

National Culture and Ethical Judgment: A Social Contract Approach to the Contrast of Ethical Decision Making by Accounting Professionals and Students from the U.S. and Italy

Mary B. Curtis

University of North Texas

Jeremy M. Vinson

Clemson University

Teresa L. Conover

University of South Florida St. Petersburg

Lorenzo Lucianetti

Valentina Battista

University of Chieti-Pescara

ABSTRACT: Globalization defines the business world today, yet globalization also leads to many types of misunderstandings regarding ethics, motives, and trust. We apply the theory of social contracts for the purpose of aiding the understanding of moral diversity arising from globalization. Specifically, we seek to better understand how country of origin, and role within country, lead to community “microsocial” norms that inform social contract ethical judgments. A total of 695 managerial accounting professionals and accounting students from Italy and the U.S. completed the survey. Employing a moderated mediation model, we find that country of origin is significantly related to intended behaviors in two business situations, and this relationship is mediated by social contract ethical judgment. Further, the impact of national culture on social contract ethical judgment is moderated by role (professional versus student). Multiple mediation analysis supports our contention that contractual evaluations precede moral equity assessments and that both contractual and moral equity ethical judgments affect ethical intentions.

Keywords: accounting ethics; social contract theory; ethical judgment; international ethics; moderated mediation.

I. INTRODUCTION

As the 21st century breaks upon us, no ethical issues in business appear as significant as those being created by the rapid globalization of business.

—Velasquez (2000)

Globalization defines the business world today. “An ongoing challenge to conducting successful global business is understanding people’s cultures and motivations” (Burton 2012). Globalization impacts business partners through their strategic alliances and employees through their day-to-day interactions, since differences in values, perspectives,

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and decision making can lead to cultural misfit and misunderstandings (Duysters, de Man, and Wildeman 1999; Kauser and Shaw 2004; Duysters and Heimeriks 2004; Tekavčič, Dimovski, Peljhan, and Škerlavaj 2010). Succinctly, cultural differences cause people to think and act differently. Work relationships, whether between organizations or individuals, can be difficult in the best of circumstances; the addition of cultural diversity makes such relationships that much more complex. We seek to better understand whether and how cultural diversity impacts ethical decision making in business settings through social contracts embedded in cultural values.

Culture can be an unconscious intrusion into otherwise-conscious ethical decision making (Rest 1979). Indeed, there are environmental or background factors such as cultural, industry, organizational, and personal experiences that are external to the ethical decision-making process but nevertheless affect it (Vitell and Hunt 1990). Prior research in ethical decision making identifies numerous ways in which the non-conscious intrudes into this process (Jones 1991; Treviño 1986; Treviño and Weaver 2001), and one's cultural influences are an example of such intrusions (Curtis, Conover, and Chui 2012).

The theme of this paper is that the impact of culture on individual interactions can be explained through the consideration of values. For example, Wines and Napier (1992) extend the notion of national culture to moral values and beliefs, stating that some moral values common to North America may differ from those in European cultures. Gray (1988, 4) asserts, "An essential feature of social systems is perceived to be the inclusion of a system of societal norms, consisting of the value systems shared by major groups within a nation," where values are defined as "a broad tendency to prefer certain states of affairs over others" (Hofstede 1980, 19). Values at the collective level, such as country or profession, as opposed to the individual level, represent culture; thus culture describes a system of societal or collectively held values. These values then result in broadly accepted behavioral norms. Smith and Hume (2005, 210) assert that "[w]hile some ethical issues tend to be largely universal (i.e., honesty), other issues (i.e., fairness or equity of treatment, appropriateness of a behavior) may be confounded by cultural factors within a society." Differences in ethical intentions can be explained by different inputs into the ethical decision-making process—different values result in differing outcomes.

Thus, we assert that the influences of parents and peers and of upbringing and surroundings flavor one's perspectives so as to permeate the cognitive processes in ways that are not recognizable to the individual (Haidt 2001; Armstrong, Ketz, and Owsen 2003; Scholtens and Dam 2007). We argue not that the role of values or norms derived from these various sources are the best approach to ethical decision making, but that they are an inevitable influence. Given the diverse accounting literature in judgment bias, accounting researchers recognize that such biases can and will arise (Bonner 2008). And so, if such intrusions are inevitable, then we must understand them.

To learn more about the impact of cultural values on accountants' ethical judgments and intentions, we use a sample derived from two different countries (U.S. and Italy), and two groups within each country (students and accounting professionals). We apply social contract theory to test the influence of norms (social norms) in influencing ethical decision making. This theory proposes that each community, whether national or local, establishes norms that form the basis for ethical judgment. Originally discussed by Aristotle, little research has applied this theory to the domain of individual ethical decision making, and no research we are aware of employs this theory to explain the difference in ethical intentions between countries and communities within countries. To this end, we collected data in both countries (U.S. and Italy) from people working in management accounting positions (professionals) and people studying accounting (students). Using this unique sample, we compare both cultural differences between U.S. and Italian accountants (a contrast receiving little attention in the ethics literature) and perceptions of the newer members of our profession (students) to those of more experienced members (professionals). An additional contribution of this work is that we evaluate the judgments of management accountants, a population of accountants that has not been previously surveyed in this literature. Finally, using a moderated mediation model, we extend the body of research employing the Multidimensional Ethics Scale (Reidenbach and Robin 1990). While most research considers the various dimensions of the Multidimensional Ethics Scale as independent, we demonstrate that social contract judgments precede and influence moral equity judgments.

Using two different vignettes, we measure participants' social contract and moral equity ethical judgments, as well as the intention to act in a similar fashion as the individual in the vignette and the intention to whistleblow on the individual in the vignette. We find that participants differed between countries and by role (student versus professional) and that these differences varied by vignette (interacted with the context of the case). Social contract ethical judgments influence moral equity ethical judgments, and both mediate the relationship between country and intentions. Finally, role interacts with country in impacting social contract ethical judgments, such that the student accountants make less diverse ethical decisions (moderated the mediation) than professionals, in both countries. Our results demonstrate that values impact behavior, which contributes to an understanding of why cultural differences cause people to think and act differently.

While a growing body of literature addresses the potential impact of national culture on individual interactions and behaviors, the existing literature suffers from several limitations. First, the majority of ethics-related studies involve only U.S. participants. Second, those that do consider country differences tend to employ only student participants. Third, prior studies

either do not look beyond country of origin to consider how those countries' culture influence behavior, or consider only a limited model of national culture. Finally, a majority of prior studies treat ethical judgment as their dependent variable, and do not consider intentions to act. We address these limitations by applying the Rest (1979) model of ethical decision making and contrasting two dimensions of ethical judgment.

II. THEORY

About Social Contract Theory

Although the notion of social contract is as old as philosophy itself (e.g., Plato's Republic, the political philosophy of Hobbes or Locke, as well as the more recent writings of John Rawls), Rousseau and Cranston (1971) are perhaps the most recognized for their writings on Social Contract Theory. They consider the social contract an explanation of the obligations of individuals to society and, *vice versa*, of society to individuals. The claim "man is born free, and everywhere he is in chains" (Rousseau and Cranston 1971) represents the core of this theory, asserting both how societal laws coincide with individual freedom and, at the same time, how we are enslaved to society's expectations.

In the context of business ethics, Reidenbach and Robin (1990) have interpreted social contract theory, or simply contractualism, as a form of deontology. Business exchanges, by their nature, are reciprocal wherein one party is obligated to provide a product, service, employment, or perform some action in return for something of value (Reidenbach and Robin 1990). Individuals appear to take this idea of exchange one step further to include an ethics of exchange and are asserted to make ethical judgments based, at least partly, on whether the exchange conforms to the social contract. Indeed, in their Multidimensional Scale of ethics judgment, Reidenbach and Robin (1990) identified contractualism as a dimension of ethical judgment, separate and distinct from other forms of deontology.

Donaldson and Dunfee (1994, 1999), Donaldson (1982), and Dunfee (1991) pursued the role of contractualism in business ethics through the development of their Integrative Social Contracts Theory (ISCT). According to ISCT, individuals recognize ethical obligations and derive value judgments based upon two levels of consent: the "macrosocial" level, where contracts appeal to all rational contractors (similar to universalism) and the "microsocial" level, in which contracts are established, explicitly and/or implicitly, by localized communities.¹ The corresponding theory of social learning (Bandura 1969; Pratt et al. 2010) proposes that we sense, from our earliest experiences, what society believes and values. From this, we assimilate social information, including others' evaluations and preferences, which are in turn adopted as our own (Tajfel 1981).

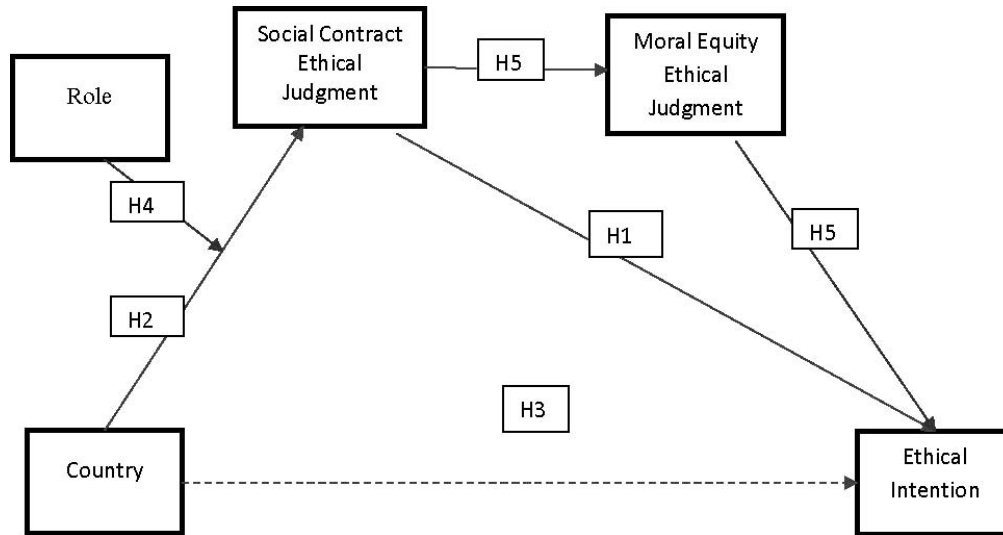
The model of ethical decision making proposed by Rest (1979) depicts how ethical awareness leads to ethical judgment, which, in turn, leads to ethical intentions and, ultimately, to ethical actions. During the last decades, researchers (Jones 1991; Treviño and Weaver 2001; Curtis et al. 2012; Treviño 1986) have incorporated the notion of exchange ethics in an attempt to identify influences over each stage of the process. For example, in describing the dimensions of moral intensity, Jones (1991) incorporated the factor of social consensus with its emphasis on implied social agreement, which is implicitly contractarian. Fishbein and Ajzen's (1975) theory of reasoned action hypothesizes that one's intention to perform a behavior is partially determined by subjective norm, defined as the perceived social pressure to perform or not perform a behavior. This perceived social pressure is consistent with the social contractarian argument that specific ethical norms, derived in one's community, govern the implicit social contract. Ferrell, Gresham, and Fraedrich (1989) developed a model of ethical decision making that considers features of organizational culture, and other decision-making models include the step of moral evaluation or ethical judgment as a predecessor to action (Hunt and Vitell 1986; Jones 1991; Rest 1986). Numerous empirical studies have found that ethical judgment precedes and influences the intention to act (Cohen, Pant, and Sharp 1998; Curtis et al. 2012; Kish-Gephart, Harrison, Treviño 2010) and, specifically, Robertson and Ross (1995) have found that social contract ethical judgments influence the intention to act.

We combine these two streams of thought in developing our first hypothesis: given that Rest (1979) and many others assert that ethical judgments precede ethical intentions, and social contract ethical judgments are particularly susceptible to cultural influences, we expect that culturally influenced social contract ethical judgments will influence ethical intentions. Consistent with this extensive body of literature and as presented in our theoretical model (Figure 1), we expect that ethical judgment will affect ethical intentions, and initially consider, specifically, the ethical judgments derived from social contracts.

H1: Social contract ethical judgments impact ethical intentions.

¹ Our goal of understanding cultural influences on ethical decision making lead us to focus on "microsocial" contracts as, theoretically, "macrosocial" contracts should not differ between communities or even nations.

FIGURE 1
Theoretical Model



About Cultural Differences: Italy versus the U.S.

A number of studies have identified country-level differences in ethical judgments and intentions. For example, [Cohen, Pant, and Sharp \(2001\)](#) found differences between U.S. and Canadian students and professionals in ethical awareness, ethical orientation, and the intention to perform questionable acts across different questionable actions. [Patel \(2003\)](#) found public accountants from Australia, India, and Malaysia differ in the intention to whistleblow across two scenarios, and [Curtis et al. \(2012\)](#) found differences between U.S., Mexican, Chinese, and Japanese accounting students' ethical intentions across multiple scenarios, demonstrating that an East-versus-West characterization is not effective in anticipating ethical differences between these four countries.

However, any propositions regarding ethical differences between two or more countries based on social contracts would presuppose differences in their community (country-level) norms. Indeed, there are many similarities and many differences between our two countries of interest, the U.S. and Italy. For example, considering workforces, a recent report by the [Asian Review \(2014\)](#) indicates Italy has slightly higher labor productivity than the U.S., although U.S. workers put in slightly more total hours per year than Italians and have lower GDP per hour of labor. This report also indicates that U.S. workers have lower work-life balance and that the workforce participation rate by women is above the [Organisation for Economic Co-operation and Development's \(2017\)](#) reported average in the U.S. and below the average in Italy. Regulatory attitudes differ as well, with a dominance of law in American business, while noncompliant firms are very rarely punished with meaningful penalties in Italy ([Bajo, Bigelli, Hillier, and Petracci 2009](#); [Ciulla 1991](#)).

Other differences derive from more basic disparities in culture between individuals in the two countries. In general, and specifically in business, Italians tend to have a small-scale homogeneous perspective and, thus, usually the authority is passed down through families and generations ([Ciulla 1991](#)). [Unnia \(1990\)](#) describes Italy as lacking a strong sense of national identity. In such cultures, moral obligation is tightly inscribed and limited in scope; rules are expected to be followed, but the number of people to whom the rules apply is limited to those familiar to the individual, their local network—sometimes labeled familial amorality ([Perrini 2006](#)). In contrast, U.S. workers do not draw such boundaries around their (and others') moral obligations—and have even been labeled ethical imperialists ([Ciulla 1991](#)). Thus, a significant difference between the two countries is the concept of moral responsibility to strangers.

This discussion supports the notion that countries, professions, companies, and other entities in which one voluntarily participates form communities, which, in turn, establish norms and beliefs for their members.² These communities, and their

² The [Hofstede \(1980, 1991\)](#) cultural dimensions are commonly employed to explain why those in different countries vary in their judgments of ethics-related business activities, as well as intentions to engage in similar activities ([Cohen et al. 2001](#); [Curtis et al. 2012](#); [Patel, Harrison, and McKinnon 2002](#); [Smith and Hume 2005](#)). The [Hofstede \(1980, 1991\)](#) dimensions were not developed specifically for the consideration of ethical behavior and there are numerous critics of this approach, particularly for the study of ethics ([Baskerville 2003](#)).

norms, serve as referents for assessments of conformance with social contracts. The evaluation as to whether a particular act conforms to the community's social contracts serves as an ethical judgment, even though the conceptualization of who is a member of one's community differs.

Donaldson and Dunfee (1994, 255) define community as "a self-defined, self-circumscribed group of people who interact in the context of shared tasks, values or goals and who are capable of establishing norms of ethical behavior for themselves." According to ISCT, "microsocial" (extant) implicit contracts occur among members of specific communities, including countries, geographical regions, firms, departments within firms, informal subgroups within departments, national economic organizations, international economic organizations, professional associations, industries, and so on. The aggregate of these social contracts contains much of the substance of business ethics.

An understanding of generalized moral theory does not equip a person to understand the moral norms of business ethics, much less the norms for the specific contexts relevant to a particular community (Wempe 2005). To know what ethics requires there, a person must know both what local custom encourages and also something about the community's laws and regulations. Dunfee (1991) uses the example of insider trading as a community norm, which actually became codified. While this practice is considered unethical in the U.S., many countries have no such concerns. Thus, the forbearance of insider trading would be a microsocial contract, where the local (U.S.) economic community has specified an ethical norm for its members.

Given that our participants come from two distinct countries of origin, we would expect the two samples to have different referent groups, possessing differing norms for establishing the degree of conformance to a social contract.³ Therefore, when observing a particular event or practice, we would expect ethical judgments based on social contracts to differ for participants from Italy and the U.S. Given that Rest (1979) and many others (Jones 1991; Bass, Barnett, and Brown 1999) demonstrate that ethical judgments lead to the development of behavioral intentions (our H1), it seems reasonable that, as country impacts ethical judgment, this judgment will in turn create an indirect effect of country on intention. As depicted in our theoretical model (Figure 1), we hypothesize:

H2: Social contract ethical judgments differ between countries.

H3: Social contract ethical judgments mediate the relationship between country and ethical intentions.

About Role: Professional versus Student

Our participants can be further differentiated by another level of community: beyond country of origin, discussed above, participants differ in their current role as either a student of accounting or a professional working in an accounting position. Most individuals are concurrently members of multiple communities possessing distinct social contracts, such as one's nation, profession, religion, community, employer, industry, colleagues, or peers, each with common goals or values (Dunfee 1991). Professions generally have strong community norms, requiring consent through application and education. The accounting profession involves not only specific education, but also certification for most, and codes of conduct that accompany those certifications. However, some norms are more distinct and apparent than others. For example, the accounting profession's less explicit norms involve such unwritten understandings or socializations regarding how to dress, the importance of clients and how to act around clients, and conservatism in financial dealings (Anderson-Gough, Grey, and Robson 2000). These go toward creating professional identities—and often firm identities—far beyond what would ordinarily arise from generic accounting education. While students of accounting may be knowledgeable about the explicit norms of the profession, and may even have adopted those norms, they are less likely to be aware of the implicit norms learned through socialization into the profession, much less to have developed professional identities (Bobek, Hageman, and Radtke 2015; Gibson 2003; Radtke 2005). Not only are the accounting profession's norms culturally derived, they are also imbedded in the profession, as practiced within that culture. Thus, as students may study fairly similar subjects employing fairly similar textbooks between countries, their perceptions will not contain the additional cultural influence from practicing within that profession in their country of origin. Therefore, we expect role to moderate the influence of country of origin on contractual ethical judgments; specifically, professional accountants, having the influence of both their profession and their national culture, should have more extreme contractual judgments between countries than students.

In the only study to date providing empirical evidence of varying contractualism between students and professionals, Robertson and Ross (1995) tested the proposition that membership in a given community leads to the use of that community's

³ We acknowledge Baskerville's (2003) concerns regarding the study of national culture using tools like Hofstede's (1980, 1991) cultural dimensions, asserting this level of analysis raises issues such as the problem of equating nation states with cultures. Baskerville (2003) asserts that using country as a surrogate for culture ignores cultural differences within countries; certainly the notion of "community" recognizes this, as well. However, we initially group individuals by country to observe differences between these broader communities, and then hypothesize differences between more local communities in the next section of the manuscript. Additionally, we measure ethical judgment at the individual level.

norms to evaluate ethical situations and ultimately affects intentions to engage or not engage in a particular behavior. The expectation was that students would see an ethical decision more in cultural terms rather than applying the specific contractual terms of a profession because their inexperience leads to a lack of familiarity with the profession's contractual norms. Using samples of students and salespeople, they determined that community members (salespeople) tended to judge a potentially unethical act to constitute a violation of an implicit social contract, and non-community members (students) did not. Also, consistent with ISCT, many of the manipulated situational variables influenced perceptions of ethicality for the community members, but did not affect the perceptions of individuals outside the community (students). Further, social contract ethical judgments were significantly related to the intentions to engage in the act for professionals, but not for students.

This discussion suggests that role (professional versus student) may interact with national culture in influencing social contract ethical judgments. Thus, as depicted in our theoretical model (Figure 1), we expect role to moderate the extent to which one's country impacts contractual ethical judgments.

H4: Participant role moderates the impact of country on social contract ethical judgments.

Impact of Social Contract Judgment on Moral Equity Judgment

In developing and validating their Multidimensional Ethics Scale, [Reidenbach and Robin \(1990\)](#) described the first dimension to emerge as a broad-based moral equity dimension. This dimension appears to measure a basic, almost fundamental, decision rule for evaluating the moral content of business situations regarding fairness, or right and wrong. Subsequent studies employing this dimension support the notion that individuals evaluate actions in terms of their inherent fairness, justice, goodness, and rightness ([Cohen et al. 1998](#); [O'Fallon and Butterfield 2005](#)).

In contrast, the notion of contractualism is more specific in consideration of exchanges. Violation of these implicit ideas would result in the condemnation of the exchange process or in seeing at least part of the process as unethical ([Reidenbach and Robin 1990](#)). Given that [Reidenbach and Robin \(1990\)](#), [Robertson and Ross \(1995\)](#) and others found these two deontological dimensions to be statistically independent, the question arises as to the relationship between the two. We propose that judgments of fairness, as depicted in the moral equity dimension, must arise from some comparison basis: fair as compared to what? Whether an act or exchange conforms to the social contract should be one basis on which that comparison would occur. Therefore, it seems reasonable that a contractual evaluation would precede a general assessment of the ethicality of an act, on a basis of fairness or justice (moral equity). Therefore, as depicted in our theoretical model (Figure 1), our final hypothesis proposes:

H5: Moral equity ethical judgments mediate the relationship between social contract ethical judgments and ethical intentions.

III. METHODOLOGY

Following IRB approval, the survey was completed online by management accounting professionals and accounting students from Italy and the U.S.

Scenarios

We employed two vignettes to depict differing forms of ethical dilemmas (see Appendix A). The vignettes were intended to generate ethical judgments, which are the basis of ethical intentions ([Reidenbach and Robin 1990](#)).⁴ In developing our scenarios, we sought to place the participants into situations where their cultural differences would emerge. Both are managerial business ethics vignettes not specific to any industry or geographic region, which should be particularly relevant to our professionals, who are management accountants ([Dunn and Shome 2009](#)).

The first scenario involves a layoff decision where a younger, more capable worker was laid off instead of an older, less-productive employee. This scenario should have particularly strong social contract implications as it is consistent with more traditional views of employee relations, yet violates the notion of highest rewards for best performers. The second scenario involves giving a loan to a friend, against company policy. International reports describing corruption around the globe ([Transparency International 2013](#)) show that 83 percent of Italians believe personal relationships influence the allocation of resources within their society, while 76 percent of Americans feel this is the case. Both scenarios have been previously used in accounting ethics research ([Cohen, Pant, and Sharp 1996](#); [Curtis et al. 2012](#)) and are similar to issues considered in the most

⁴ The use of scenario techniques is well established in ethical research for testing behavioral science models ([Hunt and Vitell 1986](#)).

TABLE 1
Participant Demographics

	Italy						U.S.					
	Professionals: Number of Participants (Females) n = 145 (34)			Students: Number of Participants (Females) n = 148 (68)			Professionals: Number of Participants (Females) n = 198 (74)			Students: Number of Participants (Females) n = 204 (107)		
	Mean	Std. Dev.	Min./Max.	Mean	Std. Dev.	Min./Max.	Mean	Std. Dev.	Min./Max.	Mean	Std. Dev.	Min./Max.
Age	43.39	8.27	28/69	24.45	4.70	19/56	46.16	11.00	25/77	25.14	5.81	20/55
Accounting Experience (Months)	112.16	91.47	0/400	2.48	6.37	0/38	227.35	139.63	0/600	12.96	43.84	0/384
Total Work Experience (Years)	18.97	9.24	0/46	2.70	5.87	0/45	25.78	11.83	2/60	6.60	5.61	0/32
Ethics Courses (Hours)	0.30	1.12	0/10	0.54	1.24	0/10	1.79	4.47	0/50	1.23	1.04	0/6
Ethics Training (Hours)	16.30	65.41	0/500	4.84	24.32	0/200	28.54	29.56	0/160	3.14	9.21	0/100

recent Global Business Ethics Survey (ERC 2016), which found that the observed frequencies of talent-related misconduct and self-interested actions (decisions made or actions taken to benefit the employee/friends/family over the interests of your organization) differ between these two countries.

For each scenario, participants were asked to assess their likelihood of engaging in a similar act, as well as their likelihood of reporting the act to a whistleblower hotline (Cohen et al. 1996; Schultz, Johnson, Morris, and Dyrnes 1993; Patel 2003). The whistleblower questions were included because, according to the Transparency International (2013) reports, only 62 percent of Italians believe that ordinary citizens can make a difference when it comes to stopping corruption, while 76 percent of Americans profess that belief.

The survey was initially developed in English: it was then translated into Italian. To develop the Italian version of the survey, we followed the translation-back translation procedures outlined by Brislin (1986). First, one of the authors who is fluent in both languages translated the English version to Italian. Then, another academic translated the Italian version back to English. The original and back-translated English versions were then compared and all discrepancies resolved to the mutual satisfaction of the translators (Polonsky, Brito, Pinto, and Higgs-Kleyn 2001). Both versions were executed online using Qualtrics in the U.S. and SurveyMonkey in Italy.

Sample

Our sample consists of 352 accounting students (204 for U.S. and 148 for Italy) and 343 management accountants (198 for U.S. and 145 for Italy).

The accounting students were recruited directly by accounting faculty in the universities that participated in the research. The practitioners from the U.S. were recruited through the IMA Research Foundation. The Foundation sent an email to members soliciting participation in the survey. U.S. participants completed the survey anonymously, although we did offer a drawing for those who completed the instrument, by which those who wished to be enrolled in the drawing provided an email address. Given that in Italy there are no professional organizations like the IMA, to select management accounting professionals from Italy, we started with a random selection of companies from Bureau Van Dijk's Amadeus (see, <https://www.bvdinfo.com/en-us/our-products/company-information/international-products/amadeus>), a database of public and private firms, which include Italian companies as well as multinational companies filing separately for their Italian operations. The authors contacted each Italian company's management directly to identify a set of companies willing to cooperate with the research. The companies then provided email addresses of management accounting professionals, who were contacted directly by the researchers.⁵

Demographics are reported in Table 1. The experience-related characteristics show a significant difference between the two countries, although the lowest average is almost ten years of accounting work experience and 19 years of total

⁵ Completion rates (those who opened the survey to read a description of the study) were approximately 33 percent (201/600) for Italian professionals and 18 percent for U.S. professionals, while for students they were about 80 percent for the Italian participants and slightly higher for the U.S. participants.

work experience. Age is not significantly different between the two countries, although as expected, it differs between Roles (around 45 years old for professionals and around 25 for students). As age and experience are highly correlated with the dependent variables and with each other, Age was employed as a covariate in our analysis. In both samples, respondents were widely spread over 13 industry classifications, with manufacturing the most prevalent (19 percent for the U.S. and 30 percent for Italy), followed by finance, insurance, and real estate (16 percent for the U.S. and 11 percent for Italy).

Measures

We have two dependent variables for each scenario (Appendix B). Intention to Act (Act) was elicited with two statements: “The probability that you (others) would undertake the same action is . . . (value between 0 and 100, inclusive)” and was measured for each of our two scenarios (S1 and S2). Intention to Report (WB) was elicited with two statements for each scenario: “The probability that you (others) would use a confidential hotline to report the act described here is . . . (value between 0 and 100, inclusive).” The two Act questions (you, others) were averaged in each scenario, as were the two WB questions, to control for social influence bias, a technique commonly seen in ethics research (Cohen et al. 2001).

Our mediators (social contract ethical judgment and moral equity ethical judgment) are measured through two dimensions of Reidenbach and Robin’s (1990) Multidimensional Ethics Scale: the contractualism dimension and the broad-based moral equity dimension, respectively. Social contract ethical judgment (SC) involves two questions. We asked respondents to indicate the extent in which “the partner-in-charge’s (credit manager’s) action is violating” (1) an unwritten contract, and (2) an unspoken promise (using a scale from 1 to 9). Moral equity ethical judgment (ME) involves four questions. We asked respondents to indicate, using a scale from 1 to 9, the extent to which “the partner-in-charge’s (credit manager’s) action is” (1) just, (2) fair, (3) morally right, (4) acceptable to my family. Consistent with the scale development and subsequent studies, both SC and ME arose as independent dimensions in our factor analysis, with Cronbach’s alpha scores in the two vignettes, S1 and S2, of 0.824 and 0.858 for SC and 0.871 and 0.914 for ME, respectively. Given this strong reliability, the questions within each dimension were averaged to create composite scores for each scenario.

Finally, our moderator is represented by the participants’ role: student versus professional (labeled Role).

IV. RESULTS

A Look at Means

Table 2 presents the descriptive results of the variables included in our theoretical model by Country and Role. With the exception of the intention to act for the first scenario (S1 Act: $t = -1.06$; $p = 0.278$), mean intentions (0 to 100 percent likelihood) between countries differ significantly (S1 WB: $t = 3.44$, $p = 0.001$; S2 Act: $t = 4.12$, $p = 0.000$, and S2 WB: $t = 3.33$, $p = 0.001$), with the Italians higher on both intention measures.⁶ These differences may foretell the influence of the country of origin in ethical intentions.

Considering Role within Country, we note that means for intentions to act in the first of our scenarios differ between Roles in Italy (S1 Act: $t = 2.73$; $p = 0.007$), but not in the U.S. (S1 Act: $t = 0.20$; $p = 0.840$). Conversely, means for intentions to act in the second of our scenarios differ between Roles in the U.S. (S2 Act: $t = -2.99$; $p = 0.003$), but not in Italy (S2 Act: $t = -1.09$; $p = 0.276$). Means for intentions to report are higher for students in both countries and both scenarios, although not significantly in one instance (S1 WB for Italy: $t = -5.06$, $p = 0.000$; S1 WB for the U.S.: $t = -4.09$, $p = 0.000$; S2 WB for Italy: $t = -0.77$, $p = 0.445$; S2 WB for the U.S.: $t = -3.69$, $p = 0.000$).

These may be explained by considering our mediators (social contracts and moral equity). In fact, results show that Italian students consider the act to layoff as less conforming to social contracts (S1 SC: $t = 2.91$; $p = 0.004$) and as less ethical than Italian professionals (S1 ME: $t = 4.10$; $p = 0.000$), while Italian students consider the act to loan to a friend as more conforming to social contracts (S2 SC: $t = -1.89$; $p = 0.060$) and as slightly more ethical than Italian professionals (S2 ME: $t = -0.33$; $p = 0.744$). In contrast, U.S. students consider both scenarios to be more conforming to social contracts (S1 SC: $t = -2.44$, $p = 0.015$; S2 SC: $t = -7.81$, $p = 0.000$) and more ethical than U.S. professionals (S1 ME: $t = -5.13$, $p = 0.000$; S2 ME: $t = -8.16$, $p = 0.000$). Means for ethical judgments were similar between the two groups of students and differed between the two groups of professionals.

⁶ All p-values reported in this paper are two-tailed.

TABLE 2
Descriptive Analysis

	Italy									U.S.								
	Professionals (n = 145)			Students (n = 148)			Combined (n = 293)			Professionals (n = 198)			Students (n = 204)			Combined (n = 402)		
	Mean	Std. Dev.	Min/Max	Mean	Std. Dev.	Min/Max	Mean	Std. Dev.	Min/Max	Mean	Std. Dev.	Min/Max	Mean	Std. Dev.	Min/Max	Mean	Std. Dev.	Min/Max
S1 Act	50.50	22.9	0/100	43.71	19.5	0/90	47.07	21.5	0/100	49.10	22.6	0/95	48.65	22.8	0/100	48.87	22.7	0/100
S1 WB	27.50	23.4	0/100	41.93	25.4	0/100	34.79	25.4	0/100	22.24	25.7	0/100	33.26	28.3	0/100	27.83	27.6	0/100
S2 Act	39.22	19.7	0/85	41.75	19.9	0/100	40.50	19.8	0/100	30.03	22.6	0/100	37.15	25.0	0/93	33.64	24.1	0/100
S2 WB	42.38	26.1	0/100	44.69	25.5	0/100	43.55	25.8	0/100	30.98	28.6	0/100	41.83	30.3	0/100	36.48	29.9	0/100
S1 SC	6.88	1.6	3/9	6.28	1.9	3/9	6.58	1.8	3/9	5.58	2.1	1/9	6.04	1.6	3/9	5.81	1.9	1/9
S1 ME	6.18	1.4	3/9	5.47	1.5	3/9	5.82	1.5	3/9	4.70	1.9	1/9	5.57	1.4	3/9	5.14	1.8	1/9
S2 SC	5.47	1.8	3/9	5.86	1.78	3/9	5.67	1.8	3/9	3.53	2.0	1/9	4.93	1.6	3/9	4.24	1.9	1/9
S2 ME	4.55	1.5	3/9	4.60	1.31	3/9	4.58	1.5	3/9	3.37	1.8	1/8	4.67	1.3	3/9	4.03	1.7	1/9

S1(2) Act: Intention to act similarly—probability of 0 to 100 percent.

S1(2) WB: Intention to report the act—probability of 0 to 100 percent.

S1(2) SC: Social Contract ethical judgment for S1(2)—higher values indicate the act conforms to social contracts.

S1(2) ME: Moral Equity ethical judgment for S1(2)—higher values indicate the act is more ethical.

Hypotheses Tests

In order to test our theoretical model (Figure 1), we use the moderated mediation model (Preacher, Rucker, and Hayes 2007). Although we could examine our hypotheses by testing the significance of the individual paths in the model, previous researchers (Edwards and Lambert 2007; Hayes 2013a; Preacher et al. 2007) have indicated that testing individual paths is insufficient to establish moderated mediation effects. Therefore, this current study employs procedures outlined by Preacher et al. (2007) and Hayes (2013a, 2013b) to test for moderation of the mediation model. Due to limitations of the macro's ability to assess multiple dependent variables simultaneously, we test the model separately for each dependent variable.

Table 3 depicts results concerning H1 through H3. H1 theorized the impact of social contract ethical judgments (SC) on ethical intentions (Act and WB). Results from the regression analysis support our hypotheses showing that SC is positively and significantly associated with ethical intentions for both scenarios and both in term of intentions to act (S1 Act: $t = 8.00$, $p = 0.000$; S2 Act: $t = 10.71$, $p = 0.000$) and intentions to report (S1 WB: $t = -5.41$, $p = 0.000$; S2 WB: $t = -5.92$, $p = 0.000$). Additionally, Country is significantly associated with SC in both scenarios (S1 SC: $t = -5.43$, $p = 0.000$; S2 SC: $t = -9.84$, $p = 0.000$), thereby supporting H2 (SC differs between countries). Finally, as proposed in H3 (SC mediates the relationship between country and ethical intentions), Country is found to have an indirect effect on ethical intentions via SC. Bootstrapping results demonstrate that the indirect effect is significant (a bootstrapped 95 percent confidence interval around the indirect effect not containing zero) in all cases. Since the relationships proposed in H1–H3 are statistically significant across two scenarios, we consider the hypotheses to be supported (see Figure 2). Directionality of the effects suggests lower ethicality judgments reduce the intention to act and increase the intention to report.

Table 4 depicts results for H4, which proposes an interaction such that the relationship between Country and SC would be moderated by Role. Results indicate the effect of the interaction term (Country \times Role) on SC is significant for both scenarios (S1 SC: $t = 3.90$, $p = 0.035$; S2 SC: $t = 3.57$, $p = 0.001$). As suggested by prior theory (Gibson 2003; Cohen et al. 2001), the moderation is much stronger for professionals than for students. In fact, bootstrapping results for our dependent variables demonstrate that the indirect effects for professionals are all significant (a bootstrapped 95 percent confidence interval around the indirect effect not containing zero), while those for students are not significant for the first scenario (i.e., a bootstrapped 95 percent confidence interval around the indirect effect contains zero). Additionally, results show the effect sizes for professionals are at least twice as large in all cases. These last results allow making some assumptions about the influence of practice in ethical judgments. In general, we consider H4 to be supported.

H5 proposed dual mediation such that SC judgments precede ME judgments. Table 5 depicts the results of the addition of ME as a mediator to our Table 3 analyses. The results show that the effect of SC judgments on ME is significant (S1 ME: $t = 14.32$, $p = 0.000$; S2 ME: $t = 18.09$, $p = 0.000$) and, also, that ME is significantly related to ethical intentions for both scenarios (S1 Act: $t = 14.52$, $p = 0.000$; S1 WB: $t = -5.29$, $p = 0.000$; S2 Act: $t = 13.57$, $p = 0.000$; S2 WB: $t = -6.47$, $p = 0.000$).

TABLE 3
Regression Results for Simple Mediation
Test of H1 through H3

Panel A: Test of H2: Impact of Country on Social Contract Ethical Judgment

Variable:	Scenario 1 Regressed on S1 SC			Scenario 2 Regressed on S2 SC		
	B	t	p	B	t	p
Country	-0.775	-5.43	0.000	-1.366	-9.84	0.000

Panel B: Test of H1: Impact of Social Contract Ethical Judgment on Ethical Intention

Variable:	Scenario 1						Scenario 2					
	Regressed on S1 Act			Regressed on S1 WB			Regressed on S2 Act			Regressed on S2 WB		
	B	t	p	B	t	p	B	t	p	B	t	p
Country	4.067	2.46	0.014	-8.373	-4.18	0.000	-0.084	-0.05	0.960	-11.408	-5.05	0.000
S1(2) SC	3.448	8.00	0.000	-2.829	-5.41	0.000	4.628	10.71	0.000	-3.435	-5.92	0.000

Panel C: Test of H3: Bootstrap Results for Indirect Effects between Country and Ethical Intention

Effect	Scenario 1					Scenario 2					
	LL	UL	Effect	LL	UL	Effect	LL	UL	Effect	LL	UL
-2.673	-4.05	-1.64	2.193	1.24	3.68	-6.320	-8.20	-4.76	4.691	3.03	6.78

Unstandardized regression coefficients are reported. Bootstrap sample size = 1,000. Regression included Age as a covariate. p-values are two-tailed. df = 695. Effect is considered significant if confidence interval does not include zero.

Legend:

Country (independent variable): 1 = Italy; 2 = U.S.

S1(2) SC (mediator): Social Contract ethical judgment for Scenario 1(2).

Intention (dependent variable) for Scenario 1(2):

S1(2) Act: Intention to act similarly.

S1(2) WB: Intention to report the act.

LL: Lower Limit 95 percent CI (confidence interval).

UL: Upper Limit 95 percent CI.

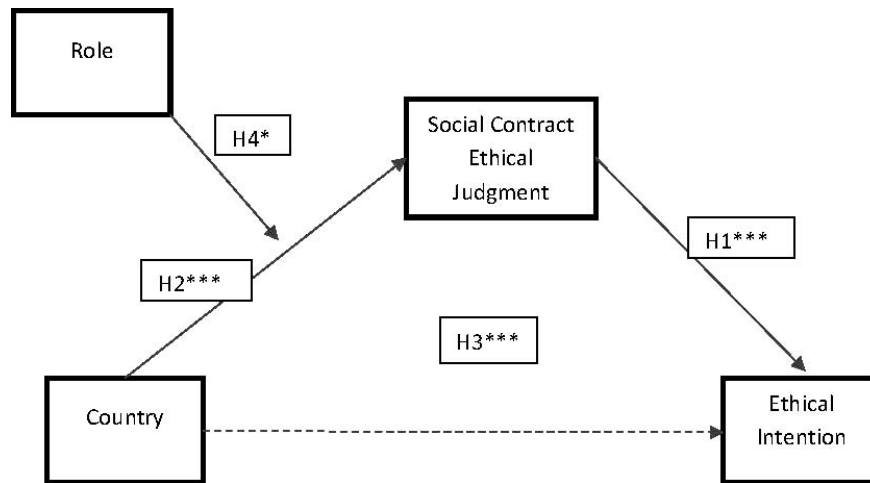
Moreover, we note that when ME is added to the relationship, SC demonstrates lower effects and significance compared with the previous results, when ME was absent (see Table 3). This evidence supports the assertion that SC precedes ME in mediation—that is, ME mediates the relationship of SC on Intentions. Finally, as depicted at the bottom of Table 5, when the two possible mediation models ($C \rightarrow SC \rightarrow ME \rightarrow Intent$ or $C \rightarrow ME \rightarrow SC \rightarrow Intent$) are tested independently, the effect sizes of a multiple mediation model where SC precedes ME are at least twice as large as the effect sizes of a model where ME precedes SC for all our dependent variables. In this last model of mediation, we can also note that in two cases the model is not statistically significant (i.e., confidence intervals contain zero). These results lead us to support H5.

V. DISCUSSION

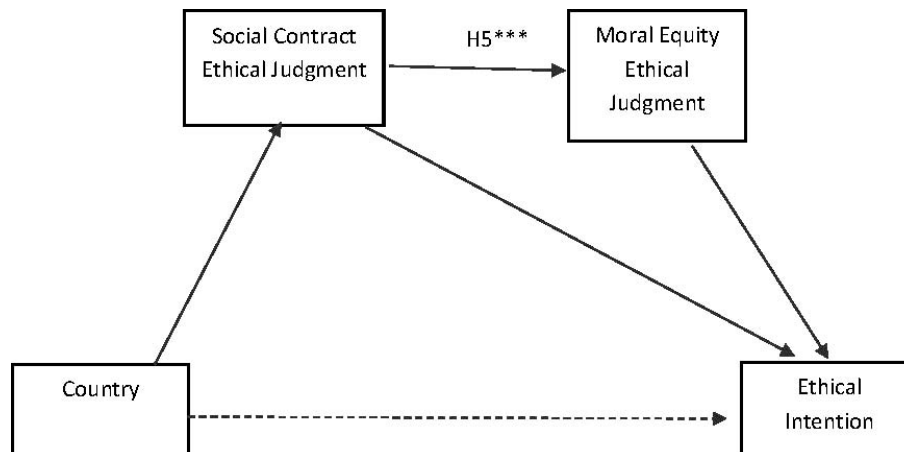
Globalization makes it important to understand and anticipate differing ethical decision making between individuals from diverse national cultures and diverse social roles. To contribute to this understanding, we theorized that ethical differences between Italy and the U.S. are based on social contract theory, which presupposes differences in local community norms (“microsocial” norms) (Donaldson and Dunfee 1994, 1999). Although there are some similarities between Italy and the U.S., we also recognize many differences between the two countries, especially in the business environment. For example, the U.S. and Italy differ in the origin of their accounting standards, FASB versus IASB, respectively. Other differences can be seen in terms of taxation, financial systems, market microstructure (market-oriented compared to bank-oriented systems), shareholder protection, legal systems and enforcement, property rights, history, religion and, more importantly, in terms of national culture, where the differences between the Italian and the U.S. communities seem to be related to their social norms. Starting from these

FIGURE 2
Statistical Models

Panel A: Conditional Mediation—H1 through H4



Panel B: Multiple Mediators—H5



***, **, * Indicate two-tailed significance at $p < 0.001$, $p < 0.01$, and $p < 0.05$, respectively.

factors, we aim to contribute to debates about differing ethical intentions between countries, trying to understand the role of social contracts.

We use descriptive means to explore the impact of country of origin on intentions to act and to report in two managerial-related scenarios. These scenarios involve the decision of whether to dismiss a younger, more productive employee instead of an employee who has been with the company for a longer period of time (Scenario 1) and the decision of whether to recommend a bank loan for a friend who does not meet company standards for the loan (Scenario 2). From this analysis, we found significant differences in the individual ethical intentions between the two countries, and this evidence led us to believe that the culture of the country of origin influences ethical judgment, which in turn impacts ethical intentions (Rest 1979). Specifically, we found significant differences in the mean likelihood to report the act for both scenarios, with Italians indicating they are more likely to report than those from the U.S., although the U.S. participants consider the actions depicted in the two scenarios as less ethical than Italians, as well as indicating lower intentions to act similarly. The directionality of the effects suggests that lower ethicality judgments reduce the intention to act and increase the intention to report.

TABLE 4
Regression Results for Conditional Indirect Effects (Moderated Mediation)
Test of H4

Panel A: Moderation by Role on Impact of Country on Social Contract Ethical Judgment

Variable:	Scenario 1 Regressed on S1 SC			Scenario 2 Regressed on S2 SC		
	B	t	p	B	t	p
Country	-2.457	-5.47	0.000	-2.873	-6.59	0.000
Role	-1.353	-2.77	0.006	-0.923	-1.95	0.052
Country × Role	1.102	3.90	0.035	0.978	3.57	0.001

Panel B: Impact of Social Contract Ethical Judgment on Ethical Intention

Variable:	Scenario 1						Scenario 2					
	Regressed on S1 Act			Regressed on S1 WB			Regressed on S2 Act			Regressed on S2 WB		
	B	t	p	B	t	p	B	t	p	B	t	p
Country	4.067	2.46	0.014	-8.373	-4.18	0.000	-0.084	-0.05	0.960	-11.408	-5.05	0.000
S1(2) SC	3.448	7.80	0.000	-2.829	-5.41	0.000	4.628	10.71	0.000	-3.435	-5.92	0.000

Panel C: Bootstrap Results for Conditional Indirect Effects at Each Level of Role

	Scenario 1						Scenario 2					
	Effect	LL	UL	Effect	LL	UL	Effect	LL	UL	Effect	LL	UL
Role = Professional	-4.672	-6.68	-2.89	3.833	2.26	5.98	-8.780	-11.50	-6.52	6.510	4.28	9.47
Role = Student	-0.873	-2.32	0.34	0.716	-0.24	1.97	-4.244	-6.35	-2.47	3.150	1.63	5.28

Unstandardized regression coefficients are reported. Bootstrap sample size = 1,000. Regression included Age as a covariate. p-values are two-tailed. df = 695.

Legend:

Country (independent variable): 1 = Italy; 2 = U.S.

Role (moderator): 1 = Professional; 2 = Student.

S1(2) SC (mediator): Social Contract ethical judgment for Scenario 1(2).

Intention (dependent variable) for Scenario 1(2):

S1(2) Act: Intention to act similarly.

S1(2) WB: Intention to report the act.

LL: Lower Limit 95 percent CI (confidence interval).

UL: Upper Limit 95 percent CI.

Using a moderated mediation model, we explored, in addition to the impact of the country of origin, the impact of role (professionals versus students) on ethical intentions to act and to report. Results support major differences in the ethical perceptions and intentions both between countries and between roles. For intentions to act, we found that, in the layoff decision (Scenario 1), there is no significant difference for the two roles of U.S. participants, but there is for Italian participants. Here, students appear to be more ethical. In fact, results show that Italian students consider the act to layoff as less conforming to social contracts and as less ethical than Italian professionals. The results are the opposite for the second of our scenarios (loan decision), where there are no differences between roles for Italians, while Americans differ between roles. In terms of social contracts' consensus and moral equity, we found that U.S. professionals consider the act to loan as less conforming to social contracts and as less ethical than U.S. students. These findings support our hypotheses that role moderates the influence of country of origin on ethical intentions, acting on both the level of social contracts' consensus and moral equity.

Moreover, in our scenarios, we considered the intention to report a particularly important issue, since a problem management does not know about is a problem management cannot address. The Global Business Ethics Survey (ERC 2016, 18) notes, "Reporting of observed misconduct enables committed leaders to tackle issues and fix them. But silence in the face of misconduct allows problems to take root and creates greater risk in the long term." Our findings show that, in all cases, students indicated higher likelihood to report than professionals. This evidence may demonstrate how significant acculturation

TABLE 5
Regression Results for Multiple Mediation
Test of H5

Panel A: Impact of Country on Social Contract Ethical Judgment

Variable:	Scenario 1 Regressed on SC 1			Scenario 2 Regressed on SC 2		
	B	t	p	B	t	p
Country	-0.775	-5.43	0.000	-1.366	-9.84	0.000

Panel B: Impact of Country and Social Contract Ethical Judgment on Moral Equity Ethical Judgment

Variable:	Scenario 1 Regressed on ME 1			Scenario 2 Regressed on ME 2		
	B	t	p	B	t	p
Country	-0.368	-3.23	0.002	0.163	1.55	0.123
SC 1(2)	0.425	14.32	0.000	0.489	18.09	0.000

Panel C: Impact of Country, Social Contract Ethical Judgment, and Moral Equity Ethical Judgment on Ethical Intention

Variable:	Scenario 1						Scenario 2					
	Regressed on Act 1			Regressed on WB 1			Regressed on Act 2			Regressed on WB 2		
	B	t	p	B	t	p	B	t	p	B	t	p
Country	6.652	4.56	0.000	-9.653	-4.87	0.000	-1.279	-0.85	0.394	-10.56	-4.80	0.000
SC 1(2)	0.461	1.07	0.284	-1.350	-2.31	0.021	1.039	2.23	0.026	-0.887	-1.30	0.195
ME 1(2)	7.023	14.52	0.000	-3.478	-5.29	0.000	7.339	13.57	0.000	-5.210	-6.47	0.000

Panel D: Test of Alternative Indirect Effects Models

	Scenario 1						Scenario 2					
	Effect	LL	UL	Effect	LL	UL	Effect	LL	UL	Effect	LL	UL
C → SC → ME → Intent	-2.315	-3.59	-1.46	1.146	0.65	2.04	-4.092	-6.27	-3.61	3.480	2.38	4.98
C → ME → SC → Intent	-0.173	-0.54	0.15	0.507	0.12	1.21	-0.345	-0.81	-0.05	0.294	-0.12	0.88

Unstandardized regression coefficients are reported. Bootstrap sample size = 1,000. Due to limitations in the analysis tool process (Hayes 2015), moderation of this mediation model cannot be evaluated. Regression included Age as a covariate. p-values are two-tailed. df = 695.

Legend:

Country (independent variable): 1 = Italy; 2 = U.S.

Ethical Judgments (mediators):

SC 1(2): Social Contract ethical judgment for Scenario 1(2).

ME 1(2): Moral Equity ethical judgment for Scenario 1(2).

Intention (dependent variable):

Act 1(2): Intention to act similarly.

WB 1(2): Intention to report the act.

LL: Lower Limit 95 percent CI (confidence interval).

UL: Upper Limit 95 percent CI.

(Berry 2005; Hu, Chand, and Evans 2013; Ryder, Alden, and Paulhus 2000) occurs in our profession after graduation from college. This is disappointing, but suggests pressures in the “real world” serve to reduce willingness to engage in activities possibly detrimental to one’s career. The global survey of individuals in business (ERC 2016) finds that retaliation for whistleblowing increases with likelihood of whistleblowing, and it is possible that professionals are more aware of this than their relatively less-experienced student counterparts. Means suggest Italian accountants are more likely to report these

observed behaviors than those from the U.S. Unfortunately, means also suggest this likelihood declines in those with experience in the profession, in both countries.

Results support our hypotheses stating that social contract ethical judgments affect ethical intentions and that social contract ethical judgment is affected by country, which, in turn, has an indirect effect on the intention to act and the intention to report through the mediation of both social contract ethical judgment and moral equity. Additionally, we found that the impact of country of origin on social contract ethical judgments is moderated by role. This suggests that, in considering ethical judgments, diversity between countries must also be considered in the context of the individual job position (role). Finally, in demonstrating that moral equity ethical judgment is preceded by social contract, we contribute to the limited body of research exploring the relationship between dimensions of the Multidimensional Ethics Scale (Reidenbach and Robin 1990; Robertson and Ross 1995). Ethical judgments based on cultural identity influence the more general moral equity judgments of fairness and equity.

In general, our research shows that Italians considered the actions described in the cases as more ethical and more conforming with social contracts than participants from the U.S., on average. This evidence sheds light on the differences in the managerial procedures between Italy and the U.S. In Italy, the layoff of a younger, more productive employee, as well as recommending a bank loan for a friend, is considered to be more ethical than in the U.S. This is not surprising if we look at the results about the perception of country corruption (Corruption Perception Index—CPI) according to Transparency International (2015), where Italy ranks 61st (CPI = 44) and the U.S. ranks 16th (CPI = 76). In addition, focusing attention on the relationship between country and social contract, we found a moderation of mediation in that accounting students were more similar between countries than management accountants in perceptions about ethical judgments. This may be explained in terms of perception about the ethicality of the country. Professionals, who are embedded in the “real world,” make their judgments and intentions based on intrinsic evaluations about ethicality derived from both their country and their professional experience. This may suggest that we need to focus attention on the education systems and, in particular, on the offerings of ethics courses and trainings. In fact, we can see that the Italian higher education system does not include as many ethics courses in the accounting disciplines as the U.S. higher education system does. Further research could investigate these aspects.

While a growing body of literature addresses questions about the potential impact of national culture on individual interactions and behaviors, the existing literature suffers from several limitations. First, the majority of ethics-related studies involve only U.S. participants. Second, those that do consider country differences tend to employ only student participants. Third, prior studies either do not look beyond country of origin to consider how those countries’ culture influence behavior or consider only a limited model of national culture. Finally, a majority of prior studies treat ethical judgment as their dependent variable, and do not get at intentions to act. We apply the Rest (1979) model of ethical decision making and contrast two dimensions of ethical judgment, as well as the ethical intentions of management accountants and accounting students from the U.S. and Italy to address these limitations of prior research.

There is much room for future research, however. For example, archival research has only touched the surface of considering culture in its analyses. Just as Bonetti, Magnan and Parbonetti (2016) evaluate the impact of country- and firm-level governance on financial reporting quality, many other aspects of culture could be used to more fully explain the issues of interest to this research stream (cf. Attachot 2017). In regard to behavioral research, gender continues to be the unknown factor. Curtis et al. (2012) did an extensive analysis of gender effects in the U.S., Mexico, China, and Japan, finding significant differences. Yet, we find no significant impact for intentions from gender between Italy and the U.S. Another interesting source of data comes from The World Bank’s research on governance presents, which measures and discusses many dimensions of culture not previously considered in the ethics research (Kaufmann, Kraay, and Mastruzzi 2007). Finally, the body of research examining ethics education is strongly U.S. centric and should be expanded to other cultures. While the frequency of educational offerings and requirements may help to explain some differences between countries, the authors expect that culture may actually drive the type of ethics educations that would be more accepted, and most effective, across countries.

A limitation of this article is that it does not look at cross-sectional differences arising from the systematic differences across companies, such as company size and industry membership. Although country comparison studies provide valuable insight into the difference between ethical judgments in ethical dilemmas, they do not tell us anything about company-level ethical judgments, which can vary considerably not only across countries, but also across companies within a country. Financial scandals in both of these countries, such as Enron (U.S.) and Parmalat (Italy), highlight that companies with poorly oriented ethical leadership can undertake unethical and risky global business practices even in countries with strong legal institutions and well-developed financial markets. Another limitation of the study is that, like all behavioral research, our sample is not purely random. Although we solicited subjects from large populations, participation was voluntary. Despite these limitations, we trust our introduction of social contract theory will add value to the overall discussion.

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APPENDIX A

Scenarios

Scenario 1—Dismissal Choice

A firm has been hard hit by recessionary times and the partners realize that they must reduce expenses. An analysis of productivity suggests that the person with the lowest productivity, and therefore most likely to be terminated, is a long-time employee with a **history of absenteeism* due to illness in the family**.

Action: Instead, the partner-in-charge fires a **younger, but very competent, recent** hire.

Scenario 2—Loan Officer Friend

A promising start-up company applies for a loan at a bank. The Credit Manager* at the bank is a **friend** of, and frequently attends sporting events with, the **company's owner**. Because of this company's short credit history, it **does not meet the bank's normal lending criteria**.

Action: The Credit Manager **recommends approving the loan**.

Each scenario was followed by the following four questions:

The probability that . . .

- you would undertake the same action is (the value should be between 0 and 100, inclusive)? _____
- others you know or work with would undertake the same action is (the value should be between 0 and 100, inclusive)? _____
- you would use a confidential hotline to report the act described here is (the value should be between 0 and 100, inclusive)? _____
- others you know or work with would use a confidential hotline to report the act described here is (the value should be between 0 and 100, inclusive)? _____

* The case contained definitions of these terms.

APPENDIX B
Scales

	<u>Mean</u>	<u>Std. Dev.</u>	<u>Min./ Max.</u>	<u>Alpha</u>
S1 Act Average: The probability that you (others) would undertake the same action is (the value should be between 0 and 100, inclusive)?	48.11	22.17	0/100	0.588
S1 WB Average: The probability that you (others) would use a confidential hotline to report the act described here is?	30.76	26.89	0/100	0.782
S2 Act Average: The probability that you (others) would undertake the same action is?	36.53	22.61	0/100	0.637
S2 WB Average: The probability that you (others) would use a confidential hotline to report the act described here is?	39.46	28.47	0/100	0.835
SC 1: The partner-in-charge's (credit manager's) action is ... 9 = not violating an unwritten contract, 1 = violating an unwritten contract.				
SC 2: The partner-in-charge's (credit manager's) action is ... 9 = not violating an unspoken promise, 1 = violating an unspoken promise.				
S1 SC average of two (partner-in-charge) questions.	6.13	1.89	1/9	0.824
S2 SC average of two (credit manager) questions.	4.84	1.99	1/9	0.858
ME 1: The partner-in-charge's (credit manager's) action is ... 9 = Just, 1 = Unjust.				
ME 2: The partner-in-charge's (credit manager's) action is ... 9 = Fair, 1 = Unfair.				
ME 3: The partner-in-charge's (credit manager's) action is ... 9 = morally right, 1 = not morally right.				
ME 4: The partner-in-charge's (credit manager's) action is ... 9 = acceptable to my family, 1 = not acceptable to my family.				
S1 ME average of four (partner-in-charge) questions.	5.43	1.69	1/9	0.871
S2 ME average of four (credit manager) questions.	4.26	1.61	1/9	0.914

S1(2): Scenario 1(2).

Dependent Variables:

Intentions: S1(2) Act/WB.

Independent Variables:

SC: Social Contract ethical judgment (mediator).

ME: Moral Equity ethical judgment (mediator).

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