalistic inquiry is theoretical generalisation and this has to be within a certain context (Lincoln & Guba, 1985). The findings from this study (in Chapter 5 and Chapter 6) will generalise back to a theory, which is Confucianism. The generalisation in this study is bound to the context of the experiences of the interviewees. Through an understanding of Confucian culture, the experience and behaviour of Chinese interviewees will be better appreciated and comprehended.

4.2.4 The possibility of causal linkage

Under the naturalist paradigm, the causes and effects of certain actions are considered impossible to distinguish. Instead, Lincoln and Guba (1985) think it should be a “mutual simultaneous shaping” (p. 150) where “everything influences everything else” (p. 151). This simply means that there are many factors, which work together simultaneously and/or interact with each other. It is impossible to disentangle all the variables to explain the phenomena.

The nature of the present study fits well with the concept of mutual simultaneous shaping. For example, one of the research questions asks how Confucian heritage culture impacts on accounting education. There are many elements involved and these affect one another to shape the current accounting education system including, hierarchical relationship, emphasis

on education, IE, ethics cultivation and “*mianzi*” (face and shame). As mentioned in Chapter 3, Confucianism emphasises on education and hierarchy, which produces a culture of respecting wisdom and teachers. The hierarchical teacher-student relationship provides a means for cultivation of respect and filial piety. The well-cultivated personalities should be selected to govern the country. IE is a mechanism to select these personalities. The examinations therefore promote education and promise social mobility. *Mianzi* is hence gained through success in examinations. In addition, because of the external rewards attached to IE, many lost the original purpose of learning, which was ethics cultivation. Consequently, learning became a rote learning process and the aim was to succeed in examinations. These elements affect one another mutual simultaneously. It is very complicated to draw a “cause and effect” relationship.

4.2.5 The role of values in inquiry

According to Lincoln and Guba (1985), values in a naturalist paradigm include axioms; theories; perspectives; social cultural norms; and personal or individual norms. They argue that an inquiry cannot stand alone from its inquirer, which means that the values of an inquirer are an integral part of the entire process of the inquiry. Lincoln and Guba (1985) consider that inquiries are “value-bound” in at least five ways: (1) the choice of the inquiry is influenced by the values of the inquirer; (2) the choice of the research paradigm; (3) the choice of the theory that is employed to explain the outcomes of the inquiry; (4) the values inherent in the social context of the inquiry; and (5) with regard to the previous four ways, the “inquiry is either value-resonant (reinforcing or congruent) or value dissonant (conflicting)” (p. 38).

Accordingly, there are five inferences implicit in this current research. Starting with the choice of the research topic, as the researcher is interested in research within the Chinese accounting field, being a Chinese and a former accountant. In particular, the researcher is interested in education and professional ethics, which leads to the pursuit of this research. As Lather (1990) mentions:

All researchers construct their object of inquiry out of the materials their culture provides, and values play a central role in this linguistically, ideologically, and historically embedded project that we call science (p. 317).

The choice of naturalist paradigm for the current research is again influenced by the values of the researcher. Researchers' divergent philosophical beliefs drive the choice of research method (Knox & Burkard, 2009). The researcher believes that multiple realities exist within the Chinese accounting community. She also believes that direct contact with interviewees is an effective way to get to know their world from their perspectives.

The theory chosen for the current research is Confucianism. Confucian values are embedded in Chinese societies. It explains the experiences and ethical behaviour of Chinese accountants in their own cultural setting. The researcher also carries Confucian values, which are helpful to interpret and to understand the experiences and perspectives of Chinese accountants.

The current research is within the social context of mainland China, in which Chinese accountants operate and dwell. The current Chinese social context is not only influenced by Confucian values, but also by materialism. Chinese accountants may be influenced by both, potentially conflicting with value streams.

The last inference considers the issue of value resonance or value dissonance in relation to the above four inferences. The first three inferences: (1) choice of the topic, (2) choice of the research paradigm and (3) choice of application theory appears to reflect value resonance. The underlying values of the choice of the research question, the naturalist paradigm and Confucianism theory are congruent and reinforce one another. However, the inherent social context involves a clash of Confucian and materialism, which potentially conflict. In summary, the current study as a naturalistic inquiry is value-bound. It carries values from the researcher, values from the social context of the study and other values that are relevant to this study.

It may be inferred from the above discussions that the appropriate research paradigm of this study is qualitative. The following section introduces the research methods adopted for this study.

4.3 Research methods

Chua (1986) suggests "what is a correct research method will depend on how truth is defined"(p. 604). What is true from Chinese practitioners and students is relevant to their own values and cultural settings. Because the current research follows a naturalist paradigm,

it requires qualitative research methods. Patton (1990) suggests that qualitative methods “are ways of finding out what people do, know, think, and feel by observing, interviewing, and analysing documents” (p. 94). Researchers need to go into the real world and to get close to data, but without attempting to manipulate the phenomenon of interests (Patton, 1990). This section is organised in the following way. First, it justifies the rationale of using interviews for the current study. Second, it introduces a theoretical classification of interviews and explains why in-depth interviews are employed for this study. Third, it identifies weaknesses related to interviews and discusses how these weaknesses may be addressed.

4.3.1 Interviews

Interviews are employed for this study as they provide the best possible understanding of the problems (S. Taylor & Bogdan, 1998). Interviews allow researchers “to put behaviour in context and provide access to understanding their action”(Seidman, 2006, p. 10). The current research tries to explore how Confucian culture impacts on the Chinese accounting education system and professional ethics. These impacts are reflected in accountants’ behaviour in the context of the Chinese accounting field. Both themes (accounting education and professional ethics) require an understanding of peoples’ experience, views and thoughts. Seidman (2006) points out that an interview “is a powerful way to gain insight into educational and other important social issues through understanding of the experiences of the individuals whose lives reflect those issues” (p. 14). Interview is a flexible research method that also provides the in-depth understanding of the research questions.

Without doubt, the most widely used qualitative method in organisational research is the interview. It is easy to see why this should be the case: it is a highly flexible method, it can be used almost anywhere, and it is capable of producing data of great depth (Cassell & Symon, 1994, p. 14).

Interviews enable participants to express themselves freely according to their own thinking, rather than using questionnaires that may constrain people’s thinking with a few alternatives to choose from (Ghauri & Gronhaug, 2005). In-person interviews are conducted for the purpose of this research. Face to face interview is the first preference, because the physical presence of an interviewer often enhances interviewer-respondent rapport as the interviewer is able to probe and guide questions, respond to the interviewees' questions and clarify the meaning of questions to minimise misunderstanding (Shuy, 2003). It also allows the

interviewer to access the nonverbal information expressed by interviewees through gestures, facial expressions etc (Knox & Burkard, 2009). More importantly, it is easier to establish trust and openness during an in-person interview which yields authentic and deep descriptions of interviewees' experiences (Polkinghorne, 1994). Furthermore, interviews more effectively encourage interviewees' responses to 'why' and 'how' questions. It allows clarification of issues with respondents simultaneously (Ghauri & Gronhaug, 2005; Oishi, 2003). The interviewer may pick up clues from the answers provided by interviewees, which could lead to further questions.

According to Alvesson (2003), there are three theoretical positions on the research interview: (1) neopositivism; (2) romanticism and (3) localism. Qu and Dumay (2011) suggest that the three positions are relevant to the categories of interviews. Structured interviews are more suitable for a neopositivist position, where the interviewees are truth tellers. The interview is treated as a tool or channel to transfer objective knowledge or “context-free truth” from interviewees to an interviewer. Structured interviews require a script to be followed. “Interviewees are asked the same question in the same order to elicit brief answers or answers from a list” (S. Q. Qu & Dumay, 2011, p. 244). This is an inflexible approach with the underlying assumption that reality is objective and context free. This contradicts with the nature of this study, which is a naturalistic inquiry. Consequently, structured interviews are not suitable for this study.

The other extreme position is the romanticist position, which treats interviews as a human encounter. The knowledge collected during the interviews mirrors interior and exterior reality. The role of the interviewer is “an empathetic listener to explore the inner world of the interviewee” (Alvesson 2003 cited in S. Q. Qu & Dumay, 2011, p. 241). Unstructured interviews are normally conducted under this position. The interviewer may not necessarily know the interview questions in advance, but utilises exploratory conversations. Such conversations focus on understanding an interviewee “while possibly ignoring the political, social and environmental contexts that existed when the data are recorded” (S. Q. Qu & Dumay, 2011, p. 246). It is sometimes used at the beginning of the interview process to establish rapport (Douglas, 1985) or used to explore potential research topics (Sekaran, 2003).

Lastly, the localist position is the middle position, where the interview is viewed as a social encounter and it is helpful to understand complex social or organisational phenomena. “It argues that social phenomena do not exist independently of people’s understanding of them” (Hammersley 2007 cited in S. Q. Qu & Dumay, 2011, p. 242). It tries to understand social phenomena from an interviewee’s perspective at a particular point of time. Through the interpersonal interaction between an interviewer and an interviewee, an understanding of the interviewee’s world views in a particular context is achieved (S. Q. Qu & Dumay, 2011). A semi-structured interview suits the localist position. It involves prepared interview questions, which are guided by identified themes in a systematic manner. It is also flexible, which allows a skilful interviewer to modify questions, pace and the order of questions to probe the fullest responses from interviewees (Knox & Burkard, 2009; S. Q. Qu & Dumay, 2011). The current study adopts semi-structured interviews as the nature of the study matches the localist position. The interviewer aims to understand the Chinese accountants’ behaviour from their cultural and social context. This requires both the researcher and her interviewees to be actively involved in the interview process, “producing questions and answers through a discourse of complex interpersonal talk” (S. Q. Qu & Dumay, 2011, p. 247).

The guide for semi-structured interviews can vary from being highly scripted to relatively loose. The current study considers having a relatively loose guide, which will be discussed in detail in the next section. Having an indicative guide makes sure that key questions are consistent. Consequently, a guide facilitates data analysis and ensures the comparability of the responses to those questions from participants (Patton, 2002). The semi-structured interviews help both interviewer and respondents to focus on key issues and minimise the risk that they may lose track and comment on something irrelevant to the study. In addition, semi-structured interviews still enjoy flexibility with regard to clarifying questions and answers and may discover potential new aspects of questions. For example, an interviewer can ask all the questions of each respondent but may pursue in more depth information in a particular area that emerged for an individual interviewee (Knox & Burkard, 2009).

Informal conversational interviews are very useful for collecting data in an informal way and for exploring interesting topic/s for investigation (Patton, 2002). Informal conversational interviews are similar to chatting, where most of the questions asked flow from the immediate context. The current study also employs informal conversational interviews. However, the

data collected in this way would be less comprehensive and more difficult to analyse, as questions are not guided by key framing questions, as are the semi-structured interviews. The researcher had some opportunities to meet academics and accounting practitioners through other gatherings such as conferences and visits to Chinese universities. Informal interviews were conducted during these gatherings or events to explore views, which could be analysed conjointly with semi-structured interview data. Using informal talk in conjunction with semi-structured interviews is likely to improve the credibility of the findings.

There are a few weaknesses associated with interviews, which need to be addressed. Interviews can be very time consuming and are expensive to conduct (Seidman, 2006; Sekaran, 2003). They may involve travelling, taking the initiative to make contact and transcribing tapes. However, this is likely to be compensated by the richness of data collected. As Seidman (2006) states “any method of inquiry worth anything takes time, thoughtfulness, energy and money” (p. 12). Another concern associated with interviews is the reliability of interviewees' responses, or reluctance to respond to questions due to personal circumstances. To minimise this risk, the key is to build an open and honest relationship with interviewees (S. Taylor & Bogdan, 1998). Knox & Burkard (2009) also share this view and comment that

the strength of the interviewer-participant relationship is perhaps the single most important aspect of a qualitative research project: it is through this relationship that all data are collected and data validity is strengthened (p. 569).

The strategies that researchers use to establish a good relationship and obtain valuable answers from interviewees include creating a good impression through appropriate attire and professional greetings, asking questions in a less formal way but in a polite manner, making the tone consultative; and assuring interviewees of the confidentiality. The interviewer should be an active listener and avoid expressing a personal opinion because it may bias the interviewees. Another disadvantage of interviews can be the accessibility of the respondents. Having a strong network and people-skills are required of the interviewer to address this issue. The strategies employed are discussed in the following section.

In addition, interviews have been chosen as the preferred method in some previous studies in this area. For example, Chow et al. (1995) used interviews to study the cultural constraints on the implementation and development of Chinese accounting standards. Davidson et al.

(1996) interviewed professional accountants from international accounting firms in *Beijing* to accompany their analysis of the Chinese accounting conceptual framework. Xiao et al. (2004) adopted interviews to collect evidence of political influences on the full implementation of international accounting standards in China. This study inquires as to the Confucian cultural impact on the convergence and implementation of CAS. Interview is the best available method for collecting evidence. The strategies applied to overcome the weaknesses associated with interviews were addressed during the research process.

4.4 Research process

Following the theoretical understanding of interviews introduced above, this section focuses on the detailed process of how the interviews were planned and conducted. An interview, a complicated and involved process, requires planning and preparation (S. Q. Qu & Dumay, 2011). It also requires particular skills such as intensive listening and note taking. At the pre-planning stage of interviews, a number of questions need to be considered, including who to interview, how many interviewees are required, how to approach participants and how the interview data will be analysed (S. Q. Qu & Dumay, 2011). This section consists of the following sub sections. First, an overall picture of the statistical information of the interviews is provided. Second, it introduces the profiles of the interviewees and justifies the reasons for choosing them. Third, it explains how participants were recruited. Lastly, a detailed process for conducting interviews is introduced.

Table 4-2 Categories and number of interviews

Types of interviews	Accounting Students	Accounting Academics	Chinese Practitioners	Western Practitioners	Total
Semi-structured interviews	8	8	13	5	34
Informal conversation	2	3	1	2	8
Total interviews	10	11	14	7	42

Table 4-2 shows the number of interviews conducted across different types of interviews and different groups of interviewees. The researcher conducted 34 semi-structured interviews and 8 informal conversations. Within the semi-structured interviews, there were 32 interviewees

because two interviewees had second interviews. These interviews were conducted over the period June 2010 to July 2012. Eight semi-structured interviews were conducted in New Zealand, while the remainder were in China. The interviews conducted in New Zealand were with Western practitioners who had worked in China, as well as Chinese practitioners, Chinese students and Chinese academics in New Zealand at the time of the interviews. The 24 interviews in China were conducted in different cities, including *Beijing*, *Tianjin* and *Hangzhou*. All of these cities are located on the east coast of China; an area which is more economically developed than the regions in the west. However, this does not mean that the data from this research is only limited to these four cities in China. The practitioners interviewed had experience of working in various cities in China. In addition to the semi-structured interviews, eight informal conversational interviews were also conducted. Two were in New Zealand and six were in China. The researcher is Auckland based and the interviews in China were conducted during university breaks.

The above presents an overall picture of the interviews conducted for this study. The next section introduces the detailed procedure for how interviewees were selected and recruited, how interviews were conducted and the issues encountered during the interviews.

4.4.1 Planning stage of interview

The first step for planning the interviews is to determine who to ask, and then how to select and recruit the participants.

4.4.1.1 Sampling

Due to the naturalistic nature of the current research, a purposive sampling is required which focuses in depth on small samples selected deliberately. “Naturalistic sampling is based on information, not statistical, considerations. Its purpose is to maximise information, not facilitate generalisation” (Lincoln & Guba, 1985, p. 202). Purposive sampling as a way of naturalistic sampling is described as “all sampling is done with some purpose in mind” (Lincoln & Guba, 1985, p. 199). It enables researchers to gain insight and deepen their understanding of the phenomena they study (Patton, 1990). By contrast, quantitative research requires probability sampling of the population to arrive at statistically valid conclusions (Ghauri & Gronhaug, 2005; Patton, 1990). Quantitative sampling normally involves a larger sample size to represent statistically the population in question. According to Lincoln and

Guba (1985), there is no predetermined sample size in purposive sampling. Rather, the number of samples is determined during the process of conducting interviews. When the information collected during interviews reaches a saturation point, where no new information is obtained through the interviews, it is the point to cease interviewing (see section 4.5.2).

Patton (1990) introduces sixteen different strategies to purposeful sampling (pp. 169-183). This study employs two purposive sampling strategies (1) “maximum variation sampling” and (2) “snowball or chain sampling”. Maximum variation sampling aims to recruit participants from different sources and backgrounds to diversify interviewees. It aims to capture central themes or outcomes that “cut across a great deal of participants” (Patton, 1990, p. 172). Lincoln and Guba (1985) suggest “for the naturalistic approach, maximum variation sampling is most useful. The sample is to be selected in ways that will provide the broadest range of information possible”(p. 233). Such a sampling method selects participants from a range of people and sites, which is likely to be a fair representation of the larger population. It allows “the widest possibility for readers of the study to connect to what they are reading” (Seidman, 2006, p. 52). In addition, if the responses from different groups of interviewees correspond to one another, this is likely to enhance the credibility of the data collected. In the current study, the four groups of participants are selected to achieve maximum variation.

Snowball sampling means asking participants to refer researchers on to others who they think the researcher should interview. “By asking a number of people who else to talk with, the snowball gets bigger and bigger as you accumulate new information-rich cases” (Patton, 1990, p. 176). Snowball sampling is often used in conducting interviews and offers a number of advantages. First, it can be used to reach those who are hard to access. Second, trust is likely to be developed as referrals are made by friends or acquaintances. Thirdly, snowball sampling is found to be effective and efficient and to produce in-depth information (Atkinson & Flint, 2001). A majority of the interviewees in this study were recruited through “snowball” referral. This is more effective than cold calling as there is less likely to be rejection in a Chinese context. Based on the experiences of previous researchers it is found that “without connections, little data are likely to be gathered”(Wright et al., 2002, p. 164) in China. Also, due to the fact that there is little tradition of independent inquiry in developing countries, data collection is normally a difficult task (Adair, 1995).

As mentioned in section 3.3, *guanxi* (networks, relationships) plays an important role in China. The importance of *guanxi* is also evidenced in the recruiting process of the interviewees for the current study (section 4.4.2.1). Chinese people are more likely to participate if the researcher is referred to them by someone they know. However, a primary concern associated with snowball sampling is that the participants are not diversified. Hence their views may not be a fair representation of the population (Atkinson & Flint, 2001; S. Taylor & Bogdan, 1998). This issue is addressed in the current study through maximum variation sampling where a wide range of participants is recruited. The next section introduces the profiles of the four groups of interviewees.

4.4.1.2 Profile of interviewees

As noted in the previous section, the interviewees of this study include a broad range of participants. They are classified into four groups (1) Chinese accounting students, (2) Chinese accounting practitioners, (3) Chinese accounting academics and (4) Western accountants who had worked in China. Table 4-2 displays the numbers of interviews from each category of interviewees. Semi-structured interviews were all framed by a few key open-ended questions (Appendix 3). Some of the interviewees have multiple roles. For example, they were accounting students and then became practitioners, or they were previously accounting students and then became academics. The classification of interviewees is based on the primary role that they are interviewed for. The reasons for selecting these four particular groups of interviewees are discussed below.

Accounting students form the most suitable group of interviewees to ask regarding their experiences and views in accounting education. The students involved were from both undergraduate and postgraduate levels. Since they will be future practitioners or academics, their views on cultural values are also important. Four student interviewees were in New Zealand and had experience of both Chinese and New Zealand accounting education. Although the current research does not seek a comparison between New Zealand and China, some differences that the interviewees highlighted reflect different education approaches because of cultural differences.

Views from Chinese academics are also very important for this study as they are working at the “front line” of the Chinese accounting education system. Their experience in accounting

education system is of great value. Furthermore, they are observers of accounting practices in China and some have closely involved with the practice. Their views on professional ethics and the changes in Chinese culture have proven to be informative.

There are 13 Chinese practitioners interviewed in the study. Three of them immigrated to New Zealand and the interviews were conducted in New Zealand. All Chinese practitioners interviewed had accounting work experience, which varies from six years to forty years, and have worked in a range of entities, including the Big 4 accounting firms, SOEs, foreign entities and private small to medium size entities. Some interviewees have worked in different types of entities. Within the 13 practitioners, five of them are auditors or had worked in audit. These practitioners provide insights on current accounting practice and ethical dilemmas.

“[Cultural] beliefs are indeed so deeply buried that individuals do not even know what they are” (Nias, Southworth, & Yeomans 1989 cited in Bush & Qiang, 2002, p. 184). People normally do not realise the culture differences unless they come in contact with one another (Triandis, 2004). Therefore, Western practitioners’ experiences in China are also appreciated. Although they may not understand Chinese culture in depth, as “outsiders” they may provide useful insights into their understanding of how things are done in China that may be omitted by “insiders”. After deciding on the appropriate participants for this study, the next step is how to recruit them.

This section explained the two sampling techniques employed and the profiles of participants of the current study. It also highlighted the importance of *guanxi* in recruiting participants. The next section discusses the details of how participants are recruited and how *guanxi* is used to achieve interviewing opportunities.

4.4.2 Recruiting participants/interviewees

4.4.2.1 Recruiting participants through networks

As noted earlier, the current study employs both snowball sampling and maximum verification in recruiting and selecting participants. Overall, the researcher considers that the whole process of recruiting participants went relatively smoothly. This may show that

snowball sampling is an efficient and effective way to recruit participants in a relationship-based society. The participants of the current study are recruited through the following ways.

First, Chinese accounting practitioners were mainly recruited through family members and friends. The researcher of a Chinese origin has numerous family members and friends in *Beijing* and *Tianjin*. The researcher asked her family and friends to refer her to their colleagues or friends who are practising accountants. One family member noted the importance of *guanxi* to the researcher

[translate literally] you just need to tell us what kind of people you would like to talk to. We are a big family and we know so many people. We will help you [to find the right people to talk to].

Once prospective participants indicated that they were available to be interviewed, the researcher then contacted the interviewees directly to arrange meetings for interviews via telephone or email. In some instances, the interview meetings were confirmed through the interviewee and the introducer. In addition, some Chinese practitioners interviewed were studying in New Zealand. The researcher knew them through teaching at AUT University and recruited them directly by sending an invitation to participate. The researcher has some close friends and relatives who are accountants as well. However, she did not interview them because of their close relationships. Although they did not know the researcher's topic, the closeness may have discouraged clarifying and exploring issues (Seidman, 2006). Particularly because the study involves questions on professional ethics, close relatives or friends are often hesitant to share sensitive information. Moreover, Seidman (2006) also cautions that "the interviewer and the participant need to have enough distance from each other that they take nothing for granted" (Seidman, 2006, p. 42).

Second, some of the Western practitioners were introduced to the researcher by contacts within accounting practices in New Zealand. The researcher's husband works for one of the Big 4 accounting firms. He referred the researcher to his colleagues who had experience of working in China. The researcher then wrote to these people, highlighting the research topic and asking for an interview. Some of the participants also referred the researcher to colleagues who they thought could provide useful information.

Third, accounting students and academics were recruited through visits to Chinese universities and academic conferences. During these university visits, the researcher established contacts with some Chinese academics. Some Chinese academics participated in the interviews and then they referred the researcher to some of their former students. Furthermore, the researcher attended some academic conferences where she took the opportunity to talk to some Chinese accounting academics. Informal conversation interviews were normally conducted during these networking opportunities at a conference. The next section reports how interviews were conducted.

4.4.3 Conducting interviews

This section introduces the detailed procedure of the interviews. It consists of the following parts, (1) ethical considerations regarding interviews, (2) the protocol of interviews, (3) issues encountered during interviews, and (4) reflection after interviews.

4.4.3.1 Ethical considerations

As interviews involve human participants, the researcher was required to apply for ethics approval from the Auckland University of Technology Ethics Committee (AUTEC). The application was granted on 14 June 2010 (Ethics Application Number 10/102). The ethical considerations involved in research are mainly related to the rights of participants. This includes the right to privacy, the right to withdraw, the right to information and voluntary participation (Seidman, 2006). It also relates to consideration of the dignity of individuals, and the confidentiality of research findings (S. Q. Qu & Dumay, 2011). The ethical application that the researcher made to AUTEC highlighted all these issues. The application included the completion of the following documents: application forms, Participant Information Sheet (PIS) (Appendix 1), a Consent Form (Appendix 2) and proposed interview questions (Appendix 3).

The PIS and the Consent Form are the documents that communicate the participants' rights, which are detailed below. PIS outlines the nature of the research, the purpose of the research, the outcome of the research, the rights of participants (i.e. privacy, the right to ask questions, the right to not answer questions, the right to withdraw), length of interviews, potential discomfort, the location of the interviews, and contact details of the primary supervisor, the researcher and AUTEC. The content of PIS is in both English and Mandarin. The Consent

Form asks for interviewee's acknowledgment of the right to withdraw, the right to ask questions, the understanding of the nature of the interview, and indicate whether the participant requires a copy of the thesis. The form needs to be signed by each interviewee and kept by the researcher. It is written in both English and Mandarin. Both of these documents were provided to interviewees during the interviews. This is to assure participants that their privacy and confidentiality is respected throughout this research and in future publications. After the ethics approval, the next section discusses how these forms were utilised prior to and during the interviews.

4.4.3.2 Communicating with interviewees prior to interview meetings

This section introduces the communication that the researcher had with the interviewees prior to the interviews. A few of the interviews were scheduled over the phone between an introducer and an interviewee, or between the researcher and an interviewee. These interviewees roughly knew the research topic and then the place and time of interview were confirmed over the phone. Following this, the researcher met an interviewee as scheduled and explained the rights of participant at the beginning of an interview. For other interviewees, the researcher sent an email, which outlined the research topic, the nature of the research, the rights of the participants and the length of the interview. The email explained how the researcher obtained the contact information of the interviewees and then suggested a time and a place to meet.

The researcher did not send any PIS, Consent Form or proposed interview questions to the interviewees prior to the interviews for the following two reasons. First, the researcher tried to avoid formality to relax the interviewees. Second, and more importantly, the researcher did not want to confuse prospective interviewees with too much information in case they thought it was too difficult to comment on and therefore might change their minds about participating. In particular, this research involves issues of professional ethical dilemma, which may be a sensitive topic for some people. As Knox & Burkard (2009) comments that different participants can have different reactions to interview protocol sent in advance. Some "may decide not to participate in the research based on protocol alone... especially if it focuses on a particularly sensitive topic" (p. 572). In addition, being afraid of losing "face," is rooted in Chinese culture (section 3.3.3). If a Chinese person thinks that she or he may have difficulties in answering the questions, the person is likely to decline the interview.

Furthermore, interview-based qualitative research is still rare in accounting research in China. Liao & Bisman (2008) reviewed published papers related to Chinese accounting issues in English journals from 1999-2006, they find that less than 10% employed interviews as a data collection method. Many people may not have experienced or even heard about research interviews. Being invited to participate in such research is not something that Chinese people are familiar. Therefore, the unfamiliarity of research interviews and the formal cautions may deter prospective interviewees from participating. Because the researcher did not send the three documents beforehand, this could be a limitation of this research (Hill, Thompson, & Williams, 1997). However, as pointed out by Knox & Burkard (2009) “there is no empirical basis to support this assumption that doing so ‘primes the pumps’ for richer data” (p. 572). Moreover, as accounting professionals are generally busy, they may not have time to prepare for the questions in advance.

4.4.3.3 During the interviews

The interviews were conducted in various places, including interviewees’ offices, cafés and restaurants, and hotels where the researcher stayed during conferences. The researcher followed a standard protocol at each interview meeting. For example, the researcher greeted the interviewees, introduced herself and then thanked them for their participation. By doing so, the researcher was trying to establish rapport at the beginning of an interview. At the beginning of the interviews, copies of both PIS and Consent Form were given to the interviewees. The researcher also assured the interviewees of their right to withdraw their participation at any time and that their private information would be kept strictly confidential throughout the research, and in any future publication. The researcher also allowed time for interviewees to read the documents if they wished to. After this, the researcher asked interviewees to sign the Consent Forms. The researcher also explained the purpose of the tape recording and obtained permission before recording. Furthermore, the researcher stressed that all interview questions were of a non-technical nature and that there was no right or wrong answer. These protocols were carried out to ensure interviewees’ privacy and make interviewees feel comfortable, and therefore more likely to provide genuine answers. These protocols are likely to establish rapport and “build trust and inform the interviewee about the purpose of the interview in order to get the interviewee talking freely” (S. Q. Qu & Dumay, 2011, p. 250). Interviews with Chinese interviewees were conducted in Mandarin.

The researcher adopted a relatively loosely structured interview approach. According to Alvesson (2003), qualitative interviews are “relatively loosely structured and open to what the interviewee feels is relevant and important to talk about, given the interest of the research project” (p. 13). After completing the protocols above, the researcher started to introduce the research topic. Some interviewees spontaneously commented without any further questions being asked. The researcher allowed the interviewees to lead the conversation as long as their comments were relevant to the research questions. For other interviewees, the researcher always started with easy to answer questions, such as “How long have you been working as an accountant?”, “When did you graduate from university?” Such personal questions attempted to relax the interviewees, and helped to establish a good rapport with them. Consequently, they would be more likely to share more about their experiences and views on subsequent open-ended questions.

Relatively loosely structured interviews were a successful approach for this study because it allowed interviewees to share in-depth information. The researcher was able to ask questions in a different order, at a different pace and probe a little deeper in a particular area during an interview. The researcher was also careful not to present interviewees with leading questions or to put forward her personal views during the interviews (Seidman, 2006). In some cases, where the researcher did not understand the responses, she would ask the particular interviewee to explain (“What do you mean by...?”) or rephrase what the particular interviewee had just said (“Do you mean that...?”). This was done to clarify the meaning with the interviewees. Sometimes, the researcher had to carefully interrupt if a particular interviewee was distracted from the scope of the study (Hannabuss, 1996). Questions were used to redirect an interviewee back to the research questions.

Participants’ characteristics influenced the actual interview process and the interviewer and interviewee relationship (Knox & Burkard, 2009). The researcher noticed the different characteristics of participants during the interviews. Some of them easily shared many stories, whereas others made relevant comments without having many stories to support the points made. According to Knox & Burkard (2009), the interviewees’ motivations to participate are normally positive. They may “expected to gain from the experience, possibly finding the interview interesting and rewarding, validating of personal experiences, or enabling them to altruistically help others” (p. 570). For the current study, the researcher believes that most

interviewees were motivated by altruism as most of them were recruited through *guanxi*. Hence, the researcher had a responsibility to be forthcoming and validating to promote participant disclosure (Knox & Burkard, 2009). One of the challenges faced during an interview is to keep the discussion going (Hannabuss, 1996). To ease and encourage interviewees, the researcher sometimes asked them to share anything that first emerged in their minds. Silence and pauses were also allowed during interviews as this helped interviewees to organise their thoughts (Seidman, 2006).

Most of the semi-structured interviews lasted from 45 minutes to one hour. There were four interviews, which lasted for about one, to one and a half hours, as the interviewees were very reflective and willing to share their thoughts. The researcher purposely did not schedule anything after an interview, to allow sufficient time in case an interviewee wanted to take longer. During one of these long interviews, one interviewee commented: “[*translate literally*] I wouldn’t have really thought about the current Chinese culture, if you hadn’t asked. This is good, as I can reflect on it as well.” This is reflected in Qu & Dumany’s (2011) comments on using a localist approach in interviews, “as researchers, they are an integral part of the dyadic interactions and conversations between interviewer and interviewee” (p. 261). The researcher and interviewees interacted with each other to unfold reality in the social context of the interviewees.

Although the interviews were recorded, the researcher still took notes of key points, interesting quotations and emerging themes that the interviewees shared (Ghauri & Gronhaug, 2005; S. Taylor & Bogdan, 1998). Patton (1990) points out “the use of the tape recorder does not eliminate the need for taking notes” (p. 348). The benefits of note-taking are (1) to formulate questions, (2) to facilitate later analysis and (3) to give nonverbal feedback to interviewees that they have provided very important data (Patton, 1990). The researcher used these interview notes to write up a reflective summary of the interviews, which is discussed in the next paragraph. Furthermore, the researcher also found that note taking helps to clarify meaning. This was particularly useful for the interviews that were conducted in Mandarin. Mandarin can have different characters, which have the same pronunciation but an entirely different meaning. The researcher wrote in Mandarin so that her interviewees could check whether she had written the correct characters. At the end of

each interview, the researcher thanked the interviewee again for his or her time and for their valuable contribution to the current research.

4.4.3.4 Reflective summaries

As noted above, the researcher wrote a reflective summary immediately after each semi-structured interview. As Alvesson (2003) argues, the reflection on the interview process and the meaning of the results is more important than which interview techniques are employed to ensure that interviewees are honest and consistent. The researcher was eager to write notes about the interview, particularly if she had encountered a very reflective interviewee. She wrote down her feelings about the interview, how open the interviewee was, and some key points from the interview. Writing the summaries was useful for mentally processing the entire interview. The summarised notes also helped the researcher to identify other questions to ask other interviewees. Moreover, as noted in section 4.2.2, taking the localist position in interview, means that the interviewer/researcher is an integral part of the conversation. Because the researcher actively influences the entire interview process, she needs to take a step back from the interview to reflect on how the conversation went, and whether any other environmental factors may have influenced the conversation (S. Q. Qu & Dumay, 2011). “In this way, interviewers can pause between interviews to analyse their interview process before conducting further interviews” (S. Q. Qu & Dumay, 2011, p. 261).

This section introduced the researcher’s experiences in conducting the interviews for the current study, including the issues encountered and the techniques or strategies employed during the interviews. The next section focuses on the collection and management of the interview data.

4.5 Interview data

Interview data provides a considerable amount of information (Seidman, 2006). These data need to be organised and managed in an orderly manner. This section is made up of three parts: (1) how interview data were recorded and transcribed, (2) how much data are considered sufficient and (3) how to determine if the interview data are trustworthy.

4.5.1 Tape recording and transcribing

There are various opinions on whether semi-structured interviews should be recorded (Hayes & Mattimoe, 2004; Lincoln & Guba, 1985; Patton, 1990, 2002; Seidman, 2006). Seidman (2006) considers that in-depth interviews should “no doubt” be recorded (p. 114). By contrast, Lincoln and Guba (1985) think that tape recorders can be seen as intrusive or may fail technically, so they “do not recommend recording except for unusual reasons” (p. 241). Hayes and Mattimoe (2004) comment that whether interviews should be tape recorded or not depends on the research topic, the resistance to recording and the interviewer’s preference.

There are a number of benefits from using a tape recording. It enables the researcher to transcribe the interviews reliably. For example, if there is anything unclear in a transcript, the researcher can always refer to the source to check accuracy (Seidman, 2006). As the interviewer is an integral part of the conversation, tape-recording allows she to focus on the interview better, rather than being busy taking notes (Hayes & Mattimoe, 2004). The concern about tape-recording is that it may discourage interviewees to openly share some information (Seidman, 2006). The researcher used a small digital recorder, which was not seen as intrusive. Three interviewees showed hesitation when they realised that the interviews would be recorded. After the researcher explained, the recording was only for data analysis and would be kept securely and confidentially, these interviewees gave their permission for recording to take place. Most of the interviewees had no issues about their interviews being recorded. The interviewees appeared to quickly forget about the recorder during the interviews. All the audio files were stored in the researcher’s computers, both at home and in her office.

The researcher found that the interviews did not translate well into English due to the many references to Chinese culture. After careful consideration, the researcher wanted to preserve the originality of the interview data, so that nothing would be lost in translation. She therefore decided to transcribe in the language that the interviews were conducted. Translation of the recorded interview was therefore not required from the transcriber. The analysis of interview data was also conducted in the original language (4.6.3). When it came to writing up the analysis of the findings, the researcher only translated quotations used in the findings chapters.

4.5.2 Data saturation

As Patton (1990) points out “there are no rules for sample size in qualitative inquiry” (p. 184). For a qualitative study, it is very hard to determine an exact number of participants ahead of time (Lincoln & Guba, 1985; Seidman, 2006). How many interviewees should be enough for this study? There are two criteria to determine the appropriate numbers of participants: sufficiency and saturation of information (Seidman, 2006). First,

are there sufficient numbers to reflect the range of participants and sites that make up the population so that others outside the sample might have a chance to connect the experiences of those in it (Seidman, 2006, p. 55).

The current research collected a range of participants who are involved in the Chinese accounting field. The researcher considers that the four categories of participants can be a reflection of the population found in the Chinese accounting field. Second, the point of data saturation is shared by a few writers (Lincoln & Guba, 1985; Morse, 1995). The sample size for naturalistic inquiry is determined by the maximum information rather than by statistical confidence (Lincoln & Guba, 1985). The point to stop sampling is when there is “information redundancy” (Lincoln & Guba, 1985, p. 202). This means that no new information arises from interviews, or that the same information is reported. The researcher noted that during the interviews, new interviewees often provided new examples or stories that clarified or responded to some issues raised in earlier interviews. The researcher ceased interviewing at the point when she found that the information she obtained from interviews was very similar. She realised that she was no longer learning anything new.

4.5.3 Data evaluation

The interview data collected from individuals is subjective in nature. The interpretation of the data by the researcher is also subjective. Due to the subjective nature of the research, how can one know that the findings of a research are valid or trustworthy? This section explains how the research data are evaluated.

4.5.3.1 Trustworthiness of interview data

Qualitative research is often criticised as, non-scientific, unreliable, invalid, or untrustworthy (Kvale & Brinkmann, 2009). The question is, how can a qualitative researcher know that:

What the interviewees said is true? And if it is true for this participant, is it true for anyone else? And if another person were doing the interview, would we get a different meaning? Or if we were to do the interview at a different time of year, would the participant reconstruct his or her experiences differently or if we had picked different participants to interview, would we get an entirely dissimilar and perhaps contradictory sense of the issue at hand? (Seidman, 2006, p. 23)

Due to the differences in epistemology between quantitative research and qualitative research, the conventional concepts of internal validity, external validity, reliability and objectivity do not fit into naturalistic inquiry. According to Lincoln and Guba (1985), there are four criteria for trustworthiness of the data: credibility, transferability, dependability and conformability. A number of authors have adopted these four criteria to explain good quality qualitative research (Halldorsson & Astrup, 2003; Sinkovics, Elfriede, & Ghauri, 2008; Thomas & Magilvy, 2011).

4.5.3.2 Credibility

Credibility parallels with the concept of internal validity in a quantitative research. It answers the questions “How can I know that what the interviewees said is true? (Seidman, 2006, p. 23). In naturalistic inquiry, there is no single objective reality. Instead, reality is multiple and is interpreted by individuals in their own context (section 4.2.1). Therefore, credibility “focuses on establishing a match between the constructed realities of respondents and those realities represented by the researcher” (Sinkovics et al., 2008, p. 699). This simply means that the researcher can find evidence to verify interviewees’ comments. The effort of finding evidence to prove credibility rests with the researcher (Thomas & Magilvy, 2011).

Credibility can be established through triangulation (Cutcliffe & McKenna, 1999; S. Taylor & Bogdan, 1998; Tracy, 2010). Triangulation increases credibility through involving multiple sources of data, methods, and theoretical frameworks (Lincoln & Guba, 1985; Tracy, 2010). For example, the researcher finds that there are similarities in interviewees’ answers across the four categories of participants in this current study, which enhances the credibility of the interview data. The findings in this study also triangulate to the literature review and to some news in the media. In addition, a prolonged and varied time spent with participants can be a strategy to strengthen the credibility of the research (Thomas & Magilvy, 2011), which Lincoln and Guba called “prolonged engagement”. The long-time engagement allows

researchers to detect and take account of the possibilities of distorted data. The researcher had an engagement with her interviewees for more than one year. For instance, one interviewee was initially contacted in November 2009, and the researcher then had an exploratory discussion with her about the current research topic. The researcher finally interviewed her in June 2011.

Credibility can also be strengthened by applying different theoretical frameworks, which provide theoretical explanations of the findings. The interview data can be explained by Confucianism, as presented in Chapter 5 and Chapter 6.

4.5.3.3 Transferability

Transferability refers to whether the findings of a particular inquiry have applicability in another context or to other participants (Thomas & Magilvy, 2011). It relates to the concept of generalisability (Halldorsson & Astrup, 2003; Tracy, 2010). Statistical generalisation is inapplicable for naturalistic inquiry, but “the knowledge gained through qualitative methods can still transfer and be useful in other settings, populations, or circumstances” (Tracy, 2010, p. 845). Transferability is achieved when the readers of this study feel that their situations overlap with the stories told in this research (Tracy, 2010). The burden of proof rests with the readers (Lincoln & Guba, 1985). The strategy to establish transferability in the current study is to provide a dense description of the research process, the profile of interviewees and the findings (Chiang, 2008; Thomas & Magilvy, 2011). This allows the readers of this research to relate the findings to another context.

4.5.3.4 Dependability and Confirmability

Dependability occurs when “another researcher can follow the decision trail used by the [current] researcher” (Thomas & Magilvy, 2011, p. 153), which is also called “trackability” (Halldorsson & Astrup, 2003, p. 328). Lincoln and Guba (2002) suggest that dependability is achieved through detailed documentation of the logic of the process and method decision. The following documentation may serve the purpose of an audit trail to assess dependability (Thomas & Magilvy, 2011): (1) describing the purposes of the study (section 4.1), (2) discussing how and why the participants are selected for the study (section 4.4.1.2), (3) describing the details of how the data are collected and how long it take for data collection (sections 4.4.2 & 4.4.3), (4) explaining how data are reduced for analysis (sections 4.6.1 &

4.6.2), (5) discussing how the findings are interpreted and presented (section 4.6.3), (6) communicating how the credibility of data is achieved (section 4.5.3). The current study has provided all the information above in this chapter. Confirmability refers to the results being free from the researcher's biases (Halldorsson & Astrup, 2003). This means that the researcher did not invent or distort what interviewees said. Through detailed analysis of the data, the research shows how the interpretation and conclusion can be traced back to the data. The next section discusses how the interview data are managed and analysed.

4.6 Data analysis

Qualitative data analysis is an intuitive and inductive reasoning process (Seidman, 2006; S. Taylor & Bogdan, 1998). It involves

working with research evidence, organising it, breaking it into manageable units, synthesising it, searching for patterns, discovering what is important, what is to be learned and deciding what you will tell others" (Bogdan & Biklen, 1982, p. 145).

Interviews produce large amounts of data (Seidman, 2006). It is an intellectual job to make sense of interview data and organise it in a presentable and meaningful order (Ghauri & Gronhaug, 2005). The data analysis is based on three stages: (1) identifying themes and developing concepts and propositions; (2) coding the data and refining one's understanding of the subject matter; and (3) interpreting data in the context in which they were collected (S. Taylor & Bogdan, 1998, pp. 141-142). The following sections discuss each of the steps outlined here.

4.6.1 Identify themes and developing concepts and propositions

Qualitative data analysis starts with the data collection process (S. Taylor & Bogdan, 1998). During the process of conducting interviews, the researcher reflected on the information as mentioned in section 4.4.3.4. This was an embryo stage of data analysis. This on-going process helped the researcher to constantly theorise and make sense of the data collected. It is useful to direct researcher attention to emerging themes and follow up on the lead and hunches (S. Taylor & Bogdan, 1998). For example, one interviewee mentioned that tax regulations adversely affect the exercise of professional judgement. This unexpected piece of information directed the researcher to ask other interviewees about this emerging issue, which is reported in Chapter 6.

This stage also involves familiarisation of the interview data. The researcher read and reread the transcripts and looked for recurring ideas or language, patterns of beliefs and actions in the transcripts (Rossman & Rallis, 2012). This recurring information provides the researcher concepts and propositions. For instance, many interviewees talk about *guanxi*. This is a concept, which is derived from Chinese culture. The researcher had not paid much attention to *guanxi* before collecting the data. Therefore, the researcher studied more *guanxi* literature in order to provide a meaningful interpretation. Propositions are statements grounded in the data (S. Taylor & Bogdan, 1998). For example, an interviewee stated, “you cannot afford not to have *guanxi* with tax officials”. This is a proposition. These concepts and propositions help the researcher to develop themes and topics in the data, which lead to the coding process.

4.6.2 Coding and refining the data

The interview data were coded through using NVIVO 9, a software package for analysing qualitative data. Using computer assisted qualitative data analysis software (CAQDAS) such as NVIVO formalises the data analysis of qualitative research (Sinkovics et al., 2008). It can enhance trustworthiness and quality of data because it provides transparency for how the data are coded (Huberman & Miles, 1994). Moreover, CAQDAS is arguably more effective than a manual procedure for managing data (Mason, 2002). For example, NVIVO can manage and organise large amounts of data from different sources such as transcripts, research notes and summaries, image and sound. NVIVO allows for easy coding and retrieving of data. When a piece of textual data addresses more than one topic or theme, NVIVO allows that piece of textual data to be coded into all relevant topics simultaneously. However, NVIVO cannot be a substitute for the researcher to intelligently analyse the data (Dolan & Ayland, 2001). It is merely a mechanism to sort data (Rossman & Rallis, 2012). The researcher was fully in charge of the process of the categorisation and interpretation of the data (Dembkowski & Hammer-Lloyd, 1995).

The actual coding process was not smooth. The interview transcripts, notes and reflections on interviews were imported into NVIVO 9 as sources. Following this, the researcher started to code the transcripts. She set up a “node” as she read a transcript whenever a meaning of a sentence emerged. As a result, the researcher ended up with numerous codes that appeared to be very messy and difficult to group into themes. After receiving advice from colleagues, the researcher started again.

Unlike before, this time the researcher first set up a few main nodes according to the research questions, such as accounting education, professional independence, Confucian culture, contemporary culture and convergence with IFRS, so that she could always see the “big picture” of the research. The researcher then read the transcripts literally (Mason, 2002) and listened back to the tapes to check the accuracy of transcripts from time to time. While she was reading, she coded the content of the transcripts into these main nodes. This completed the first round of coding. Then the researcher started the second round of coding. Within each of the main nodes, the researcher read the content interpretively (Mason, 2002) and assigned sub-nodes according to what the text meant or represented. For example, within the theme (node) of accounting education, the researcher coded statements about the teaching approach into one sub-node, and comments about assessment structure into another sub-node. One piece of data can also be coded into various nodes. For example, students stated that they do not interact during classes because they need to respect their teachers. The similar comments were coded into both sub-node “teacher-student relationship” under the node “education” and sub-node “hierarchy” under the node “Confucian culture”. Information beyond the scope of this study was coded into the node “other”. In this way, data were reduced and were refined into each theme and proposition. Although the data were categorised into pre-determined themes, the researcher kept an open mind towards the interesting and important points that emerged from the interview transcripts (Seidman, 2006).

4.6.3 Interpreting and presenting data

Interpreting the data involves understanding the literal, unedited statements of interviewees in the context in which they are collected (S. Taylor & Bogdan, 1998). It is a process of making sense of what the interviewees said and then communicating the meaning to the readers (Rossman & Rallis, 2012). According to Patton (2002, p 480),

interpretation means attaching significance to what was found, making sense of findings, offering explanations, drawing conclusions, extrapolating lessons, making inferences, considering meanings, and otherwise imposing order (cited in Rossman & Rallis, 2012, p. 284).

As mentioned in the previous section, the researcher coded data into main themes and sub-nodes. Then she looked into each sub-code to interpret and summarise the information provided by the interviewees. For example, within the theme of “teaching approach”, many

interviewees commented that the teaching approach has not changed much since the economic reforms. The researcher paid attention to the different reasons for why the traditional teaching approach has not changed. The researcher chose the common reasons that were mentioned by a number of different interviewees. The quotations that best represent common views are reported in the findings chapters.

The presentation of data in the two findings chapters (Chapter 5 and Chapter 6) is organised in the following way. Each chapter first shows the issues in accounting education or in professional ethics and then interprets the issues from a Confucian perspective. Issues are reported through interviewees' voices, with narrations from the researcher. Some relevant literature is also referred to in the findings to strengthen the data. Then Confucian theories are adopted to explain the issues, with some opinions from interviewees. In this way, the evidence from data is closely linked to the theoretical framework. An overall comparison between the findings and prior literature is discussed in Chapter 7.

The coding was conducted based on the original language used in an interview. Translation of data is only needed for quotations that are presented in the findings chapters. These quotations are presented in Chinese characters, with translations from the researcher. Translations were checked by another native Mandarin speaker who has an accounting background, to ensure accuracy. The reason for presenting quotations in their original language is to show authenticity. It also allows Chinese readers of this thesis to read the original quotations.

In order to maintain interviewees' confidentiality, each interviewee is assigned a unique reference number. Quotations in finding chapters are presented with the reference number of a particular interviewee. The reference number is related to an interviewee's category as per Table 5-1 and Table 6-1. For example, S2 represents student interviewee number two. Numbers of interviewees (rather than a percentage) who shared a common finding are counted and presented in tables.

There are some blank spaces in both Table 5-1 and Table 6-1. This is because different categories of interviewees have primary insights on different matters. For example, students and academic interviewees would have more to say on the accounting education theme, whereas practitioners have more experience on matters related to professional ethics. More

specifically, interviewees labelled as P and FP did not learn accounting in a Chinese university. Some of the Chinese practitioners learn other majors in universities, others are qualified through distance learning and apprenticeship. They do not have first-hand experience of Chinese accounting education, therefore the researcher did not ask them to comment on the educational theme. Similarly, students interviewees have limited insight of the ethical issues in accounting practice. Furthermore, most of interviews last for one hour, some interviewees are very insightful in some aspects which they take more time to elaborate. Thus these insightful stories took up most of time in an interview. The blank spaces in Table 5-1 and Table 6-1 means an interviewee did not cover those issues during the interview.

4.7 Chapter summary

This chapter introduced and justified the choice of research methodology and research method. This study falls into a qualitative paradigm, because it seeks to understand how Confucian culture influences the judgement of Chinese accountants and the learning process of students. It employs interview as the research method because interviews are flexible and generate rich information. The detailed procedure of the research and interviews are documented. How interview data are evaluated and managed are also explained. The next chapter presents the findings from the interviews.

Chapter 5 - Confucian influences on accounting education

As discussed in Chapter 2, Chinese accounting education is criticised as being weak in equipping accounting students with generic skills, which are considered essential when applying principle-based accounting standards. This may hinder the implementation of the new CAS in China. The study aims to show how Confucian culture influences accounting education in contemporary China. Consequently, it hopes to provide an explanation of the educational obstacles in implementing the IFRS-converged standards.

Key findings are presented in Table 5-1 below. The findings are compared to the relevant literature in order to strengthen validity. Interpretations of findings are discussed from a Confucian perspective. This chapter is organised in the following way. The first section describes the overall findings as displayed in Table 5-1. The second section presents these main findings in detail. The third section analyses these findings using relevant Confucian doctrine. The fourth section compares and discusses the Confucian learning concepts with those of the Anglo-Saxon culture. The final section summarises the findings.

5.1 Overall findings from accounting education

A teacher-centred pedagogy is still dominant in Chinese accounting education according to 17 interviewees (Table 5-1). Three academic interviewees report that they are adopting different methods of delivery in their classes, but are aware that a teacher-centred approach is still the main approach (section 5.2.1). Accompanying this teaching approach, there are 17 interviewees who believe that the teacher-student relationship is hierarchical (section 5.3.1). This teacher-centred pedagogy appears to lead to inadequate skill development for students because 14 respondents think that accounting education has not prepared students well for the essential skills needed to exercise professional judgement (section 5.2.2). Almost all Chinese practitioners who have an accounting education background as well as foreign practitioners hold this view. Some student interviewees do not have much to say about this question, which is probably because they have not had any experience of working and therefore are not yet aware of this issue. In addition, 15 interviewees narrate that examination is the main assessment tool (section 5.2.3). Accounting ethics education appears to be weak because eight interviewees state that the subject has not received much attention. However, two interviewees express that there are people who have started to teach this subject in their

respective universities. Four interviewees confirm that there is accounting ethics education at undergraduate or postgraduate level (section 5.2.4). Seven academic interviewees comment that they are subject to a research-based performance evaluation system adopted from the West. This evaluation system has affected the quality of teaching (section 5.2.5). These main findings will be discussed in detail in the following sections. The blank cells in the table mean that the interviewee did not comment on that question or the question is not relevant to them (see more explanations in Section 4.6.3). The next section presents the findings in detail.

Table 5-1 Key findings from accounting education theme

Interviewee Category	Reference No	Teacher-centred approach	Hierarchical teacher-student relationship	Soft skill development	Examination-oriented assessment	Professional ethics education	Research - based performance
Academics		Strong vs Weak	High vs Low	High vs Low	Heavy vs Light	Absent or Present	Strong vs weak
A	1	S	H	L	H	A - changing	S
A	2	S-changing	Neutral	Neutral		P	S
A	3	S	H- changing		H	P	S
A	4	S-changing	Neutral	Neutral		P	
A	5	S	H	L	H	A	S
A	6	S-changing	H	L		A- changing	S
A	7	S	H				S
Students							
S	1	S	H		H		
S	2	S	H		H		
S	3	S	H	L	H	A	S
S	4	S	H	L	H	A	
S	5	Neutral	Neutral				
S	6	S	H		H		
S	7	S	H		H		
S	8	S	H	L	H	A	
Practitioners and Student Practitioners							
P	1						
P	2	S			H		
P (auditor)	3						
P	4						
P	5						
P	6						
P	7						
P	8					A	
SP	9	S	H		H		
SP (auditor)	10	S	H	L		P	
SP (auditor)	11	S	H	L	H	A	
SP	12	S	H	L	H	A	
SP	13	S	H	L	H	A	
Foreign Practitioners							
FP (auditor)	1			L			
FP	2			L			
FP	3			L			
FP (auditor)	4		H	L			
Total	32	17S 1N 3S-changing	17H 3N 1H-changing	14L 2N	15H	8A 4P 2A-Changing	7 S

5.2 Contemporary accounting education system

5.2.1 Teacher-centred pedagogy

The majority of interviewees (17 interviewees) think that the teaching approach is still teacher-centred. Three Chinese academic interviewees comment that Chinese accounting education has changed. These changes can be found in the use of Western teaching methods i.e. case studies and presentations. In addition, because of the advancement of technology, lecturers use PowerPoint slides during their classes. The Internet also provides effective communication between teachers and students after class. There are more opportunities for lecturers who work in the top two tiers of Chinese universities to visit foreign universities. Despite all these changes, the findings suggest teachers are still the central figure during classes and students generally remain silent, passively receiving knowledge.

中国的教学一般来讲他很少有互动式的，它都是单项灌输式的，就是老师在上面讲，你在下面听。然后记笔记，然后自己做题，然后考试。所以说学校的这个教学方式上没有什么亮点。

Chinese education is rarely interactive [during the class]. It is like dumping knowledge [on students], a teacher talks up there [normally on a platform at the front of the classroom] and you listen down here and take notes. Then you practise by yourself and then sit in the exams. In terms of the teaching method, there is nothing good worth mentioning (SP11).

变化肯是有的[paused]....实实在在的说，其实谈教学改革我们谈了很多很多年了。但是从会计这个角度来讲，有一点进步但是进步还是不大。比如说我们上课，我们还是主要以老师讲为主。

There have been some changes [in accounting education] (paused)....But to be frank, we have been talking about education reforms for so many years now. From an accounting education perspective, we have achieved little progress. For example, during the class, we are still mainly teacher-centred (A1). (A1 was an accounting student and has worked in different universities over fifteen years).

Overall, the findings suggest that these changes are a result of technological advancement and teaching content. The pedagogy has had little change; despite there are some academics who adopt more interactive ways of teaching (some examples are provided below).

The finding on teacher-centred pedagogy is consistent with previous literature on accounting education (Z. J. Lin, 2008; Z. J. Lin et al., 2005; Yongze Liu & Chi, 2008). The teacher-centred approach relates to a lack of involvement or contribution from students during classes. The reasons for this lack of interaction may involve two aspects. First, it can be a result of dissatisfaction with the quality of teaching and the teaching content. Second, it can be a result of the hierarchical teacher-student relationship.

5.2.1.1 Teaching content is not useful

Eleven interviewees think that the teaching content in their accounting programme is not practical or relevant. For example, SP1 and SP5 said that they were required to learn about the history of the Communist Party and Military Theory as compulsory papers during their accounting studies. S3 also reported that at postgraduate level, they learn Advanced Micro Economy and Advanced Macro Economy, which she thinks are not relevant to accounting. SP10 said that they were required to learn about abacus and to pass a certificate for abacus in the year 2002 or 2003, when Microsoft Excel and Access were more useful for accountants. Due to students thinking that some teaching content is irrelevant, they are not motivated to learn or attend some classes. Furthermore, the quality of teachers is also a concern. SP9 provides an example,

教育当然脱节了，跟实操是脱节的。我们教投资的老师，就别说我在本科了，我中央财经读的研究生，读在职研究生，教投资的老师都不知道上证指数多少点。

Education is not linked to practice. Even when I was studying for my postgraduate in (a good economics university), the teacher who taught us investment did not know the value of capitalisation in the Shanghai Stock Exchange (SP9).

Similarly, both SP11 and SP12 mentioned that because their teachers were not able to explain clearly accounting and auditing concepts, they had to borrow some textbooks and learn by themselves. The perceived poor teaching quality seems to demotivate students from learning.

However, some findings suggest the situation changes when students find that a particular lecturer's class is interesting or useful. For example, S6 mentioned with a joyful expression that he enjoys his English class as his teacher uses interesting methods such as role-play,

English movies, games and Facebook. However, teaching accounting can be quite different from teaching English. Moreover, A4 provides an example of when he experiments in his auditing class. He asks his students to teach for the first hour of a class and then he has further discussion about the topics. His students show a high level of motivation and engagement when they are involved in teaching.

5.2.1.2 It is rude to interrupt in class

The second reason for students to be passive listeners may be cultural. Six student interviewees think that it is impolite to ask questions during class. Even if lecturers (A1, A5 and A7) invite them to ask questions during classes, they still largely remain silent. Students are shy, or afraid to ask questions or to participate in discussions during class. When the class is large, students are even more hesitant to ask questions. A few student interviewees share a similar response, that it is impolite to ask questions during a class.

我们从小就是这样被教育的。突然打断老师的授课是很不礼貌的 (S6).

We have been educated like this since childhood. It is very impolite to interrupt classes (S6).

This is probably the most important reason for non-interaction during class. Some informal interviewees commented that even when they had foreign teachers, they remained silent during the class because they were afraid to say something wrong. The hierarchical relationship between students and teachers is explained in section 5.3.1.

Overall, few Chinese teachers have interactive classes. In the majority of cases, despite the effort of teachers, students remain passive. This may be because (1) they are discouraged from learning because the teaching quality is perceived to be low and/or (2) culturally, Chinese students are hesitant about asking questions or contributing ideas during class. The teacher-centred approach appears to contribute to the struggles that accounting graduates face when they start work.

5.2.2 Lack of generic skills—feedback from practice

Fourteen interviewees (Table 5-1) do not think that accounting education equips students with the adequate soft skills required to make judgements. They think that the teacher-centred

approach focuses on delivery of technical knowledge, but that skill development is inadequate. For example, interviewees think that the Chinese accounting education does not train them how to exercise judgement and how to solve problems. Consequently, after accounting students graduate, the inadequacy of soft skills is revealed, particularly for those who mainly use IFRS or the new CAS in their work. Some student-practitioner interviewees talked about the difficulties they faced when they started working.

knowledge 这方面的，它是给予了。但是怎么去解决问题，怎么去 judge, 这些东西是很少的。我觉得这个不是属于会计界的问题，我觉得是整个中国教育体制的问题...我觉得有一段比较痛苦的时间，就是从学校刚去工作，然后我觉得学校学的内容跟工作完全是两回事。

[Chinese accounting education] provides knowledge to [students]. However, how to solve problems, how to judge; these aspects are very weak. I think this is not only a problem in the accounting education field, but it is an issue of the entire Chinese education system...I experienced a period of suffering when I went to work after graduating. I felt it was totally different between what I had learned and my job (SP12).

Furthermore, all four foreign interviewees notice that their Chinese colleagues feel less comfortable about making judgements, are less likely to be proactive or to take initiative, and prefer to have clear instructions and answers. The strengths of the Chinese colleagues they observed are that they are hardworking and keen to learn.

If it is not written in the rule, they [Chinese colleagues] are not yet comfortable to make a judgement call (FP3).

Furthermore, in order to detect irregularities or misstatements in financial information, auditors need to maintain a degree of scepticism when conducting an audit (IAASB, 2012). Without scepticism, misstatements can be missed. They need to assess how the balances on financial statements are reached and question whether the judgements exercised by the preparers are fair and are based on applicable accounting standards. FP4, a senior audit partner, felt strongly about the lack of professional scepticism among his Chinese staff. He linked his concern to Chinese education.

So having that ability to question and go through things is something, which is difficult. And you need a degree of scepticism for auditing. When you go to see someone, you don't think they are liars, but you do think, does it make sense what the person told me dali dalida. And that's something which I spend

lots of time on.....I get an impression, if I'm wrong I am wrong, a lot of schools have got lots of rote learning eh?When you see some of the things they [Chinese staff] do, you think they just don't seem to have common sense or just the ability to question to go to the next thing. Because, someone told me that, so I learnt that, therefore it's gospel...(FP4).

Professional scepticism requires auditors to think critically and independently in order to assess the credibility of financial statements. Because students are used to receiving knowledge passively from their lecturers without questioning, they have had little exposure to developing their critical thinking ability (section 5.3.1). Hence, they are less likely to question their clients, but more incline to accept clients' response.

Furthermore, a teacher-centred class setting often means limited discussions, if any, between teachers and students and among the students themselves. This arguably hinders the development of communication skills of the students or future practitioners. FP3 observed that her Chinese colleagues find it difficult to communicate accounting issues to people who are not from an accounting background. Chen's (2009) findings support this observation. She finds that the development of students' people skills and communication skills are inadequate.

The findings suggest that under a teacher-centred pedagogy, students tend to follow teachers' instructions and accept knowledge given by them without critical reflection. As a result, Chinese students are weak in critical thinking skills, judgement and communication. However, principle-based standards require both the preparers and the auditors to critically evaluate available information and then reach a judgement. This teaching method, together with an exam-orientated assessment system, shape the way that Chinese students learn.

5.2.3 Examination–orientated assessment structure

The study finds that assessments are largely based on examinations in Chinese accounting programmes. In the majority of Chinese universities, the final examination is the primary assessment tool for students. Homework and attendance count for 20-30% towards the final mark in some universities. Research based assessments are rare. The exams are the most important assessments that students need to pass in order to complete their degrees. Many students do not necessarily need to study hard during the semester because towards end of a

semester, lecturers normally provide guides for them to pass the exams. Exam questions are based on the guides so students often study hard and memorise the guides before the exams.

Because exam guides are provided to students prior to the exams in universities, many interviewees think that their university exams are easy. They reflect on their experience in passing the NCEE and the influence of the NCEE on accounting education. The NCEE can be regarded as the most important examinations in Chinese students' lives (section 3.2.6.2). Hence, it is probably too important to ignore due to its impacts on the way of learning and thinking of students (see section 5.3.2). Because the examinations are the sole criterion to measure student performance, students have to make a concerted effort to passing exams.

在中国对所有教育体制影响最大的可能是考试的机制。因为他什么东西都不看，他不看你的能力方面，它完全是以考分作为唯一的标准。小学上初中是这样，初中上高中也是这样，高中上大学还是这样，就完全看分。如果是这样的话，我觉得就像有一句话说，人好像就是你按什么方式去考核他，他就会按照这个标准去做。比如就算我能力再高，我考分低，也没人会录取我，没用的，对吗？他肯定是你按什么去 *measure*，他就按什么去 *perform*，对吗。我觉得这个可能是一个 *fundamental* 问题。

The most influential factor in the Chinese education system is probably the examination system. It does not assess your abilities. Marks from exams are the sole standard [to assess students], from primary school to intermediate school, from intermediate school to high school, then from high school to university. Marks are the only performance measurement.....Although I may have strong skills, if my marks are low, no university would want me. It is worthless. People must perform according to what standards are used to measure them. I think this is a fundamental issue. (SP12)

Successfully passing exams requires considerable effort, time and discipline from students. Effort is arguably more important than intelligence in passing exams with success. For many students, it means practising exercises until midnight or later.

During the preparation for the exams, I just do, do, do [exam questions]. I finished about two piles of books like this (he put his hand about knee height) (S7).

The Chinese word for exam strategy is called “question sea strategy”. This means that the amount of questions that students need to practise is like an ocean. The student said that

because of the large amount of practice he did, he knew the answers once he saw the questions. Repetition and memorisation appear to be an effective way to learn for exams.

The examination system has been utilised to benchmark “good” and “bad” students since primary school and throughout the entire Chinese education system. Students’ mind-sets have already been trained and accustomed into coping and passing examinations during their earlier studies. The mind-sets and skills needed to pass exams are likely to be carried into their accounting studies, which is at tertiary level. The NCEE is arguably more influential on the learning processes of accounting students than are the exams at university level.

Three interviewees mentioned that many exam questions are true and false questions or multiple choice questions. These types of questions are unlikely to test students’ broad skill sets. Similarly, ICAS (2010) report that there are many multiple choice questions in CICPA examinations which may not “fully assessed the ability of students to think and apply judgement” (p. 12). This exam-orientated education is likely to lead students to learn answers for the exams. As a result, students’ minds are likely to be trained to think that the correct answer to an exam question is the only answer. They are likely to feel uncomfortable with ambiguous discussions and if there is sometimes more than one right answer. This is consistent with Woodbine’s (2007) findings that Chinese students feel that it is difficult to deal with questions involving analysis and evaluation. Section 5.3.2 explains why the exam system is dominant in accounting education.

5.2.4 Professional ethics education

Due to the second research question of this study concerning professional ethics in China, the researcher asked about ethics education in accounting programmes. The findings suggest that there is a growing emphasis on teaching professional ethics in universities. For example, some Chinese universities have introduced a Master of Professional Accounting (MPAcc) programme and professional ethics is a compulsory paper of this programme. However, many undergraduate students have little exposure to ethics education. Some basic professional ethical principles are introduced in accounting related subjects. For example, professional independence is introduced in auditing. Such principles are introduced within the background of legal liabilities, without reflecting on ethics.

Three accounting professionals think ethics education is omitted at undergraduate level because there is a professional ethics paper in the accounting professional qualifications. They need to pass an exam on ethics to qualify for CPA or to obtain an Accounting License. Hence, there is no need to study professional ethics at university. Moreover, some practitioners think the announced ethical requirements do not relate to practice, as evident in the departure from prescribed independence (section 6.1). Therefore, they do not believe that studying ethics is relevant and so professional ethics is treated merely as an exam to obtain their professional qualification.

会计职业道德有啊.会计证必须得考嘛.只是单纯的一考试,而且考试题很简单.就是领导要让你怎么做,你明明知道违反会计的准则了怎么做,就说一定要坚持自己的原则就这样。

Yes, we have accounting professional ethics because it is tested when [we] obtain an Accounting License. It is only an exam and the questions are very easy. [For example, the questions would be something like] if the supervisor tells you to do something, which you know violates accounting standards, then what you should do?[We] need to say we must abide by the professional principles and that's it (P8, with an ironic tone).

This view is also observed by some academics. They comment that because of the increase of materialism in modern society, teaching ethics is considered as being out-of-date by their students. Consequently, teachers are reluctant to teach ethics because they think their students will not appreciate it. However, others hold different views. A4 shared that students are very interested in studying business ethics, particularly at postgraduate level. A4 thinks it is very important for academics to pay attention to ethics education so that students will follow their lead (A4 is involved in developing COE for CICPA). He believes that ethics education should provide students with knowledge about different religious beliefs, such as Daoism, Buddhism and Christianity, and reflect on how these religious values impact on professional ethics. Interestingly, many interviewees mention that they are disappointed in the materialistic values in China that seem to prevail. They think that the reason people pursue materialism is because of a lack of ethical beliefs in China (section 6.2).

5.2.5 Research-based performance

Most academic interviewees (Table 6-1) mentioned that Chinese universities have started to pay attention to research over the past ten years. Academic promotion is based on

publications and research projects. Apart from academic journals in Chinese, Chinese academics are strongly encouraged to publish their papers in journals found in the Social Science Citation Index (SSCI). A financial bonus is sometimes attached to the number of publications and to the rank of the publishing journals.

On one hand, publications encourage academics to do more research and therefore contribute to the development of economy, society and to the body of knowledge. Publishing in English journals is also a bridge for Chinese academics to communicate with foreign scholars. On the other hand, there are a few negative impacts resulting from research-based performance evaluation, as mentioned by four interviewees. First, although student evaluation systems are in place, academics have little incentive to improve their teaching. As a result, quality of teaching can be compromised due to the pressure on lecturers to spend a lot of time on publications.

这是很恐怖的一个事情，你知道么。[教师]授课是一个基本的事情，一个 *basic* 的东西，必须要做好了。然后在这个基础上你要再做科研嘛。中国现在的话就有一个问题，我认为非常严重的就是[老师]不注重讲课了。只要，[学生]不骂就 *ok*。

This is a serious issue. Teaching is a basic requirement for teachers and it must be done well. After you teach well, you can do research. Now we have a problem in China. I think it is very serious that teachers do not pay attention to teaching. As long as students do not complain much, it is ok (A6).

Second, a research-based performance evaluation system may also discourage academics from preparing and experimenting with new teaching methods. Therefore, the traditional teacher-centred approach is preserved because it is familiar and so requires less preparation. S3 reported that sometimes her teachers are too busy to prepare for classes.

但北航这种事属于那种学术类的院校嘛，他就比较注重那个研究成果，所以那个你教得好教得坏无所谓，但是你那个发表论文什么的需要特别多。....那他们老师好多都不备课，他们一不备课上课就是，他们自己思考的时间就很多，而且讲得没有那么连贯，所以就是弄得我们就是很不好理解。

The university where I am studying focuses on research output, so it does not matter whether [lecturers] teach well or not. [Lecturers] need to publish many papers....This causes some teachers not to prepare for classes. Because of the insufficient preparation, they need to take a long time to think about

teaching content while during the classes. These classes are not very cohesive and hence are very hard for us to understand (S3).

Third, research is for the purpose of publication. Chinese academics focus on writing papers that can be published quickly. Consequently, research topics and methodologies adopted can be limited. For example, some qualitative research methods tend to be time-consuming and qualitative research is not as popular as quantitative ones, so few Chinese academics opt to do qualitative studies. Furthermore, since promotion and bonus are evaluated on papers published on an annual basis, this encourages a short-term orientated research tendency. Therefore, doing research that needs time to investigate is not popular.

你做学术，不是自己的所好，也不是什么责任感啊，还是什么呢，为了发表paper，而且呢，要看在什么地方发表，发表那个的目的是什么呢，是拿奖金，发表一篇，一万两万，这个太恐怖了

[Some Chinese academics] conduct research, not because they are interested in that area or because they feel a sense of responsibility [to research certain topics]. They do research for the purpose of publishing papers and getting a bonus. Depending on which journal it is published in, [the academics can get] 10,000 or 20,000 yuan for a bonus. This is a terrible tendency (A2).

This is not an issue that specific to Chinese universities. The research based performance system is a commonly used strategy in Western universities as well (Parker, 2011; Parker & Guthrie, 2005). This is evident by the UK's Research Assessment Exercise (RAE), New Zealand's Performance Based Research Fund (PBRF) ranking, and Australia's emerging government research funding and journal ranking system. Universities are operated as corporates, where key performance indicators (KPIs) are based on research. For example, scholars' performance is measured on the number of publications in ranked journals, and the amount of research grant obtained from external sources. Similar to Chinese academics, Western scholars are also increasingly tempted towards a short-term orientated performance evaluation system. As Parker & Guthrie (2005) point out

The research discourse within universities has moved from a focus on discovery and knowledge generation, to one of funding, grants and revenue generation. Money has become the currency of research inputs, outputs and adjudged research significance (p. 6).

This finding is an important observation. Chinese academics have adopted the Western way

of research and universities adopt the Western way of performance evaluation. The emphasis on research may partially cause Chinese accounting pedagogy to preserve its teacher-centred and examination-orientated traditions. This finding shows a contradiction to the theory that “research-led teaching” or “research-informed teaching” enhances teaching quality (for example Brew & Boud, 1995). It support some researchers who argue against the theory (see reviews by Malcolm, 2013) and studies prove that research does not necessarily improve teaching quality (Fox, 1992; Hattie & Marsh, 1996). The relationship between research and teaching remains an academic debate. The next section analyses the findings from accounting education from a Confucian perspective.

5.3 Confucian tradition and current accounting education

Despite the effort of education reforms, this study finds that a teacher-centred approach is still dominant in the Chinese accounting education system and that the development of students’ generic skills is insufficient. The Chinese accounting system still carries Confucian heritages. This section employs Confucian doctrines (with interview evidence) to explain the current accounting education system in China. The findings identified above reflect two aspects of Confucian traditions (1) notion of five relationships (*wulun*), which is reflected in a teacher-centred pedagogy, and (2) the Imperial Examination (IE) system (*keju*), which is reflected in examination-orientated education.

5.3.1 Teacher-student relationship – a heritage of *wulun*

Teacher-centred pedagogy shows a hierarchical teacher-student relationship in accounting education, which largely reflects *wulun*. As stated in Chapter 3, the goal of Confucian learning is essentially moral development. Traditionally, teachers were not only responsible for teaching knowledge, but were also like parents, with a responsibility to cultivate students’ characteristics through being a role model. A teacher was regarded as a father figure in a student’s life (section 3.2.6.1). Children practise filial piety toward their parents and also respect and defer to their teachers. In addition, Confucius advocated that being modest is virtuous; students consider themselves “unworthy” before their teachers (S. Chan, 1999). As Tam et al., (2009) wrote

The traditional influence of hierarchy in Chinese society prevails when teachers are expected to assume responsibility for the well-being and personal development of their students who are lower in hierarchy.

Responsibility, authority and morality constitute the same hierarchy of relationships (p. 156).

The hierarchical relationship is a reflection of the respect towards teachers. This respect is demonstrated through proper conduct or rituals (application of *li*), such as standing up to answer a teacher's questions and remaining silent when teachers are talking. Because teachers represent authority to students, their instructions and teachings are not challenged. Questioning teachers or speaking out during classes is considered impolite as it shows disrespect.

可能很大程度上学生不敢说自己的想法。比如说在美国或者新西兰，你如果不喜欢上课的话可以不来，或者是你可以坐在那很松散。但是我们的学生你可以看出来。他们还是挺怕我的。

Students are probably too scared to say what their thoughts are. For example in the US or NZ, if students do not want to attend classes, they don't have to come. Or they may sit there being very slack. However, our students, as you can see, are quite afraid of me (A1).

S7: We must respect our teachers.

[The researcher asked] If you saw that the teacher was wrong, would you point it out?

S7: We can't point it out. The teacher [is] never wrong.

Chinese children have been learning how to behave properly in class since primary school, such as how to sit and how to respond to teachers' questions. They learn how to comply through structured school programmes (S. Liu, 2006).

The purpose of education is not so much to encourage individuality, rather it is to make individuals understand that they are part of a collectivity and must conform to the norms and values of the collective (S. Liu, 2006, p. 9).

Under such training, students need to adapt to the standard behaviour and an uncritical way of thinking.

因为从小教育就是这样的。我小时候上课的时候还是要求背手，就把手背过去呢，然后就听讲。小孩一般都觉得老师就是特别严厉的那种。(学生)一般不敢去打断他。可能就连下课问个问题都觉得心惊胆战的那

种。（我们）跟外国不一样。外国人就是互相交流的那种。他是那个发散性思维。那中国不是，（我们）就是从那个底层一点一点往上积累。我们这种意识已经形成了，就是很深的那种。

We have been educated in this way since we were children. When I was a little girl [in primary school], we were required to keep our hands behind our backs and listen carefully to our teachers. We were so young and felt that teachers were very strict, so we did not dare to interrupt the class [when we had questions]. We were even afraid to ask questions after classes. It is different with Western education. In the West, [education] emphasises on interactive teaching and encouraging “thinking outside the box”. We are different [in China]; the effect accumulates [since we were children]. Therefore, our way of thinking has been formed and deeply embedded (S3).

Apart from the hierarchical relationship between teacher and student, the notion of harmony and the concept of face also fit well with the teacher-centred approach (S. Liu, 2006). The class size is relatively large in Chinese universities. Under a collectivist culture, individuals' questions are considered less important than maintaining group harmony (Kirkbride et al., 1991). Asking questions during classes may reflect placing individualist interest before the group and thus it is not encouraged. Questioning and disagreement tends to create disharmony. Moreover, the “face” element is associated with a teacher-centred approach. “Concern for face requires an individual to behave properly so that they will not bring shame to themselves and people to whom they are related”(S. Liu, 2006, p. 8). Asking a question that the teacher cannot answer would cause the teacher to loss face or feel ashamed. If a question is dismissed by a teacher, the student can lose face. Therefore, to be safe, it is better not to ask any questions during classes.

当你有时候问一些老师问题的时候，比方说你参加一些培训班，问老师问题的时候，你就会发现这个大多数的老师他可能是，你对他教课内容提出质疑的时候，[老师]还是会 *defensive*。极少数的老师会以一种相对开放的态度说，比方说他就承认，我这个问题我也不懂....一般的老师，他要不懂装懂，要么他就是一种态度把你打回去，说你自己看书啊，或者说以后我会再讲啊。

When we question teachers during classes, the reaction from the majority of teachers would be defensive. Few teachers would openly admit that they do not understand the issues themselves...Normally teachers would pretend to understand and try to dismiss your questions or say that he or she would cover it in the future (SP10).

Some teachers would not like to be asked during the class to avoid the embarrassment of not knowing. As mentioned in section 2.2.3.3.1, there is a shortage of qualified teachers in China (M. W. Chan & W. Rotenberg, 1999; Wu & Tong, 2004). Many instructors in accounting do not necessarily understand the accounting principles behind auditing and financial accounting (Woodbine, 2007). Furthermore, the Chinese accounting standards are updated rapidly, which requires teachers to keep up to date with the changes. If teachers do not have sufficient understanding of the principles behind the foreign standards, a teacher-centred pedagogy is probably the best way to hide their inadequate understanding from students.

In summary, *wulun* still strongly exhibits in teacher-student relationships. Students are educated to respect teachers and knowledge and have been accustomed to obeying their teachers' instructions since they were very young. This education approach is likely to undermine the critical thinking skills of students. *Wulun* not only leads to the teacher-centred approach, but also trains students in subjugation to authorities and to seniors. Students' obedience to their teachers can influence their behaviour and attitudes later in their working life. This is evident in the accountant-supervisor relationship in the workplace, which will be discussed in Chapter 6.

5.3.2 Examination-orientated education - a legacy of *Keju*

Chinese accounting education still appears to rely largely on the examinations in the majority of Chinese universities. Students have become accustomed to the examination tradition since secondary schools. Many interviewees reflect on the weakness of the current examination systems. They agree that the exams do not test the other skills and talents of the students. Although the examination-orientated education is largely criticised both inside and outside China, the reliance on examinations appears to be very persistent (J. Li, 2001). Perhaps the legacy of IE is deeply embedded in the Chinese education system. As Tam et al. (2009) points out:

for a nation that has relied on a system-wide approach to examinations to identify the best candidates for academic and social advancement for more than a thousand years, the examination culture in education in China is deeply entrenched (p. 157).

Although the content of exams is no longer based on Confucian texts, the Chinese examination-orientated education system can be seen as a legacy of IE. As stated in section

3.2.6.2, IE was a meritocratic system to select the best Confucian scholars to govern the country. One's future career, social status and family honour were attached to IE. In order to pass IE, Confucian scholars needed to memorise vast amounts of Confucian texts. They were not required to theorise or challenge any premises in the exam, but to reproduce them during the exams (T. Kim, 2009). Similarly, the current NCEE system categorises students into different tiers for university entrance. High marks from NCEE means going to a good university and consequently good career opportunities. Therefore, students' future careers, wealth, and family honour are all linked to their scores from the NCEE (Pratt et al., 1999; Yu & Suen, 2005). Students need to face strong competition to be able to enter a good university. In order to gain high scores in the examinations, students need to repetitively memorise and practice the knowledge taught by their teachers. Both the IE and NCEE systems encourage learning for the purpose of passing exams.

Because of the importance of examinations in life, exams are not only a mechanism to test students' understanding and application of knowledge, but also constitute what is knowledge. As Kavle (1996) puts:

A discipline's knowledge is not merely transmitted in teaching and evaluated at examinations; the examination itself contributes to the construction of what counts as valid knowledge. The very process of examining provides an operational definition for the students what knowledge is worthy of acquisition and mastery (cited in Pratt et al., 1999, p. 252)

Students focus on what is likely to be in the examinations and learn for examinations only. Moreover, secondary school teachers' performance is also linked to students' performance in the NCEE. This encourages teachers to teach for examinations. Therefore "students learn for the sake of exams and teachers teach for the sake of exams" (Yongze Liu & Chi, 2008, p. 15). Passing examinations has therefore become the motivation for learning.

Furthermore, because many students perceive that much of the content of what they learn in university is not useful in practice (section 5.2.1.1), they only want to pass university exams to complete their degrees. Often, students practise previous exam questions and memorise the answers. After the exams, they quickly forget what they have learnt for the exams. Because exams test the reproduction of knowledge taught by the teachers, analytical and

critical thinking skills are unlikely to be tested. Such an assessment system does not support the development of skills required to exercise professional judgements.

Although examination does not test soft skills, it trains students in learning virtues (section 3.2.6.1). Learning is not perceived to be a fun activity in China; it represents challenges and difficulties (J. Li, 2001). To be successful in examinations, “students are conditioned from an early age to work hard amidst rather fierce competition for limited seats in the best universities” (Pratt et al., 1999, p. 254). This means that students strive to study even when they are bored or frustrated. Consequently, students are disciplined to be diligent, perseverant and able to endure hardship (J. Li, 2010). Foreign interviewees also give the compliment that their Chinese colleagues are hard-working, which is probably due to the traits they developed during the learning process to pass examinations.

I think here people are much more diligent about getting all the debits and credits right, actually figuring out the mechanics of transactions (FP3).

The reasons for why the examination system is deeply rooted in accounting education can be three fold. First, the examination system is probably the most suitable education system to incorporate Confucian learning beliefs (J. Li, 2001). Confucians believe that everyone is educable regardless of personal background. Examinations provide a fair chance for everyone to succeed, regardless of family background. Second, in a relation-based society, examinations are probably the fairest system available to prevent people from trying to use *guanxi* to enter a good university (Crozier, 2002). Examinations evaluate students merely based on their marks, which is a non-negotiable criterion to enter a particular university. Otherwise, people who are in charge of selecting students face a moral dilemma when their families require favourable treatment. If the request is rejected, the person with the institutional power faces violating the family moral code; if the request is granted, the person would violate public moral standards (J. Li, 2010). Similarly, teachers’ recommendations or subjective selection methods are all under the same threat. Some interviewees share this view:

对那些高中生来说，因为你只有通过考试才能知道他们的学习情况。如果看平时表现的话，因为每个学校的要求不一样，你也不可能说老师是会认为你是好或是认为你是差，因为中国好像不太流行主观评分。

For high school students, examination is the only way to assess their studies. If other performance measures are considered, the measurements are different from school to school. Teachers cannot say you are good or bad. It is not popular to use subjective measures to assess students in China (S2).

那像我们这种高考的话，完全钉死在分数上，作弊的手段很少。中国现在是一种托关系找人走后门，如此盛行的情况下，你没有一个是死定的标准，你没办法弄。如果说像，那种活动性很大的。那一个个教授全部完蛋了，他们即使自己很想做一个好人，他们面临诱惑是没有办法拒绝的。那这个体制也就废掉了。其实说现在高考很死，大家都知道要改，但是没法找到一个公平的方式。说高考不公平，但是这个能找到的最公平的方法了

There are few ways to cheat in the gaokao (NCEE) system as it looks at marks only. It is very popular to seek guanxi [to get things done] in China. If you don't have a rigid standard, professors in universities all face temptations. Although they may try to be good people, sometimes the temptations are too hard to resist. In fact, everyone knows that the gaokao system should be changed, but there is no alternative system. Gaokao is the fairest system available [in the Chinese circumstance] (S6).

These quotations reflect the difficulties related to changing the examination system in China. Some interviewees recognise that examination is probably the fairest assessment system to measure student performance. Such a system largely reduces the power of *guanxi*. The significance of *guanxi* in accounting practices is discussed further in the next chapter.

Third, the legacy of IE stresses academic achievement and qualifications, which can gain *mainzi*. For example, two FP interviewees mentioned that even receptionists and secretaries have a Bachelor's or Master's Degree in China. Having an academic degree is perceived to be knowledgeable in China. A survey done by *Chinese Youth Daily* found that "being outstandingly knowledgeable" was the third on the list for gaining *mianzi* (Shan, 2005). If students do well in their exams, their families will be proud and gain face. However, those students who fail to match the minimum marks to enter university are considered to have no bright future. Their families would feel shamed as well. This again encourages students to study hard to pass exams and gain high marks.

The above two sections explain Chinese accounting education, which is characteristic as having teacher-centred pedagogy and examination-orientated assessment structure, from a Confucian perspective. The accounting education appears to foster students' reliance on

teachers' knowledge, rather than independent thought. The next section discusses how the Confucian way of learning and education affects the implementation of the IFRS-based accounting standards.

5.4 Discussion on Confucian learning and Western learning

As stated in Chapter 3, Confucians believe that the purpose of learning is to cultivate virtues. Confucian thinking on morality and education believes that there is a fundamental difference between right and wrong. Humans are capable of learning and discerning right and wrong (Ho & Ho, 2008). Therefore, "children must be taught correct knowledge not to question it" (Ho & Ho, 2008, p. 78). The correct knowledge and truth are recorded in the sacred classics such as *Four Books and Five Classics*. Teachers, as the holders of such truths, are responsible for passing on the correct knowledge. Therefore these beliefs may lead to an education system based on the delivery of correct knowledge, not the discovery or generation of new knowledge (Ho & Ho, 2008). Knowledge is perceived as the complete truth.

In China, knowledge is not open to challenge and extension (by students arguing with their instructors)... The teacher decides which knowledge is to be taught, and the students accept and learn that knowledge. The lecturer is the authority, the repository of knowledge, leading the student forward into knowledge, a respected elder transmitting to a subordinate junior (Ginsberg 1992 cited in Watkins & Biggs, 1996, p. 47).

Because Confucian culture values education, wisdom and knowledge are both highly regarded in Chinese society. "Chinese learners have been brought up to respect wisdom, knowledge and expertise of parents, teachers and trainers" (S. Chan, 1999, p. 298). Teachers who are the holders of knowledge should not be challenged (Pratt et al., 1999).

The teacher-centred approach encourages students to absorb knowledge without critical reflection. Under this approach, students are likely to expect a definite answer from their teachers (Newell, 1999) which create dependence on expert knowledge. This may contribute to Chinese practitioners' tendency to want clear instructions from their supervisors and to be less proactive when they start work. This system effectively delivers technical knowledge and it is likely to be more suitable for a rule-based accounting system than for a principle-based accounting system.

By contrast, in the West, knowledge is considered less certain, and subject to interpretation. “Knowledge is co-constructed through student-student and teacher-student communication, instead of being passively absorbed by students as in the dialectic model” (Holmes, 2004, p. 296). In other words, knowledge is flexible. Acquiring knowledge should be a means of developing students’ skills such as critical-thinking and problem-solving (Pratt et al., 1999). Effective Western teachers encourage their students to challenge authority, think aloud and ask questions (Pratt et al., 1999). Under this approach, students are likely to think and reason with their teachers and/or peers. Students are encouraged to form their own conclusions based on the information they have gathered. There is not always only one correct answer.

Western education arguably reflects individualistic culture. English philosopher John Locke respects the liberty of individuals and argues that education should address individuality. Similarly, Rousseau, who is another influential Western philosopher, suggests that children should be encouraged to explore and draw their own conclusions rather than teaching children what to learn or how to think. Rousseau advocates a children-centred education as opposed to teacher-centred education (Bertram, 2011). Because the emphasis of Western education is on individuality, learning is a process to develop a person’s independent thoughts through autonomous experience and reflection (Aldrick, 1994). The goal of learning is to develop “a mind-set [which] would instil a sense of learning for the sake of acquiring knowledge” (Saravanamuthu, 2008, p. 167). Under such beliefs, students are encouraged to be independent, assertive and inquisitive, and learning is driven largely by curiosity (Saravanamuthu, 2008). Therefore, an external stimulating learning environment is required. The role of teachers is to facilitate to encourage independent learning and thinking and the teacher-student relationship tends to be flat.

These Western education beliefs fit comfortably with IFRS. The interpretation and application of the principle-based standards largely depends on independent thinking and reasoning. It requires practitioners to understand abstract accounting principles and critically evaluates available information. Sometimes, judgements need to be made based on the best estimate rather than on the correct answer. However, the Chinese accounting system appears to encourage dependent thinking on what is taught and students are accustomed to being given the right answer. Therefore, the Chinese accounting education system seems to be a mismatch with what the principle-based standards require.

5.5 Chapter summary

Overall, the study finds that although changes in accounting education have been made after the economic reforms, the Confucian legacies are found to be influential. The Confucian heritage in education is reflected in the current teacher-centred pedagogy and exam-orientated assessment structure. The Western influence on accounting education can be seen in the exchanges and collaboration programmes between Chinese universities and foreign universities, the attempt to adopt Western teaching methods and a research-based performance evaluation structure. However, these Western influences have not overridden the Confucian legacies on accounting education. The interviewees generally express dissatisfaction with the accounting education system. These findings can be summarised as follows:

- The teaching approach is mainly teacher-centred, although Western teaching methods and textbooks are used in some universities. Students are generally passive during class and are dissatisfied with the teaching content. However, the situation is changing in some classes.
- Practitioners find that the current accounting education system is weak in nurturing students' skills for making professional judgement, such as the ability to question. However, these weaknesses are to some extent compensated for by accountants' technical competence, hard work and intelligence.
- Examinations are the primary assessment tools, not only in accounting education, but also for the entire Chinese education system. It is found that the NCEE has a more profound influence on students' learning processes than exams in the universities. Examinations train students' hard-working and diligent attitudes, but may constrain the development of their soft skills.
- Professional ethics education is currently inadequate, but more attention is given to it. Because of the growth in materialism in China, some academics are hesitant about teaching professional ethics. Some practitioners also treat professional ethics as an exam that they need to pass to obtain their professional qualifications.
- Chinese accounting academics are facing growing pressure to publish, which may have a negative impact on the quality of their teaching.

The teacher-centred pedagogy and the examination-orientated assessment in the current accounting education reflect deeply entrenched Confucian beliefs on education. This system is effective in teaching technical knowledge and training students to be diligent but weak in facilitating critical evaluation of the concepts and principles behind accounting standards. This education system appears to be more suitable for teaching and learning a rule-based accounting system than a principle-based accounting system. The next chapter presents and discusses findings from the professional ethics theme.

Chapter 6 - Confucian Influences on Professional Ethics

The second theme of the current study examines in depth how Confucian culture impacts on professional ethics within the backdrop of contemporary China. Professional ethics need to be upheld to make fair professional judgements. Therefore, adherence to professional ethics has implications for the implementation of the IFRS-converged standards. As stated in Chapter 2, previous literature challenges the professional ethics of Chinese accounting practitioners. This chapter adopts a Confucian perspective to analyse findings and offers a complex and in-depth understanding of the ethical dilemmas confronted by Chinese professionals and their actions in modern society. The outcomes from this theme are useful to assess the obstacles in making independent judgements in China.

The findings are presented with evidence from interviews interwoven with relevant literature. This chapter is organised in the following way. First, it presents the overall findings related to this theme and addresses the specific issues concerning professional ethics in China. Second, with the process of economic development, it reports findings relate to materialistic values in China, by which accounting professionals are likely to be affected. Third, these findings are interpreted through a Confucian lens. Fourth, it discusses how Confucian traditions facilitate the growth of materialism in China. Lastly, the summary of this chapter is outlined.

6.1 Overview of findings on professional ethics

Independence and objectivity are two fundamental ethical principles in the accounting professional COE issued by CICPA. In addition, there is an occupational ethics code for Chinese Accounting Certificate holders. The code prescribes devotion and loyalty to accounting work, objectivity, integrity and adherence to all accounting standards and regulations. The principles of professional ethics are similar for both CICPAs and other Chinese accountants. The findings are therefore relevant to both the Chinese CPAs and holders of Accounting Licenses.

The study refers a broad sense of professional independence and objectivity. The concept of independence not only applies to auditor independence, but also refers to the independent and objective status of mind that an accounting professional should maintain in a professional engagement. The key findings concerning professional ethics are summarised in Table 6-1.

As shown in Table 6-1, the findings suggest that the professional independence and objectivity of Chinese accounting professionals are compromised. Eighteen interviewees believe that Chinese professional independence and objectivity is poor (see 6.1.1 and 6.1.2). Three interviewees report a positive experience because they follow accounting standards. One interviewee thinks that there has been an improving trend for professional ethics since the year 2000. The reasons for the status of independence are multifaceted, as illustrated in the other columns in the table. There are five interviewees who are auditors or who have had experience of auditing.

The common factors emerging from the interviews that may compromise the independence of Chinese practitioners include: (1) a hierarchical structure in the work place, (2) *guanxi*, (3) competition and (4) materialistic values. These four factors are interrelated. First, seventeen interviewees reported that accountants need to listen to their bosses or supervisors. Within Chinese organisations, a “one-man rule” culture is very common (section 6.3.1). Because of this culture, accountants need to follow instructions, rather than independently exercising judgement (section 6.1.2.1). Three interviewees think that the level of hierarchy depends on the entity. For example, SP12 thinks that it was less hierarchical in one of the Big 4 firms where she used to work, than in the German company she currently works for. Second, nine interviewees think that strong competition in the Chinese auditing market impairs auditor independence. Due to the intense competition if an auditor firm does not please its client, the auditor can be changed (section 6.1.1.1). Third, 23 interviewees report that *guanxi* is a very influential factor in China because it is a relationship-based society (section 6.3.2). *Guanxi* is utilised in an auditing context as a strategy to stay in competition. However, because of *guanxi*, auditors are reluctant to be independent (section 6.1.1.3). Likewise, *guanxi* ties accountants and their supervisors closely, so accountants may compromise objectivity to serve the interests of their supervisors or bosses (section 6.1.2.2). Fourth, 19 interviewees think that materialistic values have a strong presence in modern society (section 6.2.1). The pursuit of materiality is likely to influence accounting professionals’ judgement, because they may bend the rules to pursue personal wealth. Moreover, nine interviewees comment on the influence that the tax regulations have on the implementation of CAS (section 6.1.3). The following sections present the findings in detail.

Table 6-1 Key findings from professional ethics theme

Interviewee Category	Reference No	Professional independence	Hierarchy in work place	Competition	<i>Guanxi</i> (Relationship)	Materialistic values	Tax influence
Academics		Negative vs Positive	High vs Low	Strong vs Weak	Strong vs Weak	Strong vs Weak	Strong vs Weak
A	1	N	H	S	S	S	S
A	2	N (improved)	H		S	S	
A	3		H		S	S	
A	4	N	H		S		
A	5	N	H	S	S	S	
A	6	N	H	S	S	S	
A	7	N		S	S	S	
Students							
S	1						
S	2						
S	3		H		S		
S	4						
S	5						
S	6				S	S	
S	7						
S	8						
Practitioners and Student & Practitioners							
P	1	N	H		S		S
P	2	N	H		S	S	S
P (auditor)	3	N			S	S	
P	4	P	Neutral		Neutral	W	
P	5	P	Neutral		S	S	S
P	6	N	H	S	S	S	S
P	7	P			S	S	
P	8	N	H	S	S	S	S
S & P	9	N	H		S	S	
S & P (auditor)	10	N	H	S	S	S	S
S & P (auditor)	11	N	H	S	S	S	
S & P	12		Neutral			S	
S & P	13	N	H	S	S	S	
Foreign Practitioners							
FP (auditor)	1	N			S	Neutral	S
FP	2				S		
FP	3		H				
FP (auditor)	4	N	H		S	S	S
Total	32	18N 3P	17H 3N	9S	23S 1N	19S 1W 1N	9S

6.1.1 Lack of professional independence and objectivity – auditors

As noted in Chapter 2, auditing independence is important for investor protection. Professionals are likely to make objective and fair judgements if they are independent, so that the credibility of financial information can be enhanced. If auditor independence is compromised, they may not detect material misstatement in the financial reports. Consequently, financial information may not be faithfully presented. Interviewees are critical of Chinese auditor independence. They think that overall, regardless of the size of the auditing firms Chinese auditors cannot uphold independence. For example, A1, who has some insights into Chinese auditing firms, observes:

国内的十大（会计师事务所）的独立性都很低。是完全做不到独立的，不是做不到完全的独立性。

I am talking about the top ten large domestic accounting firms. It is not that the level of independence is low. It is that there is no independence at all (A1).

This lack of independence is reflected in the way that Chinese auditors tend to issue unqualified opinions in exchange for auditing fees. SP10, who was an auditor, shared his experiences.

年审[我曾经]干过几个小公司的...因为是每年必须要出具年审报告....说白了就是买报告。你为了保证我过[年审]，因为出钱的是这家单位，我出具一无保留意见就行了。

I audited a few small companies for their annual financial audits...[Every company] must have an audit report each year. Frankly, it is essentially buying an [unqualified] audit report. Because the client pays me money and I issue an unqualified opinion... (SP10)

Some interviewees also cast doubt on the independence of the Big 4 accounting firms in China. For example, P3 who used to work for one of the Big 4 firms in China offered some insights.

On one hand, the clients pay me the money; on the other hand, I have to maintain independence. Many of my friends left the Big 4 for this very reason. If I have to be an auditor, I'd like to go to the National Auditing Office. (It is a government organisation responsible for auditing State funds. Auditors there are paid by the government not the clients) (P3).

FP1 also observed that in one of the Big 4 firms he worked for, some Partners joined the Communist Party in order to increase their networks and their credibility to recruit more clients. The interviewee thinks that Chinese are a close community; they tend to trust their own people (section 6.3.2). Joining the Communist Party can broaden a Partner's connections with Chinese businesses, particularly with those owned or partially owned by the government and local governments. Similarly, A6 thinks that many Chinese domestic firms merged into the Big 4 firms and that they need to be localised to some extent to survive in China. Their independence depends on an assessment of whether the rewards are greater than the risks of engaging a particular client.

The above interview data highlights that the independence of Chinese auditors is questionable. There are three possible factors that yield to the compromising position including: (1) competition in the Chinese auditing market, (2) incompetency of accounting staff, and (3) *guanxi* between client and accounting firms. These factors are outlined below.

6.1.1.1 Competitive Auditing Market

Nine interviewees point out that the market for accounting firms is very competitive in China (Table 6-1). There are thousands of accounting firms in China. Because the government has significant control over the Chinese securities markets, the demand for both quality financial information and independent auditing is low (Section 2.2.1.2). This means that auditing is more for legal requirements, and not for the purpose of investor protection. Therefore, many Chinese businesses do not see the value of independent auditing. In order to survive in this kind of market, the majority of domestic accounting firms tend to sacrifice independence to avoid losing clients.

国内事务所的竞争非常激烈，都是为了挣这碗饭吃，所以他从姿态上就放下来了。为了挣这碗饭，从态度上没有商业尊严。只要我能做下来这个项目，只要你给我钱，你要我干什么都行。市场上恶性竞争导致的这种状态。所以独立性很难。

The competition among domestic firms is fierce. They all want to earn their living through providing an auditing service. Therefore, they cannot uphold their dignity [to maintain independence]. As long as you pay me money, I can do whatever you ask me to do. The unhealthy competition causes the current

situation. [Maintaining] independence [within such environment] is very difficult (A1).

那我要出具一个有保留意见，行，不用你了...然后我再找一别的会计事务所。会计事务所多啦，网上一搜多了去了。找一家能出报告的就得了嘛。

If I issue a qualified opinion, [the client] will not use me anymore....The client just needs to find another accounting firm. There are a lot of firms can be found on the Internet. It is a matter of finding a firm that can issue you with a clean report (SP9).

SP11, who was an auditor, summarises the dependence that Chinese auditors have on their clients. “At the end of the day, it is the clients who pay you. A firm’s survival relies on their clients”. This statement reveals the inherent weakness of the auditor-client engagement structure. Western auditors also face the same dilemma, but this dilemma appears to be more severe in the Chinese market conditions, which is characteristic with the little demand for quality information, *guanxi* and low litigation risk for auditors as identified in Chapter 2

Furthermore, some interviewees also mention that the audit fees are low in China. Because the markets do not value quality auditing, appropriate auditing procedures are unlikely to be performed properly. Consequently, Chinese auditors are able to sign off accounts quickly with a low fee. FP4 is amazed by how low the audit fees are for the domestic auditing firms. He gave an example about when he audited a Chinese subsidiary of a foreign company. He refused to sign off their account, but the client hired another domestic accounting firm to sign it off. FP4 suspects that the domestic firm did not conduct necessary auditing procedures.

It was surprising because we did the audit and that [something] was wrong. And they [the client] got a local firm to sign their local accounts. They [the local firm] worked through the year and tried to sort some of the things out and put a number of significant adjustments through. When the local firm came back, they still signed their next year’s accounts, no prior year adjustments. No, despite the fact that a number of adjustments went through last year... and the speed with which they do it is just unbelievable (FP4).

The above interview data show that the Chinese audit market features high competition and low demand on independent auditing. Such market conditions drive Chinese accounting firms to sign off accounts swiftly by sacrificing audit quality and independence. This is also reported in the media; a Chinese accountant who runs an accounting firm of 180 people

states, “limited by fees, accounting firms cannot provide fair and high-quality auditing reports” (Trombly, 2005, p. 15). The second reason for compromising independence is a self-review threat.

6.1.1.2 Incompetency and Self-review threat

Some interviewees reveal that the quality of financial information is relatively low. The balances on financial statements prepared by clients are often incorrect. For example, P3 explicitly said that she had to redo clients’ accounts because the balances were not right. She speculates that this is probably because clients are unfamiliar with the new accounting standards. A1 recounted a similar experience. Because of the incompetency of the accounting staff in a SOE, the consolidated financial statement and the cash-flow statement are normally prepared by the auditing firms without extra cost.

This practice is likely to create a self-review threat to auditor independence because they are less likely to give a qualified opinion about what they have prepared themselves. A1 further comments that because of the incompetency of accountants, SOEs tend to employ their auditors as their financial managers. Consequently, this is likely to lead to a close relationship between the auditors and the clients, which may also impair the auditor independence.

When incompetent accountants meet dependent auditors, unreliable financial information can be concealed with an unqualified/unmodified opinion. The ineffective auditing is reflected in the following comment:

I don't know what the cause was, but there were lots of instances where the account wasn't correct, not even for the areas that do not require judgement. It's just whether an intercompany account reconciles with other intercompany accounts, just the basic things that wouldn't be done correctly. It is difficult to know how it occurred, whether it is just that people didn't know how to do it, or were incapable of doing it. But they receive clean audit reports. I don't know whether it is an independence issue or if they just said "that's fine, we trust you," or whether it's just incompetence from the auditors in that case as well (FP1).

As speculated by this interviewee, there may be a number of reasons why the incorrect account balances are subsequently signed off by auditors with an unqualified opinion. This could be the result of having incompetent accountants and auditors. Or it could be an independence issue, or perhaps both. If this is an incompetency issue, it indicates that the

implementation of the new CAS is not effective, or that it is still at a preliminary stage. Incompetency can be a result of the issues in accounting education discussed in Chapter 5.

6.1.1.3 *Guanxi* between auditors and clients

Guanxi is a very important factor in doing business in China (section 2.2.4.4.3). The majority of the interviewees reveal that *guanxi* with clients is very important in order to operate within the Chinese market. *Guanxi* offers practical benefits to auditing firms, such as creating business opportunities and recruiting/retaining clients. The practical benefits of *guanxi* are utilised by the Big 4 firms in China. For example, the Big 4 needs to know the “right person” in order to establish their offices in China.

You (need to) have good relationships with the local governments before they give you a permit to open the office, so you couldn't just apply to get in. You need to know the right person and convince them that we'd do the right things for the community, and that it's of benefit for them, and they tick the box. You could fill out all the right forms, but it will just sit in a pile somewhere being completely ignored and they can get away from that, whereas here [New Zealand], you couldn't do that (FP4).

The above example shows that *guanxi* is utilised positively by the Big 4 to establish business operations in China. Consequently, they can bring international accounting and auditing practices into China, assist China to converge with the IFRS and train Chinese accounting professionals. Furthermore, as mentioned earlier, some Partners in Big 4 firms join the Communist Party in order to recruit more businesses because many Chinese businesses are linked to the government or local governments. This indicates that the Partners are well aware of the strong influence of *guanxi* in auditing practice in China. However, at the same time, *guanxi* creates a threat to professional independence.

According to interviewees, *guanxi* is also found to be effective in recruiting and retaining clients. *Guanxi* needs to be established and maintained, so many auditors give gifts and/or benefits to their clients to show that they want to develop and keep the *guanxi*. The gifts and/or benefits have various forms. For example, A1 revealed that auditors might invite their clients to travel under the name of conferences, entertaining them with lavish meals and/or buy clients gift cards.

我讲的都是大企业（国企），小企业我就不说了，因为国企掌握资源比较多，规模大，审计的费用高。肯定是事务所重点的大客户。所以

（事务所）跟管财务的老总，部门经理，他们之间的交往肯定都是金钱开路的。以前就是假借一个会议请旅游这是很正常的。为了保持下年还干（这个客户），就通过请他们去旅行保持一个好关系，这是前几年非常流行的做法。（其实）就是贿赂。现在是，吃饭就不用说了，过年过节，现在北京都流行送卡（购物卡）。送卡就从上倒下跟这个信息相关的要送便。这只是一般的年报审计，如果要上市的话，现在很多企业都改制上市，那送的就更多从上倒下都要送到。上到老总，那项目经理都没资格送，得合伙人去送。这是最常见的一种现象。

I am talking about large SOEs. Because they have more resources, the audit fees are higher. They tend to be the important and large clients of accounting firms. The relationship between the accounting firms and the CFOs or the accounting managers is normally established through money. A popular strategy used by auditors was to invite clients to travel under the name of a conference in order to keep the client using their service the following year. In fact, it is bribery. Currently, besides inviting clients for dinner or lunch, it is very popular to give them shopping cards, particularly during different festivals. These shopping cards are given to all relevant personnel in [the clients' accounting departments]. This amount of gifting is only for renewing a financial audit engagement. If it is for IPO (now there are many entities going to be listed), the auditors need to give more gifts to all levels of the managers of the clients. It must be a Partner of a firm who delivers the gifts to show that the firm treats their clients seriously. Managers at the firm are not senior enough to deliver the gifts (A1).

Similarly, P8 comments that some auditing firms give kickbacks to their clients based on the level of fees. This practice is an unspoken rule in the auditing industry. In return, the clients continue to use their auditors for the following year's financial audit, or give them more work.

As a result of gifting, *guanxi* with clients is maintained. This also means that the auditors are less likely to issue a qualified opinion to clients because it would injure their *guanxi*. In this sense, *guanxi* appears to impair professional independence. This finding supports earlier studies that find *guanxi* is a factor compromising auditor independence (Au & Wong, 2000; J. Liu et al., 2011).

Guanxi is found to be an effective means for accounting firms to survive in a competitive market. From the clients' perspective, it is a means for them to receive an unqualified opinion. From the auditors' perspective, it means they earn fees and retain clients. Auditors need to maintain good *guanxi* with clients because “deals grow out of *guanxi*” (von Weltzien Hoivik, 2007) in China. Although this may seem unethical, it is a common practice in China. As A5

notes: “if you do not invite someone for dinner or give some money to get something done, you will not be considered as ethical, but stingy”. This demonstrates that Chinese accounting professionals are in a dilemma between Chinese standard business practice and professional independence and objectivity. Overall, auditor independence appears to be impaired owing to a competitive market, self-review threat and auditor-client *guanxi*.

The role of an auditor is to give an opinion on whether their clients have complied with applicable financial reporting standards and whether the financial statements are “true and fair”. In the Chinese case, the applicable financial standards are the 2006 CAS, which is “substantially” converged with IFRS. Due to the standards being principle-based, professional judgements are required. The auditors need to assess whether the rationale of judgements is sound and fair. In this sense, the auditors have a role in assisting the enforcement and implementation of the new CAS (ICAS, 2010). However, findings suggest that Chinese auditors fail to carry out their role of checking their clients’ accounts independently and objectively. Without an independent audit, the appropriate use of professional judgements is not assessed properly. Consequently, the enforcement of the 2006 standards may be weakened. Besides the auditors, the professional ethics of Chinese accountants is also under question.

6.1.2 Lack of professional independence and objectivity- accountants

For the preparers of financial statements, the concept of independence and objectivity is also important. Although accountants owe a duty to their employers, they are required to keep in mind a degree of independence in order to make objective judgements. Such judgements should be made in the public interest. If accountants cannot make fair judgements, as is required by the principle-based standards, it defeats the purpose of using such standards. This section reports on the findings related to accountants’ independence.

6.1.2.1 Hierarchical structure within the workplace

Strong interview evidence (17 interviewees) suggests that the dominant Chinese business culture is “one-man” rule. Accountants are under the authority of their supervisors or bosses. Under this hierarchical structure, the most important job for accountants is to be obedient to their superiors, instead of making judgements independently and objectively.

[在中国] 一个企业整个的文化... 都是一个人说的算。都是围着这一个人转的。他就是你所有的人的衣食父母啦，就这种感觉啦，就听他的就OK

啦。就是当这样的情况下，没有一个好的[企业结构]相互能够制衡的话，你就没有一个会计人员[可以坚持独立性]，你说独立性又这又那的，都不要谈。

Organisational culture [in China]... is “one-man” rule. It is about working around the boss and listening to him. You obey your boss as you obey your parents. As long as you are obedient, you will be fine. There is no restriction on the boss’s power, unlike in Western companies where the boss’s power can be restrained under a good corporate governance structure. Under the authoritarian structure, there is no room for accountants to be independent. (A6).

Under this hierarchical structure, accountants are likely to prioritise instructions from their superiors even when they contradict professional ethical principles. Interviewees comment that they are in a dilemma between professional ethical requirements and job security. Most of them are afraid to displease their bosses, because their bosses can dismiss or demote them.

If you are a good accountant, you have to cook the books and you have to listen to whatever the top person says, otherwise you lose your job (P2).

会计法规定的是说会计人员要与一切违反会计纪律会计法的行为作斗争。但是就跟会计事务所一样，他是你的雇主，他给你钱，你吃饭得看他的脸色....你能不听老板话吗？

The [Chinese] accounting law requires that accountants need to battle against all actions that violate accounting law and accounting ethical requirements. However, similar with auditing firms [where they are hired and paid by clients], accountants are paid by their employers. You have bread on the table because your boss pays you... can you not listen to him? (P8).

现在大陆这个会计呀...不独立。他都得听命于领导。有点灵性的人就是领导让我怎么干我就怎么干。恶劣一点的，他[会计人员]主动给领导提供这些个怎么做的（方法）。而我应该属于(这两种)之间。实事求是的来说，我也是为了这个生存的需求。

In mainland China, accountants are not independent. He or she has to listen to supervisors. If you are a smart accountant, you do what your supervisors tell you to do. Some accountants even offer ideas to their bosses about how to cook the books (creative accounting). I am kind of in the middle. Very honestly, I do this in order to survive. (P6, the interviewee has 40 years of accounting work experience across different sectors).

The findings not only show that accountants are obedient to their superiors, but also reflect a lack of demand for independent and objective accountants. As the interviewees point out, it is not about being independent but survival. The market values “dependent” accountants. For example, during an informal conversation, a Chinese academic mentions that there is no need to teach students how to exercise independent judgements because there are no employers that would like their employees to be independent. The findings suggest that the concept of independence is not valued in the Chinese context.

Overall, the findings suggest that accountants are under pressure to please their superiors; they may not be able to uphold independence and objectivity when making judgements. If professional judgements are not exercised for the purpose of delivering the “true and fair view” of financial information, it means the spirit of a set of principle-based standards is not realised. The implementation of the new CAS does not appear to be very effective in practice.

6.1.2.2 *Guanxi* between accountants and superiors

As stated in the previous section, the formal relationship between accountants and their supervisors tends to be hierarchical. The obligation for an accountant is to be obedient, whereas the responsibility for a supervisor is to instruct. However, *guanxi* can tie the pair closely and change the dynamics of the formal relationship to a certain degree. This section discloses findings on *guanxi* between accountants and their supervisors. The findings suggest that *guanxi* is formed because of reciprocal benefits. Accountants need their superiors to secure their jobs and promote them, and the supervisors need their accountants to assist them in their ambitions and/or benefits for their businesses.

As mentioned in Chapter 2, managers in SOEs affiliate with governments and are semi-officials situated in a political hierarchy (H. Li & Zhou, 2005). Business performance not only determines these managers’ remunerations, but also their political career outlook (section 2.2.4.4). According to interviewees, accountants are essential for assisting managers because the managers need their accountants to prepare the accounts in the way they intend. Also managers need to establish their *guanxi* with local officials in order to progress in their career. Such *guanxi* is established through monetary benefits. The accountants are involved in releasing the money to managers and concealing such expenditures.

领导他不光是有税务局对他监控，他的上级单位也有对他的监控。包括财政局啊等等很多部门会审查他。所以说领导特别重视财务，因为财务掌握很多他的秘密。...像老总啊报销个什么餐费啊什么的，这些东西他有可能超标了，或者类似于这样的情况需要处理...所以一般这个领导要换届的话，他这个财务必然变动会很大。他会带着他的财务科长走，如果他升迁的话带他一块走。如果他不升迁的话，他被免了的话，那个财务科长肯定也跟着倒霉了。因为国营企业有很多不是很见得光的那种单子啊。

Supervisors [in SOEs] are not only subject to monitoring from the local tax bureau, but also their upper level organisations, including the finance bureau and other government agencies. Therefore, supervisors need good accountants who can keep their secrets and cover up the traces.... In SOEs there are many illegitimate transactions, such as entertainment bills that are over the threshold, or something like this. Accountants need to conceal these transactions....Normally if there is a change in management, there will be a change in accounting personnel. Supervisors normally take their accountants with them. If the supervisors are promoted, so are their accountants. If the supervisors are demoted, so are their accountants (P1).

The above quotation illustrates the closeness of *guanxi* between accountants and their superiors. The accountants conceal illegitimate transactions or conduct accounting treatments in the way that their supervisors require. Their supervisors trust them to keep their secrets. In return, the supervisors reward the accountants with promotion, a bonus or overseas travel opportunities as revealed by interviewees. Their interests are tied together because of *guanxi*. In this sense, *guanxi* cultivates secrecy. Many transactions and deals may not be disclosed and are hidden in the financial statements. This may contradict the notion of transparency prescribed in the IFRS-based standards.

Interview data also shows that having a close *guanxi* between an accountant and his or her boss is also important in small to medium size entities. Smart accountants know how to assist their bosses to benefit the business. P6 shares his experience in assisting his boss of a private entity.

国家是这样一种现状，你要我一个会计人员，以这个道德规范来要求我....我也不能这么做。我这么做我就失去了我的市场。我能怎么办呢？最好的办法呢咱违纪。你拿一沓假的发票来，这个我不干。好比说要是有什么事怎么解决，我去想办法。这个企业要去办一件事，想给一个领导 20%的回扣。这个问题我可以解决。你把钱给了，你甭管了。然后我去这个有关的税务开二十万的劳务输出，我开二十万的劳务费

的时候，我完税，劳务费的税率是5.57%，我二十万交一万多的税款，你这个不合法的问题就解决了。我把不合法的问题合法化了。大家相安无事，大家都欢乐。可反过来，你得体谅他，他不送这个钱呢，他这个项目就拿不下来。现实就是这个。咱们做核算的目的最终不还是配合这个企业吗。

Our country is in such a condition [where the society does not value professional ethics]. You require accounting personnel to abide in ethics? If I do so, there is no market for me [I won't be employable]. What can I do? The best way is to bend the rules without breaking the law. I will not falsify invoices [because it breaks the law]. I can think about other ways [to work around laws]. For example, a business needs to give RMB200,000 in kickbacks to an official [to win a project]. The money is paid out of the business account. I go to the tax bureau to ask for an official receipt for 200,000 labour service fees. [The official invoices and receipts are issued by the tax bureau in China]. I pay tax on the 200,000 labour fees at 5.57%, which is about 10,000 yuan. As a result, I "legitimised" the 200,000 yuan expenditure. I can put it through the accounts now. We are all happy. At the same time, I sympathise with him [my boss]. If he does not pay the money, he will not win the project. It is reality. As accountants, we want the business to do well.

The above case shows that within their *guanxi*, P6 felt sympathetic towards his boss. He used his knowledge and bent the rules to help his boss. The fee paid to win the project could be seen as a bribe. The result of this payment was to obtain business opportunities. P6's comments also reveal that what he did is common in business practice. It is unrealistic to require an accountant to follow professional ethics while contemporary society values and pursues materialism at the expense of ethics (section 6.2).

Guanxi between accountants and supervisors bonds them together. The obligation under *guanxi* overrides professional ethics. Accountants tend to make decisions based on what is favourable to themselves and their superiors. Consequently, the reliability of the financial reports is questionable. In contrast, the IFRS-based standards require professional judgements to be made in the public interest. Hence, *guanxi* appears to have a negative impact on the implementation of the new CAS.

In summary, this section shows that Chinese accountants appear to be unable to maintain their independence and objectivity under the authority of their supervisors and *guanxi*. The next section shows how Chinese tax regulations affect the implementation of the new CAS.

6.1.3 Strong influence of tax regulations

Many interviewees, both Western and Chinese practitioners, noted the influence that tax authorities have on accounting practice in China. Tax influences both auditing and accounting practice in China. According to FP4, many Chinese auditors still seem to focus on tax, rather than financial reporting, in auditing engagements.

Historically, lots of the [auditing] work is done for tax returns. When people do audits, sometimes they have got their tax hats on. In essence, from an audit point of view in the Western world, you say that the balance sheet is reliable. If you get asset A, we say asset A is recoverable. It is an important part of the audit, whereas for a tax return, the balance sheet becomes irrelevant. Sometimes, from my experience in seeing what other firms have done, I see accounts which I would never, ever have signed, where a firm has signed. I think, just from their understanding of the differences, that they are not doing tax accounts, they are doing an audit opinion and therefore they need to understand balance sheet, recoverability, all those kinds of things. I don't see it as an educational thing...I hope it is not a competency thing. It is just that their focus is different (FP4).

Prior to the Open door policy, the primary function of auditing was tax compliance assessment (Z. J. Lin & Chan, 2000). Even after the “Open door policy”, from the 1980s to the early 1990s, the majority of the government’s revenue came from taxes levied from SOEs. Therefore, auditing still focused on tax compliance (Lau & Yang, 1990; Z. J. Lin & Chan, 2000). Although Chinese auditing standards have converged with international auditing standards, the traditional auditing function with a focus on tax appears to be persistent. If auditors focus on tax compliance, their audit opinions do not carry much value for investors. The different focus of Chinese auditors may indicate that (1) the implementation of the principle-based accounting and auditing systems is still at embryo stage or (2) the international accounting and auditing standards do not fit well into a Chinese context. This section illustrates the evidence for how tax influence appears to hinder the implementation of the new CAS.

6.1.3.1 Heavy tax burden

Interviewees said that China has a very complicated tax system and businesses are burdened with heavy taxes. There are many types of tax that a business is obliged to pay in addition to income tax, including tax on turnover, tax on education, tax on city development and tax on leases.

因为国内的税就是比较重吧。应该说是比较重的，我们当时开会的时候税务局那个人说[如果]所有企业就是按部就班的，就是特别守法的话，收入的60%以上要交税。

Tax is really heavy in China. We once had a meeting with tax officials; they said that if businesses follow exactly what the tax law says, the total tax payable would be at least 60% of income (P1).

Because of the heavy tax burden, interviewees observe that many businesses do not think the tax obligations are fair. Tax bureaus also have the authority to change their regulations from year to year, to the point where they are inconsistent, in order to meet their levying objectives. For example, P1 mentioned that according to a tax rule, in one year costs for production can be accrued, while the following year, the same costs cannot be accrued. “If we don’t accrue the purchases we made, our profit is too high (P1).” As a result, the unspoken rules for most Chinese businesses are to produce tailored profits or manipulate some numbers. During the course of the interviews, many of the Chinese practitioners repeated the saying: “if you can’t cook the books, you are not a good accountant in China.” Three interviewees (P5, P6 and P1) share their common experiences in different entities. Their employers tell them how much tax they want to pay and then they work backwards from the tax expenses to the profits.

McGee & Guo (2003)’s study on the ethics of tax evasion also shows that “there was widespread approval for tax evasion on ethical grounds” (p. 299) in China. Their study reveals that the reasons given to justify tax evasion include corruption, waste and unfairness in the tax systems in China. It seems to be a common practice for Chinese businesses to avoid paying tax and this appears to be ethically justified.

Heavy tax burdens are likely to lead to the manipulation of financial information. Tax is not only based on income, but also on other forms such as employee entitlement, lease and labour costs. Therefore, tax avoidance is not only practised by small to medium size entities, but sometimes by large entities and foreign subsidiaries too. FP4 shared his experience in auditing a foreign subsidiary in China.

I was just blown away with the sort of thing this organization was doing...the first thing they did when they were going to sell a product. Let’s say we were looking at company A and they’re going to sell products to company B. so they agree with company B, their product is worth \$100,000. Instead of billing them (B) \$100,000, they bill them \$10,000. Therefore, you only pay your tax on the \$10,000...because you’ve got low revenue, when you get income tax

you're making no profits. And what company A did was they paid the bills on the \$10,000 and they put \$90,000 into their accountant's bank account, which is held in their own [personal] name. Very strange, so company A has all those bank accounts in their employees' names... In the end I refused to audit it...they did lots of things like that. I've never ever come across anything like that before. And when you question them, they say "that's how business is done here"

According to the findings, Chinese businesses appear to alter business structures and transactions in order to avoid tax. Normally from an accounting perspective, financial reports for accounting purposes are different from those for tax purposes. Accountants need to adjust their profits for accounting purposes to profits for tax purposes. However, to avoid tax, Chinese businesses adopt different strategies to change their business transactions, as in the example above. These changes in business transactions are likely to distort financial information. Consequently, a "true and fair" view is unlikely to be achieved. Overall, the heavy tax burden encourages tax avoidance, so the transparency of financial information becomes blurred. Moreover, because some specific tax regulations prohibit certain accounting treatments introduced by the new CAS, practitioners are discouraged from applying the new CAS.

6.1.3.2 Tax rules vs accounting standards

Interview data shows that tax regulations sometimes hinder the application of the CAS. P6 observe the difficulties in applying the IFRS-based standards in practice. He provides an example of Bad Debt (BD) write-offs. According to accounting standards, when BD is unlikely to be collected, it should be written off against the current year revenue. However, according to Chinese tax laws, when a company needs to write off BD, it must apply for approval from the local tax bureau. There are a number of documents that an applicant needs to supply: the legal document of liquidation of the debtor, and the official records of the debtor from the provincial level Commerce Bureau. This is a time consuming exercise, which would significantly increase accountants' workload and it often involves travel from one province to another. To avoid going through this troublesome process, accountants often do not write off BD. Hence, it is carried from one period to the next. P8 has a similar experience regarding BD write-offs.

....坏账依然没有消掉。我从 07 年来这到现在 11 年，依然没有消，每年都在提这个问题但每年他都不在审计报告里说.... 我们单位也不想做

这件事的发起人。因为就是这件事我们单位自己说的时候相关的证据都要我们自己提供。我们要去找财政局啊去找税务局啊去沟通，特别麻烦。我们想着拿审计报告去把里面坏账都改平了就可以了。但审计也不干这件事。

Bad Debts still have not been written off since I started working here in 2007 and now it is 2011. Every year the auditors raise this question about BD, but they never note it in the audit report. We do not want to initiate the process [to write off BD] because we do not want to bear the burden to provide evidence. We need to go to communicate with the Commerce Bureau and Tax Bureau etc. The process is very troublesome. We were hoping that our auditors could issue us a report regarding the BD, so we could write it off. However, the auditors do not do this.

Because of the rigid processes for BD write off required by the tax regulations, interviewees would rather keep BD on the accounts. The decision on whether and when to write off BD is a matter of professional judgement under principle-based accounting regime. However, as shown in the findings, an accounting professional's right to exercise judgement is constrained by Chinese tax rules. Hence, Chinese tax regulations appear to negatively impact on the implementation of the new CAS in practice.

However, A1 has another theory about the restrictions on writing off BD in China. She is sceptical about the overall professional ethics in China, so professional discretion granted by the professional-based accounting standards can be misused to manipulate financial information. Limiting the discretion of accountants is a means to prevent earnings management. Some earlier studies show a similar concern. For example, the MOF has deliberately limited flexibility on fair value accounting due to concerns about earnings manipulation (Harding & Ren, 2007; Y. C. Liu, 2010; Peng & Bewley, 2010).

This section shows that Chinese tax rules appear to create some difficulties for the implementation of the new CAS. The tax system reflects a centralised fiscal system and government control over Chinese businesses. The power to exercise professional judgement is sometimes constrained. Under the heavy tax burden and perceived unfair tax regulations, *guanxi* with tax officials has crucial importance to businesses and accountants. It becomes a means to mitigate unfavourable tax effects.

6.1.3.3 *Guanxi* with tax authority

Many interviewees remarked that it is crucial for businesses to maintain a good relationship with their local tax authorities. There are practical benefits for businesses to have *guanxi* with tax officials. For example, the amount of tax to pay is negotiable between businesses and tax officials.

In China you have to pay a sort of payroll tax or social welfare tax. For whatever the amount you pay to employees you have to pay tax to the government to use for pensions and things like that. Chinese employers [normally] underpay the amount. When you talk to them, they will say “well we know we are not paying enough, but we will go to the local tax officials or government officials and basically come up with some arrangement on the sum we’re going to pay”. So they definitely don’t follow the black and white rules. It’s sort of, we get on well with them and come up with some arrangements...Maybe it’s just a fact of life in China, that’s how some tax issues get sorted out. The true number in the end would be what was negotiated; that’s going to be their ultimate liability. (FP1).

I think there are lots of problems, all coming back to tax, where their [clients] views would be to minimize tax, trying to find the ways that would do that, or they try to come to an arrangement with the tax bureau on what tax would or wouldn’t get paid. A lot of discussion went on and lots of again was about the relationships [with tax officials] from what I can see (FP4).

The above two comments show that it is the arrangements with the tax bureau, rather than the tax laws, that determine tax liabilities. This indicates that the arrangements could replace the tax laws. Arrangements are normally made between people who have *guanxi* with each other. This reflects a norm in the Chinese “rule-by-man” society. *Guanxi* is likely to override regulations and laws in a Chinese business context.

Correspondingly, many Chinese practitioner interviewees shared their experiences in utilising *guanxi* with tax officials. They report that Chinese businesses normally give gifts to local tax officials regularly, to maintain good *guanxi* with them. By doing so, tax officials are likely to ease their tax assessments, to refund their tax credits quickly and to assist them to qualify for a tax reduction regime and so forth. In contrast, if a business does not have *guanxi* with tax officials, or decides not to please them through gifting, the business may be unexpectedly reviewed by the tax authorities and may subsequently be fined.

In China, you cannot afford to displease the tax bureau...If you don't please the tax bureau, they will come to review your financial information. They normally can find something and then tell you it breaches their rules. No further explanation will be given and you will be fined. My boss's friend did not give gifts to tax officials and they were reviewed 3 times a year by them. We give gifts [to tax officials]; they never come to review our accounts (P1).

Having a good *guanxi* with tax officials not only avoids punitive tax reviews, but also gains benefits for the businesses. For example, because P1 had *guanxi* with an old classmate who works in the local tax bureau, the Valued Added Tax (VAT) refunds were paid quickly to the company she was employed.

Having good *guanxi* with tax officials also means that they can help practitioners to take advantage of the tax systems. P6 provides an example of a foreign software company he works for. According to tax incentive rules, a foreign manufacturing entity can enjoy two years income tax free, plus two years of reduced income tax. However, the foreign entity he works for is a service provider. Due to good *guanxi* with tax officials, he made up a production account (i.e. raw material, direct labour and cost of sales etc) to show that the entity is a manufacturer. The tax official, who he has *guanxi* with, then allowed the entity to benefit from the tax incentive rules for foreign manufacturing entities. The tax official simply ignored the service nature of this foreign entity.

These experiences from interviewees illustrate that *guanxi* with tax officials offers multiple benefits. The Chinese tax bureau has a lot of power to administrate and execute the tax laws. The heavy tax burden creates an incentive for tax avoidance. In addition, businesses do not seem to have formal procedures to lobby or protest against unfair tax regulations. This reflects a hierarchy between businesses and government agencies. *Guanxi* with tax officials is important to facilitate the tax avoidance practice. In this sense, *guanxi* appears to moderate the hierarchy. Tax officials have the power to give tax benefits to businesses. Businesses give gifts to tax officials to obtain these benefits.

跟税务局关系得搞好。这个公务员群体啊他手中的这个权利的自由度有点大。他今天想找你麻烦他就可以尽情的找你麻烦，他不想找你麻烦就几年都不找你麻烦。就是说他的这种任意性比较大。...跟税务局关系好了好办事。因为衙门口的人啊明枪易躲，暗箭难防。他毕竟还是一个这个规制主体。就他能立法，他还能执法，对吧他是一个规制主体。所以说你这个东西你就得受制于他。

We must have good guanxi with the tax bureau. Mainly this is because tax officials have lots of discretionary power. If he or she wants to find something wrong with you, he can freely do so. If he doesn't want to find anything wrong with you, he can leave you alone for several years. It is a bit random. If you have good guanxi with them, things will be much easier. They have the power to issue [tax] laws and the power to administrate and execute the laws. Therefore, you have to obey them and please them (SP 9).

Although it can be argued that this type of *guanxi* is bribery, it involves some practical benefits for both parties. For instance, businesses can invest the profits saved from not paying taxes and the refunds from VAT can aid business cash flows. Tax officials are likely to continue to receive more benefits from these businesses. Interviewees consider that tax officials can gain “grey income”, which can triple their salaries. However, in the long run, this may be detrimental to the income of the government.

In summary, the findings from this section indicate the strong influence that tax regulations have on accounting practices. Due to the dominance of tax in accounting tradition, many Chinese auditors still audit with a focus on tax. This is contradictory to the role of auditing under the IFRS regime. Furthermore, the Chinese tax regulations do not appear to facilitate the implementation of the new CAS because in some cases, the rigid tax requirements constrain accounting professionals' discretion. Moreover, it is very important for businesses to maintain good *guanxi* with the tax authorities. This appears to be not only an effective strategy for businesses to avoid tax reviews, but also an avenue to work around the tax laws to benefit businesses.

The findings highlight that Chinese accounting professionals cannot be independent or objective because the Chinese markets do not demand this. In addition, the findings repeatedly suggest the importance of *guanxi* in the accounting field and that the establishment of *guanxi* involves monetary benefits. This may indicate a materialistic value in contemporary China. The next section presents the findings on modern Chinese social values, because these contemporary social values are likely to affect the judgement of accounting professionals.

6.2 Contemporary social values in China

The above findings reveal that a hierarchical structure and *guanxi* are still present in contemporary China. These traditions appear to mix with current social values. Interviewees

agree that the prevailing social value in China is power and materialism. Social values can influence professionals' ethical attitude and behaviour (Lam & Shi, 2008). This means that Confucian traditions, together with the prevailing materialistic culture, may influence accounting professionals' ethical judgement. This section introduces the findings on the views of social values in modern Chinese society.

6.2.1 What people pursue

The majority of the Chinese interviewees commented that materialism prevails in contemporary China. Many Chinese people pursue materialistic values, because success is measured by material wealth and social position.

People compare with one another, for example, what kind of car you drive, what kind of house you bought, and they talk about share-trading and how much money they earn. [...] I feel that all [they talk] about is money (SP12).

这个社会还是我认为被扭曲了，就是以公利做为成功做为幸福的唯一判断标准，这个你到底挣多少钱啊，你有多少房啊，你当什么官啊，就是以这种名利来作为就是评价一个人的好像主要的一个标准

I think social values are distorted. Happiness is measured by money and power only. How much money do you earn, how many houses do you have, what is your rank [in political bureaucracy] ... The only measurement of a person's [success] is based on money and power (SP11).

This growing materialism also features in the news. As Gene Wang, a former financial trader and a polo player, is reported to have said, "For a certain person who has bought the big house, the fast cars, the designer labels, who has mistresses, there is a point when you think, what else can I spend my money on?" (as cited in Hogg, 2009). Gene Wang's comment demonstrates the fact that the current trend in China is to have status symbols such as designer labels and expensive cars. Personal possessions symbolise prestige and *mianzi* is associated with personal wealth.

Mianzi is gained through personal possessions. The more money and power one has, the more *mianzi* one has. Because of materialism, being poor can be considered as failures. As interviewees observe:

我觉得好象这种社会上认知度也就这样的。就觉得这个人挣不挣钱，他的社会地位就会低，不会被大家认可，然后父母也觉得他没出息，整个社会上的人也会觉得他没出息，包括他的朋友，包括同学。

I feel that society recognises [materialism]. If a person does not earn much money or his social position is low, people look down on him. His parents think he is useless (unsuccessful). Other people in society also think he is hopeless, including his friends and old classmates (SP12).

In terms of social culture [in modern China], I would say that money is everything....if you are rich, that means you could have everything.... It doesn't matter how you get your money ... In Chinese terms, if you don't have money you could possibly lose face, it's shameful. Rich is honourable, money is everything....I think that's a sign of the lack of [ethical] value [in Chinese society](P2).

As mentioned in section 3.3.3, losing *mianzi* is a very serious matter for Chinese people. Because *mianzi* is measured by wealth, Chinese people are encouraged to pursue this.

After the Open door policy, China's primary focus has been on economic development. People are encouraged to seek material wealth because 'to get rich is glorious'. Three decades of economic development have brought wealth to the country and improved the standard of living. At the same time, materialism appears to have become the primary social value. As P11 summarised "Money is the most important, it is all about money." Some earlier studies note this trend (section 2.3). For example, Whitcomb et al. (1998) call it "market ethic" where profits are the primary and overriding goal in a Chinese business context.

Accountants are likely to be influenced by this social value. If materialism is the dominant value in society, accounting professionals are likely to forgo ethical standards in order to earn more money. This is not to say that all accounting professionals are greedy and driven by money. Although some professionals may want to uphold their ethical standards, it is unrealistic to do so in an environment where the majority of people pursue material gain.

反过来说我要坚持我的职业道德，不想做假帐，开除我也没关系，可问题是他把我开除了，辞退了，谁来支持我呀。这是关键。如果我有工会他支持我，而且还对我的这个做法还给予补偿，那我肯定也会这样做的。可是我本身太软弱了。我个人来扛这个道德水准呀我扛不了。
1:09:29 所以这个下滑有多方面的原因。P6

If I adhere to my professional ethics, [I] do not cook the books. It does not matter if I am fired. The point is who is going to support me? If I had a union that supports me and compensates me if I did the right thing, then I would do the right thing. However, I am so weak myself. I can't hold onto the professional ethics [while no one else supports my decision] (P6).

This shows that some accounting professionals feel they are victims of the pressure of the prevailing materialistic culture. Within such an environment, if professional independence and objectivity do not result in earning more money, accountants are unlikely to abide by them. A few interviewees think that it is ethically justified if accountants push the boundaries of standards and laws without being caught. Unsurprisingly, accounting professionals' judgement is likely to serve the overriding goal of profit. This means professional discretion can be used as a means to increase wealth. Many interviewees show disappointment with the current materialistic values. They reflect that this phenomenon is because of the absence of religious beliefs in China.

6.2.2 What people believe

As stated in the previous section, the majority of Chinese interviewees hold a negative view towards the current social values. Many interviewees believe that such changes in social values are the result of economic reforms. They think that there is a lack of ethical belief in modern Chinese society because of the growing materialism. Many interviewees use a Chinese word, *xinyang* (信仰), which literally translates as religion. Ethical beliefs not only include religious beliefs, but also ethical philosophies. For example, P6 points out that *Deng Xiaoping's* thoughts ignored the role of ethics in economic reforms.

咱们国家的整个道德滑向。我认为，改革开放以后，人们的信仰发生了变化，一个人你不管信啥都没有问题，我信耶稣也行，我信毛泽东思想也行，这个信仰没有啦。那邓小平并没有形成完整的思想体系，而小平理论不就是黑猫白猫论，没有别的...道德水准下滑的后果就是“认钱不认人”。只要是为了有效益，我什么事都可以干。当然这个东西谨慎地看一下，“黑猫白猫论”现在看看这话欠点。单从这句话的表面来看就是只要能赚钱就行。但是这个钱的来源呢？

Ethical standards are deteriorating in our country. I think since the economic reform, people's beliefs have changed. An individual should have a belief, regardless of what kind of religion one may have. It doesn't matter whether people believe in Jesus or Maoism. The problem is people do not believe in anything. Dengism is about the "black and white cat" theory, nothing else...

The consequence of ethics deterioration is “money worshipping”. People can do anything for money. Now we can see there is a downside to the “black and white cat theory”. According to this theory, it means that it is good as long as you can make money. However, how the money is earned [is ignored] (P6).

The original slogan of Deng’s “black and white cat” was “it does not matter whether a cat is black or white as long as it catches mice”. The theory appears to emphasise the outcome, which is profit, but fails to pay much attention to how the profit is made. This theory stressed the end over the means, which reflects a utilitarian approach. Profits justify the way of earning money.

Furthermore, some interviewees think that the emphasis on materialism can be a result of Chinese recent history. China had experienced a hundred years of warfare from 1840 to 1949. Many have blamed the Confucian tradition for Chinese military inferiority during late *Qing* Dynasty. Therefore, at the end of the 19th century and the beginning of the 20th century, people were looking to Western democracy and liberalism for answers. However, the reforms to change China into a democratic country failed. After almost a century of warfare, China turned into a Communist country. The family base was dissolved into Peoples’ Communes. China’s focus was on class struggle. A few interviewees suggest that during the Cultural Revolution, all the old beliefs such as Buddhism, Taoism, Confucianism and all associated rituals were banned and discarded. Economic reforms immediately followed the Cultural Revolution and turned people’s focus from class struggle to making money. Consequently, whilst other beliefs have been weakened, materialism has flourished. This is also reflected in Lin & Zhang’s (2011) study. They find that religion has a very limited effect on the ethical awareness of Chinese managers and accountants. The authors argue that this is due to religions being under the suppression of orthodox Communist or Socialist ideologies. Chinese people do not have much exposure to different religions and hence religion does not influence ethical awareness significantly. The following quotations reflect the issues on the lack of ethical beliefs.

钱呗，中国这社会没有终极信仰。你信仰宗教吗？你要信了天主教基督教之类的吧，你可能信仰主了。你信仰佛教可能把内心就信仰献给佛了。但中国这社会没有终极信仰。

Money, in China there is no religion. If you are a Christian, you give your heart to Jesus, if you believe in Buddhism, you devote to Buddha, but Chinese society does not have any religious belief (A6).

改革开放之后，中国的经济近十年或是近五年（发展）确实都是很大的...现在是没有信仰.这个就涉及到一个价值观的问题。中国现在最大的问题，不是说人家怎么说我就怎么说，我觉得没有信仰是一个最大的问题。比如说事务所，他认为能挣到钱，就可以没有底线。企业来讲比如说 CFO 或者是财务主管，他觉得他要是能升值或者是保住这个饭碗，他没有那个道德底线。

After economic reform, particularly in the last ten years, the economy has made significant progress...but [we] do not have any religious belief. This relates to values. I think the biggest problem in China is the lack of religious beliefs. For instance, accounting firms do not need to have any ethical values as long as they can make money. For companies, as long as the CFOs or finance managers can keep their jobs or be promoted, they ignore basic ethical values (A1).

The preceding evidence highlights that materialism discourages professionals from following ethical requirements. The findings also suggest that interviewees believe in the importance of religious or ethical beliefs in society.

It is interesting that interviewees think the lack of ethical beliefs is the core reason for the lack of professional independence and objectivity, instead of a weak legal environment. Perhaps this is because Confucianism emphasises on characteristics rather than law, or because the interviewees understand that within a relation-based society, the enforcement of laws and regulations are subject to *guanxi*.

Overall, according to the interviewees, materialism prevails in Chinese society. Under its influence, accounting professionals are encouraged to pursue money even through unethical ways. This mentality is likely to influence the way professionals exercise judgement. The materialism tempts professionals with greed. At the same time, Confucian doctrines such as *wulun* and *guanxi* create obligations for them. The next section adopts a Confucian perspective to analyse the lack of professional independence and objectivity in China.

6.3 Confucianism and Professional ethics

The findings from the above sections show that accounting professionals have difficulty in upholding their professional independence and objectivity. This section interprets these

difficulties in relation to Confucian teachings, particularly (1) hierarchical relationships that derive from the notion of five relationships (*wulun*) and (2) *guanxi*.

6.3.1 Hierarchical relationships in the workplace – *wulun*

Section 6.1.2.1 shows that the “one man rule” culture is still dominant in the workplace. Accountants need to be obedient to their superiors. The relationship between the supervisors/bosses (the superior) and accountants (the subordinate) is hierarchical. This reflects the ruler-subject relationship in *wulun*. Under *wulun* individuals should behave according to their roles and obligations. Hence, harmony is achieved through having unequal power in relationships. Ideally, a ruler should govern people as he cares for his own children, and ministers should be loyal and obey the ruler just as they are filial to their parents. However, when virtues are not well cultivated, power can corrupt. Consequently, the ruler may exercise his power inconsiderately and his followers have to follow, even if they are not satisfied with the ruling (section 3.2.4).

If this relationship is translated into an accounting context, it means that supervisors (the ruler) should manage their subordinates with benevolence and caring. Accountants (the subject) owe their supervisors’ loyalty, respect and obedience. This ideal status is probably difficult to achieve in practice. Strong evidence shows that the form of *wulun*, which is the hierarchy, is apparent in modern society. However, the substance of *wulun*, which are the virtues, is less obvious. The obedience of accountants could result from a mix of material incentives, customs, and obligations. The hierarchical relationship also applies between senior staff and junior staff in accounting firms, and between senior clients and junior auditors.

Wulun may influence accounting practices from two perspectives. First, an authoritarian culture is likely to be seen in organisations. From the supervisors’ perspective, they tend to exercise their power to direct, and are less likely to listen to feedback from accountants. From the subordinates’ perspective, they tend not to offer their opinions when they disagree with their supervisors, in order to preserve harmony. Consequently, accountants are likely to forgo their independence and objectivity to follow the instructions of their supervisors. In this way, professional judgement can be constrained. This also applies to accounting firms, between senior and junior auditors.

Second, *wulun* applies to external hierarchy. For example, as noted by FP4, junior auditors often hesitate to question their clients, who are often more senior.

The Asian culture is very much about respecting the elders. One of the difficulties I found was when a young person went out to see someone. The person they were auditing was often older than they were. So by default that person [the client] knew more than they did, which is not true at all. Let's take you and I for example; I am a lot older than you, you came to audit me. Whatever I say to you, you think it is the gospel truth. It's got to be because I am older, I must be right... So having that ability to question and go through things is sometimes difficult (FP4).

According to *wulun*, the younger party is expected to respect and defer to the older party (Tu, 1998). Hence, a hierarchy is created due to age. Accounting firms normally hire young graduates. Because the clients tend to be more senior in both position and age, the junior auditors tend to believe whatever they are told by their clients without asking further questions. In this sense, *wulun* limits an auditor's ability to exercise professional scepticism, which is essential in auditing. Without professional scepticism, material misstatement cannot be detected (section 2.2.2.1). Scepticism is interrelated with auditor independence and professional judgement. Under the influence of *wulun*, junior auditors are likely to be intimidated by their senior clients. This shows that the hierarchical culture, which derives from Confucianism, does not provide a suitable basis for professional scepticism and independence.

Furthermore, a lack of professional scepticism may also be a result of the Chinese accounting education system. The teacher-centred approach is weak in nurturing students' critical thinking abilities; rather it trains students to reproduce what their teachers taught them (section 5.2.2). However, without a critical aspect in their learning, students are unlikely to have a sceptical mind-set. Hence, the auditors are unlikely to challenge the claims made by their clients. Although professional scepticism can be developed with experience, under the influence of *guanxi*, auditing partners are unlikely to challenge their clients.

Wulun largely limits Chinese accounting professionals to exercise judgement independently, obedience and respect take priority. In contrast, IFRS developed from Anglo-Saxon culture where power is more equally distributed in society (Hofstede, 1980, 1984). Independent judgements are valued and encouraged in the West. This does not necessarily mean that Western accountants are more ethical. It shows that the Confucian tradition shape a

hierarchical structure in the workplaces and that professional independence and objectivity does not fit into such a structure. Consequently, this creates a barrier to implementing the IFRS-based standards in China.

In a similar fashion, tax authorities as government organisations are rulers, and businesses are subjects. Tax authorities have the power to issue tax regulations. Accountants and businesses follow them and do not have the power to challenge the tax laws. Due to this unequal power distribution, there is a need for people who possess less power to utilise *guanxi* to fulfil their needs (S. Li, 2010). The next section analyses how Chinese professionals are bound by their *guanxi*, which compromises their independence.

6.3.2 *Guanxi* in accounting practice

Sections 6.1.1.3, 6.1.2.2 and 6.1.3.3 highlight three sets of *guanxi*, which are important for Chinese accounting professionals, namely:

- between accounting firms/ accountants and their clients,
- between accountants and their superiors,
- between businesses/ accountants and tax authorities

Chinese accountants are entangled within these *guanxi*, which can influence their judgement significantly. *Guanxi* appears to be a major threat to professionals' independence and objectivity. This section analyses the impact of *guanxi* on accounting professionals from a Confucian perspective.

As discussed in section 3.3.1, *guanxi* is derived from familial collectivism. The family is a basic social connection for most individuals. An individual's identity is defined through his or her relationships with others. Chinese traditional families offer the multifunctional needs of belongingness, education, and recreation and so forth. People exercise virtues like trust, loyalty and filial piety with family members (Hui & Graen, 1997). This consequently leads to a lower level of trust towards others who are not in the family, or not within the same *guanxi* web. Therefore, the level of public trust in a relation-based society is low (S. Li, 2010). This means that Chinese people are collectivist within one's *guanxi* circles, but can be individualistic towards people outside the circles (Hui & Graen, 1997).

Guanxi protects the interests of “insiders”. Confucian society is not about impartiality towards all the members in the society. As required by the virtue of *ren*, one should look after one’s own family members and/or friends (section 3.3.1). Therefore, there is nepotism towards people within a certain *guanxi* circle. People can be introduced into a *guanxi* circle to become an insider. In an accounting context, accounting firms try to develop *guanxi* with their clients, so that they become one *guanxi* circle. Clients are likely to use “insiders” to audit their accounts. Supervisors trust their “insiders” to conceal their illegitimate transactions, and promote “insiders”. Tax officials are likely to look after the interests of “insiders”.

Guanxi can be maintained and strengthened through the continuous exchange of favours and gifts. The reciprocity is required under the virtue of *yi* and the gifts are an application of the virtue of *li*. Trust and *renqing* can be further developed during this process. Therefore, *guanxi* can bond people tightly together. The obligation and emotional attachment within *guanxi* also make it almost impossible to refuse. The findings show that auditor-client *guanxi* is maintained through gifting in exchange for auditing engagements. Accountant-supervisor *guanxi* can be strengthened through the continuous concealment of illegitimate transactions in exchange for promotions. Both parties involved are bound together to their *guanxi* and they need to fulfil their obligations within *guanxi*.

Guanxi is similar to social networks in a Western society. Networks are arguably important in a business context in the West as well. For instance, entertaining clients over food and drinks or hosting functions. It aims to build a good impression and to get to know more people. However, the exchange of favours and obligation under *renqing* is less evident in Western social networks. *Guanxi* is about more than connections or social networking in China. It involves obligations and reciprocity, which influences how people interact with each other in a complex social setting (Huang, 2009). As FP4 noted,

The biggest difference [between China and the West] I suppose would be the relationships. A lot of things got done over a drink or lunch whatever.... if you’ve got the right contact, it will get you there (FP4).

Although *guanxi* is seen as being linked to bribery and corruption, as found in this study, it provides practical benefits for accountants and businesses. For example, this study finds that *guanxi* with tax officials can avoid punitive tax reviews and improve cash flows. *Guanxi* with

local officials can avoid rigid regulations to establish an office for the Big 4 firms. Similarly Li (2010) argues that under a relation-based economy and society, there are many rigid regulations, and corruption through *guanxi* tends to enhance efficiency because it is based on trust. Others suggest because China has poorly-developed legal and distribution systems, *guanxi* may provide the only efficient alternative to provide people with what they need (Luo, 1997a; Y. H. Wong & Chan, 1999).

Guanxi is a double-edged sword; it can lead to positive or negative outcomes, depending on the parties involved. Therefore, it is very difficult to pinpoint whether *guanxi* is ethical or unethical without knowing the context. From a Western perspective, where impartiality and fairness is of concern, *guanxi* is probably unethical. From a Confucian perspective, where a degree of intimacy of relationships is required, *guanxi* is considered ethical in many cases. Accounting professionals face many obligations under *guanxi* in China. Therefore, they are likely to be compelled to serve their obligations under *guanxi*.

There is a paradox in the findings. On one hand, under *wulun*, Chinese people assume respect and obedience to authority, which means they should follow laws and regulations. On the other hand, Chinese people engage in *guanxi* to bend the law and regulations to obtain what they want. This indicates that laws and regulations are weaker than *guanxi*. This leads to the next point that Chinese society is a largely “rule by man” society.

6.3.3 Rule by man

The “rule by man” phenomenon is arguably derived from Confucian teaching. As noted in Chapter 3, Confucius believed that people should be governed by virtues rather than laws. As long as people behave according to virtues, they would be well within the legal boundaries. However, because of the emphasis on ethical behaviour, the legal system is of less importance. The phenomenon of “rule by man” is still reflected in today’s Chinese society.

Interviewees mentioned that there is no sufficient supervision for the implementation of laws and regulations. Interviewees share the view that Chinese society is based on relationships. “In China, *guanxi* is the most important (P3)”. This may have two main implications for accounting professionals. First, it means that *guanxi* is very powerful to influence the execution of the law and therefore maintaining *guanxi* is more important than following professional ethics and/or accounting law. Second, people tend to be more accommodating to unethical behaviour committed by people they have *guanxi* with. Therefore, whistle-

blowing is very difficult within complicated *guanxi* circles (D. B. K. Hwang et al., 2008). Accountants are likely to tolerate the unethical conduct of their supervisors, and whistle blowing is less likely to be an option.

The current study finds that auditors and accountants are influenced by Confucian heritage culture, such as *wulun* and *guanxi*. Professional independence and objectivity is discouraged and professional judgements are constrained. The findings indicate the Confucian cultural environment does not support the ideal of exercising judgement independently in the public interest. Therefore, a set of principle-based standards that require a sceptical and judgemental approach would be difficult to establish in practice.

The above analysis illustrates that the Confucian teachings of *wulun* and *guanxi* have become social norms. Although Confucianism is an ancient philosophy, it appears to survive in contemporary society. The next section explains how these Confucian doctrines amplify the pursuit of materialism, though ironically.

6.4 How Confucian heritage magnifies materialism

The findings from section 6.1 and section 6.2 show that accounting professionals are under the influence of both Confucian traditions and materialism. Confucian traditions have a strong presence in the business and accounting fields within contemporary Chinese society. Because Confucianism arguably shapes Chinese people's behaviour, they are likely to bring the Confucian way into the business and accounting fields. Although materialism seems to be a by-product of the economic reforms, the Confucian heritage culture also fosters the growing trend for materialism. This section analyses how *wulun*, *guanxi* and *mianzi* are linked to the pursuit of materialism.

Since the Open door policy, China has welcomed and attracted foreign investments. The government encourages wealth because "getting rich is glorious". This does not violate Confucianism. Wealth is acceptable as long as it is obtained without sacrificing Confucian virtues. Confucians recognise the tension between money and morality. They advocate prioritising ethics over profits (section 3.4.1). However, "the black and white cat" theory appears to pay more attention to the end (profits) than to the means (how the profits are obtained). Under such an emphasis, Chinese people are motivated to pursue wealth. The embedded Confucian traditions are used to aid this pursuit.

First, *wulun* is reflected in the centralised state governance regime. This regime facilitates the spread of political ideologies and the implementation of policies. From a top-down approach, Chinese people quickly focus on economic development. Under the influence of *wulun*, Chinese society values power and authority. In China, people are rarely called by their first name, but by their family name followed by their position. The government officials normally hold the power to make economic decisions and such power often leads to wealth. For example, accountants need to give tax officials gifts or benefits in order to avoid tax reviews. The authority of the tax officials attracts this kind of unofficial income. Therefore, under the influence of *wulun*, officials can earn income because of their power.

Second, *guanxi* can also be utilised to generate wealth and profits. Materialism encourages people to seek *guanxi* in order to generate more business. Chinese accounting professionals face pressure to become rich within a Confucian-heritage culture. For example, in order to increase profits, auditors often utilise *guanxi* to find and retain clients. Because *guanxi* financially benefits both parties, its popularity is evident in the findings above.

Moreover, given the importance of *wulun*, having *guanxi* with the powerful is an asset. This means that people who are well connected can “sell” their *guanxi*. For instance, when one of the Big 4 firms wants to open a new office, they need to establish *guanxi* with officials to obtain a permit. If they do not know the officials themselves, they need intermediaries to introduce them. The intermediaries then need to be financially rewarded for their assistance in establishing *guanxi*.

Third, *mianzi* can be measured by power and wealth. People who have positions in society have *mianzi*. The higher the position, the more *mianzi* one has. *Wulun* and IE probably also contribute to this mentality. Given the importance of *mianzi*, it drives individuals to pursue material possessions and power in order to gain *mianzi*. Because individual identity is determined by one’s relationships with others, having *guanxi* with the powerful and the rich also grants *mianzi*. Therefore, people are eager to be associated with the rich and powerful. In this way, *mianzi* also reinforces the popularity of *guanxi*.

Confucian heritage culture works in harmony with materialism. Although Chinese society has become increasingly modernised, Confucianism seems capable of adapting to contemporary society. However, Confucianism is no longer in the ideal form that Confucius

intended. Perhaps the Confucian ideal was too difficult to attain because of human nature. The analysis shows how Confucian traditions have mutated and how, in such a mutated form, Confucianism still influences the way that Chinese do business.

6.5 Chapter summary

This chapter identifies key findings concerning the status of professional ethics in China. It finds that professional independence and objectivity are compromised. This compromising position is explained through the lens of the Confucian tradition, namely *wulun* and *guanxi*. These Confucian traditions influence business practice, which is based on interdependent relationships within a hierarchical social structure. The concept of independence and objectivity is unlikely to be realised in the Chinese accounting field.

As found in this study, auditors find it hard to uphold independence in a competitive market where independence is discouraged. In order to survive in the market, Chinese auditors tend to please their clients and maintain *guanxi*. Moreover, Chinese accountants, who are under pressure of the “one-man rule” culture, also find it is difficult to make independent and objective judgements. If they were independent, their career could be jeopardised. Particularly under the influence of compelling materialistic values, professionals would not want to be independent at the expense of financial sacrifice. The pursuit of profit/ money drives people to focus on material achievements. Such achievements demonstrate one’s social status. *Mianzi* also pushes people to work hard in order to make more money.

Under the influence of *guanxi*, accounting professionals should consider the interests of people, depending on the degree of closeness of their relationship. Chinese professionals are unlikely to forgo their *guanxi* for the interests of financial report users, who are likely to be “outsiders”. As *guanxi* is culturally rooted, Chinese accountants are unlikely to be exempt from interdependent relationships, even if they are willing to be independent. This is an inherent cultural barrier to the implementation of the principle-based standards in China.

Some researchers argue that *guanxi* contributes to the widespread corruption in China (Luo, 2008; Su & Littlefield, 2001). However, because the corruption in China is largely based on *guanxi*, it involves *renqing* and the rule of reciprocity. There is a high level of trust existing in corruption as Li & Wu (2007, 2010) argue. As a result, the negative impact of corruption on the economic growth rate is reduced. The Chinese form of corruption is therefore

“efficiency enhancing”. Furthermore, the more *guanxi*-related transactions that there are, the more *guanxi* is needed for businesses to operate smoothly. This cycle is very hard to break. “A strong and thick social network makes it very difficult for whistle blowing” (S. Li & Wu, 2010, p. 150). Therefore, *guanxi*-based corruption is very hard to detect and clean up in China. Chinese professionals are under the influence of both the Confucian tradition and the influence of materialism so find it very hard to adhere to the principles of professional independence and objectivity. This is not only because the concept of independence is foreign to Chinese culture, but also because Chinese practitioners cannot afford to be independent and objective if they are to pursue money. Chinese practitioners cannot be free from their cultural settings to exercise independent judgement. In comparison, IFRS are a set of principle-based accounting standards, which relies heavily on professional judgements that are based on independence and objectivity. The next Chapter will summarise the findings from both Chapter 5 and Chapter 6 and discuss the contributions of the current study.

Chapter 7 - Discussion and conclusion

This chapter aims to connect the literature and key aspects of Confucianism with the findings to reflect how the findings from the current study justify, complement or contradict the extant literature. As introduced in Chapter 1, this study addresses two research questions. First, it investigates how Confucian traditions influence the current Chinese accounting education system. This question is aimed at understanding how generic skills relating to the exercise of judgement are applied in Chinese accounting education. Second, it investigates the ethical issues that an accounting professional may face within a modern society, which has a Confucian heritage. This question aims to understand how the concept of professional independence and objectivity can be applied in a culture where dependence on relationships is valued. Principle-based accounting standards rely on professionals' interpretation and judgement. In order to assess the cultural obstacles in implementing the IFRS-based standards in China, it is vital to understand how Chinese culture influences the professional judgement and ethical decision-making.

As discussed in Chapter 3, Confucianism promotes social harmony through hierarchical social relationships and the self-cultivation of Confucian virtues. Its influences in accounting education and professional ethics remain strong, as found in this study. The key findings from this study are: (1) Chinese accounting education has absorbed some Western influences, but it has largely preserved Confucian tradition, namely the hierarchical teacher-student relationships and examination-orientated assessment structures. As a result, students are found to be hard working, but their “soft” skills are less developed. (2) Professional independence and objectivity are compromised by the influence of hierarchical superior-subordinate relationships and *guanxi*. (3) Confucian doctrines, together with materialism, have negatively affected professional ethics. Although Confucian traditions are still present in Chinese society, they have adapted to the pursuit of material gain. *Wulun* and *guanxi* can be misused for personal gain. These findings are discussed in this chapter under the light of the IFRS convergence in China. The implications from this study can be useful for the IASB, which is promoting the adoption of IFRS globally, and for Chinese educators and policy-makers to understand the practical difficulties of the implementation of the IFRS-based standards and Western accounting practices.

The limitations of this study are that (1) given the mixed background of the practitioners who

were interviewed, the findings could not be analysed into specific sectors such as SOE, private entities and listed entities. As a result, some insights could have been omitted. (2) Interview data were collected from more economic-developed regions in China. Less developed regions, in which Confucian influences may be stronger or weaker, have not been explored. (3) Due to the age concentration of practitioner interviewees, changes in cultural values cannot be seen clearly.

This chapter is organised in the following way. First, key findings from interview evidence are summarised and discussed according to the relevant Confucian theory. Second, the implication of the findings is analysed to show the practical difficulties in the implementation of the IFRS-based standards in China. Third, based on the findings, some recommendations are made which may help to address the difficulties in implementing the new CAS. Fourth, through comparing key findings to extant literature, the contributions and significance of this study are articulated. Finally, the limitations of this study and opportunities for future research are identified.

7.1 Summary of findings

This section summarises and discusses the findings from Chapter 5 Chinese accounting education, and Chapter 6 Professional ethics under the background of convergence with IFRS in China. In response to the research questions, the key findings of this study from 34 interviews are summarised below in Table 7-1. It illustrates how Confucian traditions influence both accounting education and professional ethics. Chapter 5 and Chapter 6 explain the findings with the relevant Confucian doctrine and traditions. The discussion in this chapter is to bridge key findings from both chapters with the common Confucian doctrines. The analysis and discussion is conducted according to each Confucian doctrine or tradition identified in Table 7-1.

Table 7-1 Summary of findings

Confucian doctrine and tradition	Chapter 5 – Accounting education	Chapter 6 – Professional ethics	Implications for implementation of IFRS- based accounting standards
<i>Wulun</i>	Teacher-centred pedagogy	Hierarchical accountants –supervisor relationship	Unlikely to challenge authority or to question what is told and written
	Hierarchical teacher-student relationship	Obedient to instructions from supervisors	May sacrifice professional ethics under instructions
		Lack of professional scepticism	Hesitation in challenging clients due to seniority
		Strong influences of tax regulations on accounting	Tax regulations constrain the interpretation of principle-based standards
<i>Guanxi</i>	Examination-orientated system largely avoids the influence of <i>guanxi</i>	<i>Guanxi</i> is very important and is used to recruit and retain clients	Obligated to favour people with whom they have <i>guanxi</i>
		Tie between supervisor and accountant	Independence and objectivity is unlikely to be upheld
		Obtain favourable tax treatments	
<i>Keju</i> Imperial Examination	Examination-orientated education system	Hard-working Diligent Keen to learn	Diligent and hardworking professionals may compensate their weakness in generic skills to a certain extent
	Learning for exams		Lack of critical thinking skills Prefer clear instructions from teachers/ supervisors
<i>Mianzi</i> (Face & Shame)	Value academic achievement (measured by exams)	Pursue wealth & power Having money and power means having <i>mianzi</i>	Face-saving behaviour discourages questioning of teachers and superiors Encourage learn for exams and pursue qualifications Forgo ethics for the sake of materialistic gain
<i>Ren, yi and li</i> (Confucian virtues)	Growing attention to ethics education	Materialistic values prevail Mutate into business context	Look after the interests of others with who accountants have <i>guanxi</i> Giving gifts to clients/superiors

7.1.1 *Wulun* - Hierarchical relationship

Wulun is found to have a strong presence in both themes, namely accounting education and professional ethics. As discussed in Chapter 3, *wulun* stipulates social order, as it is a key for harmony. Harmony is achieved through an ethic of filial piety and loyalty for social hierarchy (Tu, 1996). To settle conflicts in a hierarchical society, it requires the inferior to compromise and to submit to their superiors (Yao, 2000).

Teacher-centred pedagogy is dominant in Chinese accounting education and the teacher-student relationship remains hierarchical. This relationship reflects the father-son relationship in *wulun*. Teachers represent authority and seniority. Students are taught to be obedient to authority and to be respectful to seniority. Challenging authority is considered disrespectful. The hierarchical teacher-student relationship tends to cultivate students to accept the knowledge taught by their teachers without critical reflection. It also creates a reliance on teachers, who are considered as the holders of truth. This form of pedagogy does not encourage students' abilities to question, as found in this study. Consequently, students' critical thinking and analytical skills, which are important skills required to apply judgements, are less developed as reported by practitioners. The hierarchical teacher-student relationship, together with the exam-orientated assessment structure, is likely to foster students to comply with a rule-based accounting system. Furthermore, the hierarchical teacher-student relationship cultivates students to subjugate to authority, which could be carried into their working lives.

Wulun, although not in its ideal form, also has a strong presence in Chinese accounting practice. The dominant culture in Chinese business is "one man rule". The accountant-supervisor relationship is modelled after the ruler-subject relationship in *wulun*, and loyalty and obedience from subordinates is required. *Wulun* may negatively influence professional independence and objectivity in the following ways. Accountants are likely to follow supervisors' instructions to manipulate financial information. Similarly, junior auditors are likely to follow instructions given by senior managers or Partners without considering whether the instructions are reasonable. Furthermore, junior auditors hesitate to question clients due to their seniority. As a result, their professional scepticism is constrained. Under *wulun*, obedience, respect and loyalty have a higher priority than independence. Inferiors are unlikely to challenge their supervisors, even though they may actually disagree.

Wulun is also reflected in the influence of tax authorities over businesses. First, the discretion of accountants that is granted by the accounting standards is limited by tax regulations. The tax rules and regulations may contradict the accounting standards and hence discourage practitioners from applying the new standards. This adversely affects professional accountants in their ability to make judgements. Consequently, in some cases, tax rules hinder the implementation of the new CAS. Second, businesses perceive the tax burden as unfair and very heavy. Chinese businesses do not have the power to lobby against these unfair and heavy taxes. Instead, they utilise *guanxi* to lessen the burden of tax. In this sense, the hierarchy between tax officials, as representatives of the government, and accountants/businesses can be mitigated through *guanxi*. Although the tax rules and regulations are set up by the tax authorities, tax officials can bend the rules to benefit those businesses with which they have *guanxi*. *Guanxi* is normally maintained through continuous gifting to tax officials in exchange for favourable tax treatment. *Wulun* establishes a formal hierarchy, but *guanxi* is used to bypass or mitigate this hierarchy to obtain the desired outcomes.

7.1.2 *Guanxi* - Interdependent relationships

This study finds that *guanxi* is very influential on professional ethics. As Chapter 6 reports, Chinese accountants are entangled within many *guanxi* circles, so their independence is largely compromised or even absent. Three sets of *guanxi* emerged from the findings, namely auditor-client, accountant-superior and accountant-tax official. The first two sets of *guanxi* directly threaten professional independence. The third one is derived from the goal to reduce tax-related expenses for businesses. It reflects that accountants need to obey their employers' instructions on the tax amount that they want to pay (section 7.1.1). This indirectly illustrates how the objectivity of accountants is compromised because they need to manipulate financial information. As found in the current study, in order to survive in a competitive market, auditors need to give gifts to clients to establish *guanxi* in exchange for retaining those clients and/or recruiting new clients. Because of their *guanxi*, Chinese auditors tend to please their clients by issuing unqualified opinions. *Guanxi* between accountants and auditors is developed through accountants using their knowledge to benefit their supervisors and in return, their supervisors promote them. By contrast, in Chapter 5, it shows that *guanxi* is largely blocked by the examination system in terms of the enrolment process to enter university (see 7.1.3).

Guanxi is derived from a collectivist society. Confucianism recognises that individuals are essentially relational beings. The concept of self is defined through a person's relationships with others, which Ho (1995) called the "rational self". Under Confucianism, it is ethical to favour family members and friends according to the degree of intimacy of the relationships (section 7.1.5). Individuals are obligated to return the social debts created through *guanxi*. Failure to meet these obligations is considered untrustworthy and unkind. Accounting professionals are born into different *guanxi* circles i.e. extant families and friends. They are culturally obligated to fulfil the obligations of their particular *guanxi*. Their judgements are likely to be biased towards considering the interests of different *guanxi*. By contrast, the Western "autonomous self" underlies the concept of professional independence. The autonomous self does not future relationships rather it values more independent thought and impartiality.

Furthermore, a principle-based accounting system requires professionals to consider the interests of users when they prepare accounts and it also requires auditors to consider investors' interests when auditing accounts (ICAS, 2010). This model was developed in Anglo-Saxon economies where public trust is considered to be high (S. Li, 2010). In contrast, Chinese society is set up based on families. Traditionally, an individual's needs were largely met within the extended family. Therefore, there was little need for them to rely on people outside the family (section 3.2.3.2). This develops a society where people trust and take care of others with whom they have *guanxi*. Such trust is not extended to strangers. Consequently, the level of public trust in Chinese society is low (Bond, 1991; S. Li, 2010). Therefore, Chinese professionals are less likely to consider the interests of external users and investors who are strangers to them, but more likely to consider the interests of their supervisors and clients, with whom they have *guanxi*. An independent profession is a foreign concept that may not be well implanted in the Chinese relation-based society.

Guanxi is central to a relation-based economy and society. Under a relation-based economy, the administration of the law and regulations is an issue, no matter how complete the law system is (S. Li, 2010). Under a hierarchical society structure, there are many rules and regulations set up by bureaucrats. Bureaucrats also have the power of the interpretation and administration of rules. *Guanxi* can be used to influence the judgements of officials and to take advantage of or bend particular rules. Therefore, *guanxi* with the right people is more

important than rules and regulations. “Rule by man” takes precedence over “rule by law”. As long as *guanxi* is in place, legal risks for professionals are likely to be low if they do not abide by ethical requirements. In this sense, *guanxi* contributes to the breed of corruption. Under a dense and complex *guanxi* web, accounting professionals find it difficult to maintain professional ethics. Because independence is not valued, if they are independent, they may become much less employable. Although *guanxi* is very powerful in business and in the accounting field in China, in the education system its power seems to be significantly reduced by the rigid examination systems.

7.1.3 Keju - Imperial Examination (IE)

Overall, interviewees think that the examination system is at the core of Chinese education. At secondary school, the purpose of learning and teaching is largely for the NCEE. Achieving high marks in the NCEE leads to the top tier of universities, and promising career paths. The competition to enter the top universities is fierce. Students study very hard and need to do an enormous amount of exercises and to memorise vast amounts of answers to potential exam questions. The examination-orientated structure strongly affects students’ learning process. Accounting education at tertiary level largely continues the exam tradition to a less difficult extent. Research-based assessment is rare and questions in the exams mainly test a reproduction of knowledge taught during class.

The examination-driven system can be seen as a reflection of the IE system, which had a thousand years of history. Traditionally, IE was used to select candidates to be state officials regardless of how humble their origins. This meritocratic system drove Confucian scholars to study and to memorise vast amounts of Confucian classical texts and so promoted the development of education. However, the IE system also contributed to the slow development of technology, science and medicine, as these were not tested subjects in ancient China.

In Chinese accounting education, learning is not done through interaction, through research or discussion. However, learning is achieved through listening in the class, taking notes and passing exams. This approach encourages students to learn for the exams and limits their abilities to think critically and independently. Their understanding of knowledge tends to be fixed and absolute because there is always a right answer. Consequently, students have little exposure to practising how to analyse information and make judgements. This pattern of thinking can be carried into their working lives, where it is evident that Chinese practitioners

prefer to have clear instructions, are less likely to take initiative and have a lack of common sense and the ability to question. Therefore, the examination-orientated education system appears do not develop the skills that accounting professionals need to apply the IFRS-based accounting standards.

Although the examination-orientated education is found to be weak in developing soft skills, it cultivates the perseverance and diligence of students. In order to pass exams, students need to discipline themselves to endure studies. This system selects a particular type of students, who are hard-working, good at memorising and pliant, which is evidenced by hard-working Chinese practitioners. This may compensate the weakness in exercising judgement to a certain extend.

Furthermore, a rigid exam system has effectively reduced the power of *guanxi* as students are merely assessed by their marks. Without the minimum marks required for the top two tiers of universities, *guanxi* is unlikely to be useful to push low-mark students before higher-mark students. (However, for instance, if a particular student gains the minimum mark required for a particular university, but do not reach the mark for the major the student wants to study, *guanxi* can be useful in this context). Therefore, students who have higher marks from rural areas can have the opportunity to enter universities in an urban area. Entrance to top tier universities gains face for students and their families. Chinese people protect their face very seriously.

7.1.4 Mianzi - Face

Mianzi is an implicit finding in this study. As discussed in Chapter 3, *mianzi* relates to personal dignity, prestige and honour. *Mianzi* is crucially important for Chinese, and lying is permitted if it is to save *mianzi*. It often associates with position, wealth, physical appearance and academic achievement. *Mianzi* can be regarded as social capital to ask for favours within existing *guanxi*. *Mianzi* can be gained, lost, saved and given. Because the loss of *mianzi* is a serious matter, Chinese people practice a lot of *mianzi* saving/giving behaviour.

The implications of *mianzi* in the accounting field are three-fold. First, it promotes face-saving/giving behaviour. Face-saving behaviour involves avoiding the criticism of others and precluding challenges to authority. For example, findings show that in order to maintain *mianzi* and harmony, students do not question their teachers. To avoid losing face, junior

auditors are reluctant to question senior clients. Consequently, hierarchical structure is reinforced. Second, because Chinese culture values education tremendously, academic achievement is linked to one's face, which is measured by exam marks. This tendency encourages learning and pursues qualifications. Third, due to materialism prevailing in society (see section 7.1.5); *mianzi* can be gained through the amount of money one earns or by the powerful social position one is in. If bending professional independence leads to gaining more *mianzi*, independence is likely to be compromised. In this way, *mianzi* contributes to the pursuit of materialism and acts as a social measure of success or failure.

Furthermore, as mentioned earlier, the process of auditing involves questioning and challenging the validity of financial statements. If auditors give a qualified audit opinion, they can make their clients lose *mianzi* and consequently damage their *guanxi*. They may lose the clients eventually, through which they may suffer loss of fees and loss of *mianzi* too. Auditors need to have both their *mianzi* and their clients' *mianzi* in mind. In many cases, this means that the auditors need to compromise their independence.

7.1.5 Adaptation of Confucian virtues vs prevailing of materialism

On the surface, the study finds that materialistic values have prevailed since the economic reforms, but the Confucian virtues of *ren*, *yi* and *li* do not have a strong presence. Under the surface, these Confucian ethical principles are not disappearing, but seem to have adapted into a business context, just as *guanxi* is largely used in a business context in modern China.

As discussed in Chapter 3, the virtue of *ren* requires children to practice filial piety. Filial piety is a fundamental application of Confucian ethics, which is designed to support hierarchy. Children must learn and practice filial piety towards their parents and elders in the family before they know how to have loyalty and a sense of duty towards their rulers or superiors. A filial son is the prerequisite of a loyal minister and a *junzi*.

Filial piety appears to precede laws. Children need to venerate their parents. However, this does not mean that children have to ignore the wrongdoings of their parents. The reasonable conduct is that children may gently remonstrate. If their parents refuse to listen, children still need to be reverent to them. This is the situation when people are bound through blood. However, the situation changes in the ruler-subject relationship, if the ruler becomes corrupt, the minister should choose morality and leave the ruler. This is the situation when people are

not bound through blood (section 3.2.5.4). This is a Confucian ideal, but what Confucius said is not necessarily what people practice.

The study finds that in the business context, the concept of filial piety still applies. In the Confucian ideal, accountants should leave their superiors if they engage in moral misconducts and refuse to change. The exception is that when accountants have blood ties with their supervisors, the accountants should stay loyal to their superiors, but try to remonstrate repeatedly. However, in practice, with or without blood ties, accountants are obedient to their superiors and even conceal illegitimate transactions. They may gently remonstrate, but eventually would go along with what the superiors wanted. The reasons for this can be multifaceted. First, some accountants may be relatives of their employers or supervisors because Chinese businesspersons' tendency to employ their family members, particularly in accounting positions. Second, *guanxi* can tie supervisors and accountants together, particularly when the concealment of illegitimate transactions is involved. The illegitimate nature can bond the peers together closely, because they rely on each other to hold secrets. This demands loyalty, trust and reciprocity. Third, loyalty seems to translate into obedience. Obedience to superiors is largely because of the hierarchy and the fear of losing one's job (see section 7.1.1). In other words, obedience is for the purpose of promotion and increases wealth and *mianzi*.

Renqing and reciprocity are the underlying principles of *guanxi*. *Renqing* (empathy) is also an application of *ren*, which is the ability to put oneself into another's shoes. Acting upon *renqing* means individuals make a great effort to help others with whom they have *guanxi*. Because Chinese people tend to be superstitious, they are likely to help whenever they can in case they need help from others in the future (Bond, 1991). *Renqing* also links to *mianzi*. Because Chinese understand the importance of *mianzi*, they can feel empathetic towards people who have lost *mianzi*. Under *renqing*, individuals would protect others' *mianzi* by granting favours. In Chinese terms, this is called "give *mianzi*".

Since *guanxi* is reciprocal, the favour that someone did today can be seen as a deposit, which can generate the return of favours in the future. Reciprocity, therefore, is linked to loyalty and accountability to the party a person is obliged to. Under the virtue of *yi*, it is righteous to return favours handsomely. Failure to conform with reciprocity damages *mianzi* and *guanxi*. In the accounting field, *renqing* and reciprocity are reflected through exchanges of favours

and benefits. The establishment and maintenance of *guanxi* requires gifting, which is an application of the virtue of *li*.

Li is largely preserved, as demonstrated through the exchange of gifts and face-saving behaviour in modern China. As introduced in Chapter 3, *li* is translated as rituals or rites. It traditionally prescribed a set of formal procedures and informal behaviour codes. It is *li* to conduct respectful behaviours towards authority and seniors such as when dining with supervisors, they sit first. *Li* in Chinese also means gift; it is appropriate to give gifts to family members and friends to demonstrate appreciation. Many Chinese businesses preserve the tradition of gift giving during Chinese festivals and invite each other for meals in order to maintain *guanxi* with clients and tax officials.

Furthermore, it is *li* to save the *mianzi* of seniors or teachers, such as by not questioning or challenging them. The purpose of *li*, which was originally cultivating virtues through proper rituals, mutates to demonstrate hierarchy and to develop *guanxi*. Consequently, it serves the end of generating profits.

The virtues *ren*, *yi* and *li* adapt to the prevailing materialistic social values. This affects both accounting education and professional ethics. Under the research-orientated performance system in Chinese universities, accounting academics' performance and bonuses are assessed based on publications. To progress in academia and earn more money, Chinese academics try to publish as much as they can. This tends to impair their teaching quality, encourages short-term orientated research output and potentially limits the research methods and research areas they can attain. Furthermore, materialism also influences accountants' behaviour, as they tend to pursue material wealth at the expense of professional ethics. Although the tension between ethics and profits is a dilemma faced by Western practitioners as well, the situation in China is mixed with its Confucian traditions. The spirit of independence is not attainable under this mixed influence. Accounting professionals tend to do what is accepted behaviour in society. This may reveal that the Confucian ideal is very difficult to fulfil in practice.

Some interviewees think that China is facing a moral decline. Such a view is supported by some literature that argues that Chinese businessmen and accountants operate within a "moral vacuum" – especially after the Open door policy (R. Fan, 2010; Yunwei Tang, 1999). This

study, however, argues that the moral decline and vacuum is not simply because that Chinese people have abandoned their values to pursue materialism. The current economic transition has no precedent in Chinese history. Hence, no comparison can be made. If such a transformation had occurred before the collapse of the *Qing* dynasty, would Chinese people be more ethical than they are now? The perceived moral decline could be a result of the changing environment. The economic transition has introduced in new thoughts and values to the society. However, Confucian traditions have not been abandoned, but somehow reshaped to the current environment. It shows that the vitality of Confucianism.

In summary, the study finds Confucian traditions affect both accounting education and professional ethics in China. This section presents a synopsis of key findings from both themes and discusses these findings with their relevant Confucian doctrines and traditions. The next section analyses the implication of these findings on the *de facto* convergence with the IFRS in China.

7.2 Implications of the study for the convergence of IFRS in China

As introduced in Chapter 1, the Chinese government has been driving the convergence with the IAS/IFRS since 1990's. Their official goal is to achieve a set of Chinese accounting standards that is equivalent to the IFRS. Some early studies have questioned the feasibility of this project, given that China has different institutional settings such as the structure of the Chinese economy and the Chinese share markets, government-dependent professions and the legal system (section 2.2.1). Other studies show that Chinese accounting standards have achieved remarkable progress in converging with the IFRS through comparing the CAS and IFRS or by measuring reporting quality (E. Lee et al., 2013; C. Liu et al., 2011). Although many are aware of the cultural influences on IFRS globalisation with a reference to the Hofstede and Gary framework (Gray, 1988; Hofstede, 1980), little attention has been paid to how cultural influences impact on the implementation of the IFRS-based standards in China. This study reveals the significant influences of embedded Confucian traditions on Chinese accountants and the obstacles in applying the CAS that is converged with IFRS.

Although CAS has significantly converged with IFRS, the convergence between them does not necessarily lead to a convergence in accounting practice. This study collects first hand data from accounting professionals and academics to investigate the obstacles involved in

the implementation of CAS. The study finds that the practical difficulties of implementing CAS are not only limited to Chinese institutional factors, but also to their embedded Confucian cultural traditions. Although the Confucian traditions may not be in their ideal form, these traditions are still deeply rooted in social customs that have a strong influence on Chinese accountants' judgements.

This study answers the two research questions outlined in Chapter 1. It shows that Confucianism still has an influence on both accounting education and professional ethics in contemporary China. The first research question examines the influences of Confucian traditions on accounting education. The hierarchical teacher-student relationship and the reliance on examinations lead to a non-critical approach of learning and obedience to authority. This form of pedagogy emphasises the understanding of prescribed knowledge. The examination-orientated system reinforces the belief in a single right answer. Chinese accounting education equips students with the necessary technical knowledge, but not the generic skills required to make professional judgements. Although China is absorbing Western pedagogy, it has not been very effective in changing its traditional approach to education in the majority of Chinese universities. Moreover, with the introduction of a research-based performance appraisal system, Chinese academics have to spend more time on publishing articles to the extent that teaching quality may be impaired. They have little time to explore new teaching methods or experiment with new forms of assessments. Consequently, the teacher-centred tradition is unlikely to be changed in the near future. Considering the findings from accounting education as a whole offers an understanding of how the Confucian doctrine impacts on the ability to exercise professional judgement. With inadequate generic skills, accounting students are less likely to feel comfortable in applying the principle-based standards. Such inadequacy could hinder the implementation of the standards. Despite Chinese accounting education placing less attention on a critical approach to learning, it can be argued that such skills are not appreciated in many Chinese workplaces due to the hierarchical accountant-supervisor relationship and *guanxi*.

The second research question is to investigate how Confucian teachings impact on professional ethics in contemporary China. The notion of five relationships (*wulun*) appears to limit professionals in exercising judgements independently as they tend to follow instructions from their bosses or supervisors. This also applies to auditors as they hesitate to

question their clients due to their seniority. Furthermore, accounting firms are involved in the Chinese relation-based economy. To survive and compete in such an environment, they need to maintain *guanxi* with clients, which involve on-going exchanges of gifts and favours. As a result, their independence can be largely compromised.

From a Western perspective, compromising professional ethics under hierarchy and relationships is viewed as unethical. However, a Confucian heritage culture promotes social hierarchy, behaving according to one's position and treating people according to the degree of closeness of *guanxi*. Chinese accountants are born to be within different relationships and have dependence on these relationships. Hence, their judgements are influenced by their relationships and their position in a hierarchy. Under the influence of the Confucian heritage, society values the type of person who possesses the following characteristics: people who are sensitive to *mianzi*, who repay favours, who take care of their own families and friends, and who keep their promises under *guanxi* obligations. Confucian culture values interdependence, but does not support the concept of independence and objectivity.

IFRS are developed based on an individualist culture. Principles of impartiality, individual rights and equality are considered to underlie Anglo-Saxon societies. These principles also pinpoint the fundamentals in Western professional ethics. For example, professional independence and objectivity is very important to ensure that a fair judgement can be made. Only when the judgement is made based on professional ethical principles, can the financial statement be considered "true and fair". The share markets in the West require independent auditing. Auditors are required to independently and critically assessing financial information and questioning clients' assertions. The ideal of independence is to protect the interests of shareholders and investors. Auditors need to be impartial in considering the public interests when they are paid by the clients. These principles, however, contradict with a Confucian society where social order and relationships are essential. Therefore, the *de facto* convergence with the IFRS is unlikely to be achieved in the near future, though the Chinese government is pushing for the implementation of the new CAS in both listed and unlisted companies. The next section presents how the current study contributes to extant literature.

7.3 Some recommendations

The overall finding suggests that China is still on a long journey to achieve a *de facto* convergence. Chinese society is unlikely to change from a relation-based culture in the

foreseeable future. For now, accounting policy makers ie IASB and CASC should acknowledge the difficulties in implementing the IFRS-converged standards and give a sufficient period for transition. The following recommendations may be helpful to address the obstacles in implementing the IFRS-converged standards.

First, the IASB recognises that education and training is one of the most important strategies to implement IFRS. It develops a set of framework-based teaching and learning materials. Chinese academics may use these resources as a guide to focus on teaching principles and key definitions of accounting. Perhaps, the IASB or IFAC may assist China or other adopting countries to train their educators.

Second, Chinese government may consider performance evaluation criteria, which acknowledges and rewards accounting academics who implement interactive teaching and research-based assessment structures. Chinese academics may continue to observe and collaborate with Western universities. Meanwhile, Chinese universities may also employ foreign academics to train students. However, Chinese students will need to have sufficient understanding of English for this to be effective. A dialogue process between China and Western accounting educators maybe also useful in exchanging teaching techniques and curriculum content. Third, in addition to education, professional judgements also rely on experience. Currently, China is tightening the rules on expatriates Partners in the Big 4 firms in China, the researcher suggests, on the contrary, China should utilise the Big 4's experience and resources to train Chinese practitioners. Perhaps, introducing more foreign registered Partners is likely to improve the alignment of the application of auditing methodologies required under the ISA.

Fourth, the CSRC may also collaborate with overseas auditor regulation authorities to align and improve quality review regime. This is likely to ensure that the Chinese authority holds the same level of review criteria to monitor audit practice. The CSRC may strengthen the enforcement of laws related to investors' protection and increase the compensation to shareholders if an auditor is convicted of negligence

Culture is unlikely to change in the short term, it may take a generation to achieve effective implementation of IFRS-converged standards in China. The next section discusses the contributions of this study.

7.4 Contributions of this study

This section compares the key findings from this study with prior literature. The contributions from the current study are explained below.

7.4.1 Contributions to literature on Chinese accounting education

The current study justifies and complements the extant literature on accounting education in the following way.

Consistent with earlier articles (M. W. Chan & W. Rotenberg, 1999; Z. J. Lin, 2008; Yongze Liu & Chi, 2008; Yunwei Tang, 1999; Wu & Tong, 2004; Xiao & Dyson, 1999), the current accounting education is found to be largely teacher-centred and the skills-development of students remains weak. Although earlier literature criticises Chinese accounting education, none has provided an in-depth understanding of the status quo of the Chinese accounting education system. The current study, based on its interview data, reaches an understanding of how Confucian legacies impact on the current accounting education system to provide a theory base. In this way, the study complements the existing literature on Chinese accounting education.

Some authors of earlier studies maintain that the exams are the primary assessment tool in Chinese accounting programmes and indicate that the examination-orientated assessment structure may limit students' skills development (M. W. Chan & W. Rotenberg, 1999; Woodbine, 2007). The current study finds that learning for exams persists at an expense of a wider and more critical understanding of the subject area. It finds also that, because of the NCEE, that students are accustomed to an examination-orientated system before they enter into universities. The accounting programmes at university level largely continue the exam tradition. The NCEE strongly influences the learning process of students, which is to pass examinations rather than to develop a more conceptual and critical understanding of knowledge. Therefore, it is not only the accounting education at tertiary level but also the secondary school system that contributes to a lack of critical understanding and inadequate generic skills. Despite the drawbacks of an examination-orientated system, the reliance on the NCEE has considerably reduced the power of *guanxi* in the enrolment processes of universities. Thus, it provides a fair opportunity for students, regardless of their backgrounds. The examination system reflects the persistent legacy of the long-lasting IE system and

Confucian beliefs in education for all. Such system appears to train students to learn the virtues of diligence and hard work.

This study also finds that Chinese accounting academics in comprehensive universities are now subject to a research-based performance evaluation system, which is similar to the performance appraisal system adopted in the West. However, this emphasis on research has discouraged academics from introducing and experimenting with new teaching methods. Therefore, it may partially contribute to the dominance of the teacher-centred pedagogy.

Few earlier studies looked into professional ethics education in Chinese accounting programmes. The current study finds that although professional ethics education is weak at the undergraduate level, there is growing attention given to the subject. The issues relating to ethics education are from the following aspects. Some teachers hesitate to teach ethics because they perceive that students are not interested because of the prevailing materialism in society. Practitioners think that the accounting professional qualifications cover professional ethics, therefore, it is not emphasised in the universities. They treat professional ethics as an exam to obtain their qualifications, because what they learn in professional ethics at university is not what they do in practice, as evidenced in the findings.

7.4.2 Contribution to literature on Chinese accounting professional ethics

The current study bridges the gap in the extant literature on Chinese accounting professional ethics. As reported in Chapter 2, Chinese business scandals have drawn much attention to issues around accounting professional ethics in China. There are two strands of literature on this field.

First, much literature has shown that culture is a very influential factor on professional judgement and the ethical decision-making process (Cohen et al., 1992; Fleming et al., 2010; Smith & Hume, 2005). Some studies compared ethical reasoning between Chinese respondents and their Western counterparts using ethical dilemma scenarios (Au & Wong, 2000; Fleming et al., 2010; L. Ge & Thomas, 2008; Gul et al., 2003; Patel et al., 2002; Smith & Hume, 2005; J. Tsui & Windsor, 2001). In general, the results from these studies show that Asian respondents exhibit lower ethical reasoning scores than their foreign counterparts. The lower the ethical reasoning scores are, the more likely it is to engage in unethical conduct (Au & Wong, 2000; L. Ge & Thomas, 2008; Gul et al., 2003; J. Tsui & Windsor, 2001).

These studies demonstrate that cultural differences impact on professionals' ethical decision-making. However, these prior studies largely adopted Western principles in analysing and interpreting the results.

Although Western ethical positions are dominant globally, they are divergent from Confucian ethical positions. Western ethical positions are not necessarily transplantable to Chinese society. The current study extends earlier studies to gain a deeper understanding of the ethical challenges faced by Chinese practitioners. It interprets the results from a Confucian perspective rather than imposing a Western framework onto Chinese professionals. The study employs interviews to reveal the views and experiences of respondents who worked or work in PRC. It provides an in-depth theoretical understanding of the behaviour of Chinese professionals.

The current study also addresses the paradox in the literature relating to professional ethics (section 2.4). Some literature argues that Chinese accountants are more likely to engage in unethical conduct due to aspects of Chinese culture such as collectivism, *guanxi* and large power distance. Other studies show that a growing culture of profit has replaced Chinese traditional values and that professional ethics have deteriorated. The findings from this study explain this paradox. Confucian traditions have not deteriorated, but have mutated to adapt into contemporary society and aid the growth of materialism (section 7.1.5).

The second strand of the literature questions auditor independence in China. Many studies show how institutional factors affect Chinese auditor independence, such as government control, the share market structure, the legal environment and *guanxi* (K. H. Chan et al., 2006; F. Liu & Xu, 2002; J. Liu et al., 2011; Q. Wang et al., 2008). Although some early studies show improved auditing independence (S. Chen et al., 2010; Defond et al., 2000; Gul et al., 2009; L. Yang et al., 2001), the standard of improvement is unclear. This study is consistent with Chan et al. (2006) and Chu et al. (2011) who show the independence of Chinese auditors is largely questionable. The current study finds that there is a lack of independence of Chinese auditors due to competition, *guanxi*, *wulun* and materialism. The study provides an in-depth understanding of the practical issues faced by Chinese auditors within a relation-based society. The "improved independence" as found in some earlier studies does not necessarily mean that Chinese auditors are independent.

Moreover, through the analysis from a Confucian aspect, the current study further argues that auditing is a practice that contradicts Confucian doctrines from three aspects. First, the concept of auditing challenges the idea of harmony. Auditing requires auditors to hold a degree of scepticism to question and to challenge their clients. The process of questioning may create conflicts and upset harmony. Second, questioning clients who are more senior than the auditors may be disrespectful and hence may cause both parties to lose *mianzi*. Issuing a qualified opinion would cause clients to lose *mianzi*. Third, auditors are supposed to act in the best interests of the shareholders and investors, who are strangers to them. This violates the auditors' social obligations under *guanxi*, which require them to look after the interests of their families, friends and acquaintances. Auditors are unlikely to sacrifice the interests of those with whom they have *guanxi* for external investors. Without an independent auditing profession, which has a role to enforce the application of accounting standards, the implementation of the new IFRS-based accounting standards could be significantly weakened.

Prior studies have mainly focused on auditor independence. It is likely that studies on earnings management by Chinese firms can be proxy for the ethical status of accountants (J. J. Chen et al., 2011; Jian & Wong, 2010). Little attention has been directly given to accountants' objectivity. This study contributes to this gap and finds that Chinese accountants largely listen to their bosses due to the hierarchical structure. The significance of this finding is that accountants are preparers of financial statements and their objectivity affects whether financial statements are prepared to reflect a "true and fair" view. Therefore, it indicates how well the new CAS can be implemented in China. If accountants largely follow the instructions of their bosses, it means that they are unlikely to exercise independent and objective judgement. This reduces the value of the principle-based standards.

Furthermore, extant literature mentioned that tax-orientated system is likely to create a barrier for IFRS convergence because the purpose of reporting is to determine tax income. This study reveals more specific details on some tax regulations appear to restrict the accountant discretion given by the accounting standards. The impact of tax regulations on the implementation of the new CAS has not been mentioned in a prior study to the researcher's knowledge. This finding may suggest that the Chinese accounting standard

setting authorities need to discuss with the tax regulation authorities in terms of how tax regulations can be compatible with accounting standards.

In summary, the study contributes to the body of knowledge in two ways. First, in extant literature, culture is a recognised factor that hinders the convergence of the IFRS in China. This study furthers the understanding to show the significant and persistent influences that Confucianism has on the judgements of Chinese accounting professionals. Second, the current study provides a theoretical argument on how Confucianism responds to the current materialism in China. It explains how the potentially contradictory values from Confucianism and materialism combine to influence the ethical judgements of accounting professionals. The policy makers, such as IASB and the Chinese national standards setting body, need to recognise the difficulties in the implementation of the principle-based standards. Many concepts underlying IFRS do not necessarily match Chinese culture and customs. Consequently, one global “single-set” accounting standard may need to provide many exceptions to accommodate the needs of different countries.

7.5 Limitation and future studies

This study has the following limitations, which may influence the interpretation of findings and conclusions. Some limitations may lead to opportunities for future research, which are suggested below.

First, practitioner interviewees of this study cover a range of sectors such as SOEs, private entities, foreign entities, accounting firms and list companies. Many interviewees have experience of working in different sectors. Due to this mixed background, the researcher cannot always pinpoint in which sector a specific experience of a particular interviewee was based. Therefore, interview data cannot be analysed into different sectors. As a result, some insights on the comparison of different sectors could be omitted. Future study may compare Confucian cultural influences in different sectors. For example, a study may investigate Confucian influences on SOEs in contrast to joint ventures and foreign entities. This may reveal whether the Confucian impact varies according to the existence of foreign ownership.

Second, interviewees for this study were recruited through referrals. All the interviewees are from the Eastern side of China, such as from *Beijing*, *Tianjin* and *Hangzhou* (names of Chinese cities). These regions are more economically developed than the regions in the west

side of China. Confucian influences could be stronger or weaker in the less-developed regions. Therefore, the data may not be representative for those regions. Future study could be carried out to study Confucian influences on accounting education or professional ethics in less-developed regions. Such a study may reveal whether economic development would weaken or strengthen the influences of Confucianism.

Third, the age groups of the practitioner interviewees are not evenly spread. Eight interviewees are within the age group of 30-39 (61.5%), another three are within the age group of 40-49 (23%) and the remaining two interviewees within the age group of 50-59 (15.4%). This means that the majority of interviewees grew up post the economic reforms. The economic reforms have brought enormous changes, not only in the economic structure, but also in social and cultural values. Due to this age concentration, the data is weak in representing changes of social values prior and after the Open door policy of 1978.

In addition to the aforementioned areas that could be investigated further, future studies may research the following. Chinese university educators are now under pressure to do more research. However, the findings from this study suggest research is done at the cost of teaching quality, rather than reinforcing teaching quality. Research-led teaching is perceived to improve the effectiveness of teaching, though many authors argue otherwise (section 5.2.5). As research is now taking off in China, this is an area in accounting education should be investigated more in-depth. A future study could research the impacts of the research-based performance system on accounting pedagogy and/or curriculum development in Chinese universities. Such research could contribute to the debate of the teaching-researching nexus.

With the growing importance of China, it may well be that China becomes dominant in the future direction of the IFRS convergence. For example, the accounting standards on business consolidation and disclosure on related parties have been re-written to suit the Chinese context. The reshaping of standards would be an interesting issue to study in the future because it represents and resolves the potential division between Asian and Western practices.

7.6 Conclusion remark

In conclusion, the current study provides an in-depth theoretical analysis from a Confucian perspective to explain the obstacles in the implementation of the IFRS-based accounting standards in China. In particular, the study shows how Confucian traditions influence Chinese accounting education and professional ethics. Both themes from this study suggest that Confucian tradition influences the way accounting professionals exercise judgement, which is essential in order to apply the principle-based accounting standards. Hence, through investigating these two themes, the study shows the cultural obstacles in the implementation of the standards. The outcomes from this study suggest that the *de facto* convergence is not substantial in practice.

The study shows that the teacher-centred pedagogy and examination-orientated education trains Chinese accounting students to be obedient and hardworking at the expense of generic skills. These Confucian traditions lead to a less-critical approach in learning, which may hinder the ability of students to exercise professional judgement. Furthermore, *wulun* and *guanxi* also show a negative effect on professional independence and objectivity. Under the influence of *wulun* and *guanxi*, accounting professionals are compelled to be obedient and fulfil their obligations under *guanxi*. Although *guanxi* appears to be unethical, maintaining *guanxi* requires trust and reciprocity. People are bound to fulfil their promises, as otherwise it damages *mianzi* and trust. Therefore, *guanxi*, rather than legal contracts, holds the parties involved accountable. Rules and regulations can be bent under the influence of *guanxi*. In this sense, *guanxi* liberates businesses from inflexible procedures and thus increases effectiveness. *Guanxi* is found to be of great importance in the accounting field. The concepts of independence and objectivity are very difficult to realise under a relation-based society. Thus, accounting professionals are unlikely to make judgements, which are free from bias. Consequently, the purpose of a principle-based standard is unlikely to be realised in China.

Materialism appears to have become prevalent in China and interviewees suggest that morality has deteriorated in contemporary China. The researcher argues that Confucian ethics (*ren*, *yi* and *li*) and traditions adapt to the Chinese business context and facilitate the growth of materialism. Meanwhile, materialism encourages professionals to earn profits and increase personal wealth while abiding by the Confucian ways of doing business. This suggests that

Confucian culture survives in the contemporary environment and its influences on professionals are still current.

Earlier studies documented how the unique Chinese economic and political environment hinders the convergence of the IFRS-based standards. This study complements earlier studies and shows that Confucian legacies attribute to the difficulties of practising the principle-based standards. The findings from this study are useful for policy-makers in the IASB to increase their awareness of cultural obstacles in the convergence process. It may also be informative for Chinese policy-makers to become more aware of the practical difficulties of the implementation of the 2006 CAS. Furthermore, the implications from this study may be useful for other developing countries, which are adopting the IFRS. The Western world is currently leading globalisation and many developing countries are adapting their way of doing business and preparing accounting information. At the same time, their own culture cannot be easily abandoned because their practices are deeply embedded.

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Appendix 1 Participant Information Sheet

Participant Information Sheet



Date Information Sheet Produced:

31 March 2010

Project Title

The full adoption of IFRS in China – An Investigation of the cultural perspectives

An Invitation

Dear XXX

I am Gina Xu, a Doctorate student at the Auckland University of Technology. I wish to invite you to take part in my research on the adoption of International Financial Reporting Standards in China.

This research is being undertaken as my Doctorate study and will be supervised by Professor Keith Hooper. Should you agree to participate, it would be on a voluntary basis and you may withdraw your participation at any time up to the completion of the first draft thesis.

What is the purpose of this research?

The thesis aims to assess the feasibility of full adoption of principle-based International Financial Reporting Standards (IFRS) in China from a cultural perspective.

Successful completion of this research will contribute to the completion of the Doctor in Philosophy qualification. The research may also be presented at academic conference(s) and/or published in academic journal(s).

How was I identified and why am I being invited to participate in this research?

You are Chinese accounting academics, accounting practitioners and officials as whom I know through CPA Australia China offices, or you may have been referred by other participants.

What will happen in this research?

I will also interview Chinese accounting academics, accounting students, accounting practitioners and officials, such as yourself (subject to your consent) to discuss your views and practical experiences related to the adoption of IFRS in China as well as your opinion on Chinese culture. The interview will last approximately 45-60 minutes. The interviews will be held at a location of your choosing (or over the telephone) and at a time that is convenient for you.

You will be given the opportunity to review any quotations extracted from your interview, to check them for accuracy. All information collected and referred to in this research report (and any subsequent publications) will be anonymised to protect your and your organisation's confidentiality.

What are the discomforts and risks?

You may feel uncomfortable when discussing questions regarding independence issues related Chinese accounting practitioners. The concept of professional independence is like the concept neutrality. It requires professionals to maintain their objectivity and free from any bias. The notion of independence does not create discomfort. However, the literature suggests that it is hard to achieve in practice. The question concerns the practical experience of practitioners of how they abide in the notion of independence.

How will these discomforts and risks be alleviated?

Although the question above may not be easily answered, it is not a personal or sensitive question. You do not have to answer any questions you do not wish to. You may also withdraw yourselves, or any of your responses, from the research at any time without disadvantages.

What are the benefits?

The findings from this study are likely to help the International Accounting Standard Board further its goals towards the globalisation of IFRS. IASB needs to be well informed possible cultural obstacles and hindrance to IFRS adoption and may modify their agenda accordingly. The findings may also enlighten Chinese authorities to consider strategies to strengthen professional morality and further the development of the accounting education system. It may also have implications for other developing countries which have different cultural systems from those of Anglo-Saxon countries.

In addition, successful completion of this research will form part of the requirements for my Doctoral study.

How will my privacy be protected?

Please be assured that all information collected and referred to in the research report will be anonymous to protect you and your organisation's confidentiality. All project-related notes will be held securely at AUT University and will be destroyed after 5 years.

What are the costs of participating in this research?

The interview will require 45-60 minutes of your time.

What opportunity do I have to consider this invitation?

You have two weeks in which to respond to this invitation. Your participation is voluntary. You are welcomed to contact me anytime if you have any concerns and questions about this research. You also can withdraw your participation at any time by writing to me.

How do I agree to participate in this research?

I would be grateful if you would inform me of your participation decision via a phone call or email me in the first instance (see below for contact details).

Also, if you are willing to be interviewed for this study, please indicate your consent by signing and returning the attached consent form via email.

Will I receive feedback on the results of this research?

A copy of the research outcome will be available to you upon request. If you wish to receive a copy, please indicate this on the attached consent form. I will post one copy to your organization when the report is finalized.

What do I do if I have concerns about this research?

Any concerns regarding the nature of this project should be notified in the first instance to the Project Supervisor, *Professor Keith Hooper*, keith.hooper@aut.ac.nz, 0064-9-9219999 ext 5758

Concerns regarding the conduct of the research should be notified to the Executive Secretary, AUTECH, Madeline Banda, madeline.banda@aut.ac.nz, 0064-9-921 9999 ext 8044.

Whom do I contact for further information about this research?***Researcher Contact Details:***

Gina Xu, gina.xu@aut.ac.nz 0064-9-9219999 ext 5066

Project Supervisor Contact Details:

Professor Keith Hooper, keith.hooper@aut.ac.nz, 0064-9-9219999 ext 5758

Appendix 2 Consent Form

Consent Form



Project title:

The full adoption of IFRS in China – An Investigation of the cultural perspectives

Project Supervisor: Professor Keith Hooper

Researcher: Gina Xu

- ☐ I have read and understood the information provided about this research project in the Information Sheet dated 31st March 2010.
- ☐ I have had an opportunity to ask questions and to have them answered.
- ☐ I understand that notes will be taken during the interviews and that they will also be audio-taped and transcribed.
- ☐ I understand that I may withdraw myself or any information that I have provided for this project at any time, without being disadvantaged in any way.
- ☐ If I withdraw, I understand that all relevant information including tapes and transcripts, or parts thereof, will be destroyed.
- ☐ I agree to take part in this research.
- ☐ I wish to receive a copy of the report from the research (please tick one): Yes ☐ No ☐

Participant's signature:

Participant's name:

Date:

Approved by the Auckland University of Technology Ethics Committee on 3 June 2010
AUTEC 10/102

Appendix 3 Interview Questions Guide

Interviewee	Students	Academics	Practitioners
Education	Experience of your study (likes/dislikes) Skill-development Method of teaching and assessment structure	Compare when you were students. What are the changes in accounting education system?	What did you learn when you were in university that is useful in your work? What are the skills you developed during your study that are beneficial to your life?
Traditional culture	classroom setting, relationship between teacher and students	classroom setting, relationship between teacher and students	classroom setting, relationship between teacher and students relationship between supervisors/ boss and subordinates?
Professional ethics	Do you have ethics paper or any form of ethics education in your study? Do you think ethics is relevant to accountants?	Do you have ethics paper or any form of ethics education in your study? What are your views on the current professional ethics in China, ie independence? (what are the reasons for this ie respect to authority or elders, competition?) Tax authority <i>Guanxi</i>	Do you have ethics paper or any form of ethics education in your study? What are your views on the current professional ethics in China, ie independence? (what are the reasons for this ie respect to authority and elders, competition?) Tax authority <i>Guanxi</i>
Modern culture	What do you think is the prevailing values/ culture in the current society? How important do you perceive the concept of <i>guanxi</i> ?	What do you think is the prevailing values/ culture in the current society?	What do you think is the prevailing values/ culture in the current society?
IFRS adoption	Given the situation in China, what do you think the adoption of IFRS in China? Will it be fully achieved in practice or just adopted at superficial level?	Given the situation in China, what do you think the adoption of IFRS in China? Will it be fully achieved in practice or just adopted at superficial level?	Given the situation in China, what do you think the adoption of IFRS in China? Will it be fully achieved in practice or just adopted at superficial level?