

# THE IMPACT OF GUANXI ON AUDITOR INDEPENDENCE: PERCEPTIONS OF AUDITORS AND CFOs IN HONG KONG

Philip Law\*, Desmond Yuen\*\*, Lyu Chan\*\*\*

## Abstract

Auditor independence has long been referred to as the cornerstone of the auditing profession. Guanxi refers to the networks of informal relationships and exchanges of favors that dominate all business and social activities that occur throughout China. This research will analyse the impact of guanxi and client size on the perceived independence of auditors in the setting of Hong Kong. Survey data is obtained from 524 questionnaire responses from Chief Financial Officers (CFOs), Big 4 and Non-Big 4 auditors. Two within-subjects independent variables: “guanxi” and the “client size”, and one between-subject independent variable: auditors versus CFOs, are employed. Results indicate guanxi is a significant factor influencing perceived auditor independence in Chinese society, which has largely been neglected in the accounting literature. Independence is severely impaired when the duration of guanxi with clients reaches five years or more. Large client size has a negative influence on the perceived independence of auditors and this result contradicts an earlier U.S. study. The results indicate that the longer the guanxi when the auditor is associated with a large audit client, the greater the decrease in their perceived independence and this has implications for audit legislation. CFOs generate the lowest mean scores (greatest threat to auditor independence) for the perceived effects of all levels (durations) of guanxi among the three groups. This result supports the stewardship theory that asserts stewards (CFOs) motives are aligned with the objectives of their principals. CFOs consider the increasing levels of guanxi associated with the auditors are not in the best interests of their principals, and hence affect the reliability of the audited accounts. Though this study is conducted in the Asia Pacific region, western counterparts will find the results useful. Multinational corporations which have subsidiaries or headquarters established globally, should be aware that guanxi has implications for their Asian operations and their consolidated audited accounts. In view of the critical importance of the guanxi factor on the perceived auditor independence, standard setters in this region should consider devising ethical guidelines requiring mandatory rotation of public accounting firms.

**Keywords:** Guanxi, Auditor Independence, Client Size, Stewardship Theory, Rotation of Audit Firm

\*Corresponding author. Department of Accounting, L214, Faculty of Business Administration, University of Macau, Macau SAR, China

Tel: 853 8397 4164

Email: [PLaw@umac.mo](mailto:PLaw@umac.mo)

\*\*Department of Accounting, Faculty of Business Administration, University of Macau, Macau SAR, China

\*\*\*Department of Accounting, Faculty of Business Administration, University of Macau, Macau SAR, China

## 1. Introduction

Auditor independence is regarded as one of the cornerstones in auditing theory (Mautz and Sharaf, 1961). The AICPA (2008) in its Principles of Professional Conduct sets down the following for auditors to observe:

*“For a member in public practice, the maintenance of objectivity and independence requires a continuing assessment of client relationships and public responsibility. Such a member who provides auditing and other attestation services should be independent in fact and appearance.”*

Perceived independence of auditors is of critical importance both for the Profession and in auditing research. In view of the importance of perceptions of auditors’ independence, researchers worldwide have been investigating dimensions of this issue over a considerable period of time (Ashton, 1974; Firth 1980; Shockley, 1981; Johnson and Pany, 1984; Knapp, 1985; Pany and Reckers, 1987; Gul, 1989; Bartlett, 1993; Teoh and Lim, 1996; Beattie *et al.*, 1999; Majid *et al.*, 2001; Goodwin and Seow, 2002; Umar and Anandarajan, 2004; Lindberg and Beck, 2004; Lin and Chen, 2004; Jones and Chen, 2005; Cooper *et al.*, 2006; Law, 2008b; Daniels and Booker, 2009; Law and Yuen, 2010).

Many researchers have concentrated their effort in examining whether the influence of provision of

non audit services (NAS) have had a negative influence on perceptions of auditors' independence, and this has particular relevance especially after the Enron debacle (Shockley, 1981; Hillison and Kennelley, 1988; Teoh and Lim, 1996; Beattie *et al.*, 1999; Gendron *et al.*, 2004; Lindberg and Beck, 2004; Alleyne *et al.*, 2006; Carey *et al.*, 2006; Richard, 2006; Law, 2008b), or whether it positively enhances independence (Bartlett, 1993; Emby and Davidson, 1998; Windmoller, 2000). Additionally, some researchers reveal NASs provisions have no influence on perceptions of independence (Sucher and Bychkova, 2001; DeFond *et al.*, 2002; Ashbaugh *et al.*, 2003; Chung and Kallapur, 2003; Quick and Rasmussen, 2005).

These studies had as a focus the monetary impact (provisions of non audit services) on auditor independence, however, considering the importance of *guanxi* in doing business in Chinese society this non-monetary dimension has considerable importance. Scant attention has been given however to research examining the *human impact* on auditor independence, like *guanxi*.

The research issue of *guanxi* is interesting and such a study can be of significant practical relevance to regulators and practitioners in addition to researchers in both accounting and management. In Western society, because of the close or strong ties in the network relations of organisations (Podolny & Page, 1998) a form of *guanxi* exists. This research takes the opportunity to extend the empirical study of these relations to the Eastern society, particularly in Hong Kong. The only prior research similar to this has been conducted by Hwang *et al.*, (2008) using Taiwanese data.

Hong Kong was under the sovereignty of Britain for over 100 years until 1997 and western culture and accounting practice is understood in the region (Law and Hung, 2009). However it is appropriate to conduct an empirical study such as this in Hong Kong, because Confucian culture is still deeply ingrained in the Hong Kong society. Cohen *et al.*, (1995) has indicated that there are international differences in auditors' ethical perceptions, and in an increasingly global environment accounting ethics and cross-cultural behavioral research is strongly recommended (Umar and Anandarajan, 2004; Cooper *et al.*, 2006). This study is the first study in the Asia Pacific region using empirical survey data to examine the impact of *guanxi* on perceived auditor independence.

Three sample groups of are drawn: Big 4 auditors, non big 4 auditors and Chief Financial Officers (CFOs) from Hong Kong. Two within-subjects independent variables – the *guanxi* factor (duration) and the client size factor – and one between-subject independent variable – “auditors versus CFOs from Hong Kong – are examined. Given the lack of any theory used to explain the impact of *guanxi* on auditor independence, this

research draws attention to stewardship theory in considering the goal convergence of shared collective interests with the contracted steward, i.e., the CFOs of corporations.

In Hong Kong, there is currently no mandatory enforcing of Auditing Standards to monitor the impact of *guanxi* or other perceived risks to independence. With increasing globalization, this study has practical implications for multinational corporations that have business in Chinese societies. It is hoped that the results of the research can assist regulators and standard setters in devising auditing standards and ethical guidelines in Hong Kong and their international counterparts.

Following this introduction the paper proceeds with a literature review, namely, importance of auditor independence, stewardship theory and *guanxi* from which hypotheses are developed. The data collection method of this research experiment is then discussed. This is followed by the presentation of results, discussion and finally a conclusion.

## 2. Literature review and hypothesis development

### *Importance of auditor independence*

Auditor independence is an alleged factor attending recent corporate collapses and corporate scandals across the world, for example, Enron, WorldCom, and Sunbeam in the US (Bakar *et al.*, 2005), HIH and OneTel in Australia, and Parmalat in Italy. Auditor independence has long been referred to as an essential component of the auditing profession (Mautz and Sharaf, 1961), and been seen as crucial to the validity of external audit (Sucher and Bychkova, 2001). It has been observed by the Chairman of the American Institute of Certified Public Accountants (AICPA) and embraced by the Hong Kong Institute of Certified Public Accountants (HKICPA) as indeed the cornerstone of the accounting profession and one of its most precious *values*. *Actual* independence and the *appearance* of auditor independence have thus been heralded within the major worldwide professional accounting bodies as matters of primary importance. The requirement for CPA auditors' independence from audit clients is well established in the professional standards of the accounting bodies such as the Institute of Chartered Accountants of England and Wales (ICAEW), American Institute of Certified Public Accountants (AICPA), The Institute of Chartered Accountants in Australia (ICAA), and CPA Australia. The Code of Professional Conduct (ICAA and CPA Australia, 2005) explicitly requires not only actual independence from audit clients, but also the maintenance of the *appearance* of independence to third parties.

In that context the International Standards on Auditing (ISA) 200 states that the objective of an audit of financial statements is to enable the auditor to

express an opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. If outside parties doubt the independence of the reporting auditors, then a number of possibilities could arise. Firth (1980) mentions the following three impacts:

1. Audits may be perceived to be valueless. Audit work and audit fees would disappear.
2. The Government may become more involved in auditing matters and could move towards a state-controlled audit board.
3. Other regulatory bodies such as Stock Exchanges may become more concerned with auditing matters. This may result in lower earnings for auditors and lessen the powers of the professional accounting bodies and CPAs.

Thus, it is generally argued as vital that auditors maintain their independence, to ensure high quality of audits are maintained at all times, and that without auditors' independence, the credibility of the audited financial statements would be reduced to the detriment of interested parties and, indeed, to the accounting and auditing profession generally (Bakar *et al.*, 2005).

Overall the pervading rhetoric appears to be that, when auditors discharge their responsibilities, independence both *in fact* and *in appearance* should always be present (Mautz and Sharaf, 1961; Firth, 1980; Shockley, 1981; EFAA, October 1998; Hussey and Lan, 2001). Indeed, in the wake of Enron and the subsequent demise of Arthur Andersen the future of the auditing profession was argued to be dependent upon the perceptions of auditor independence. In other words, once an auditor is perceived to lack independence, the audit work loses credibility and the value of the auditing function is severely impaired, if not lost (Firth, 1980; Koh and Mahathevan, 1993; DeFond *et al.*, 2002; Law, 2008b); an audit report is only beneficial if it contains reliable and unbiased information. When users of the audit report do not believe that the auditor is independent, reduced confidence is applied to the auditor's opinion in the audit report (Quick and Rasmussen, 2005; Law, 2008b).

### **Stewardship theory**

Stewardship theory examines relationships and behaviors often discounted in organizational economic theories, emphasizing collective and contractual behavior in which a higher value is placed on goal convergence than on agent self interest (Slyke, 2006). Stewardship theory defines situations in which managers are not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principals (Davis *et al.*, 1997a). In contrast to agency theory, a steward places greater value on collective rather than individual goals, makes decisions he/she perceives to

be in the best interests of his/ her principals (Davis *et al.*, 1997b). Stewards are motivated by intrinsic rewards such as trust, job satisfaction and mission alignment (Mayer *et al.*, 1995). The disposition of both the principal and the contracted steward is towards trust and the realization of collective interest, and this differs significantly from that of agency theory which is more distrusting of the intentions of the agent (Slyke, 2006). Hence, there is much less of a clear divergence between managerial and shareholder interests under the assumptions of stewardship theory. Though the accounting literature has attempted to use the stewardship theory to examine corporate competitiveness (Ho, 2005), the theory remains acknowledged but largely neglected and untested (Slyke, 2006; Pirie and McCuddy, 2007), particularly in application to auditor independence.

### **Guanxi**

Guanxi describes the basic dynamic in the complex network of personal influence and social relationships, and is a central concept in Chinese society. China is often described as being a relational society involving mutual obligations' a long-term perspective and cooperative behaviour. By contrast, Western society and business environment is characterised by the short-term immediate benefit, highly transactional behaviour (Tsang *et al.*, 1998).

In the Chinese language, "guanxi" is the term for a personal relationship. It refers to the network of informal relationships and exchanges of favors that dominate all business and social activities that occur throughout China (Lovett *et al.*, 1999; Hwang and Baker, 2000). Sociologists have linked guanxi with the concept of social capital and it has been exhaustively described in studies of Chinese economic and political behavior (Wellman *et al.*, 2002). Guanxi has been critically important to Chinese society since the time of Confucius (Hwang and Staley, 2005). Confucius promulgated five sets of healthy relationships with society: ruler/subject, parents/children, older/younger brothers, husband/wife, and friends (Hwang and Baker, 2003; Lovett *et al.*, 1999). Researchers observe that business people cannot achieve their goals alone and thus must rely on social networking or guanxi with others, particularity in Chinese society (Hwang *et al.*, 2008; Groen *et al.*, 2008). In the Mao era, China emphasized collectivistic values like the alignment of individual and organizational interests, when performing well for the individual means performing well for the organization. Conflicts of interest are removed because of this collective interest.

Guanxi is embedded in the mindset of the Chinese and in their personal and organisational relationships (Park and Luo, 2001). Thus it ties in business partners by reciprocal exchanges of favours and obligations regularly and voluntarily (Alston, 1989). Once it is established between partners, one

can ask a favour of the other, who can also expect it to be repaid in the future, in some way.

As China integrates herself into the world economy, managers in Chinese organizations are now facing the challenge of having to compete with outsiders. They will have to come to terms with operating under a non-guanxi based environment. Similarly managers from the west will have to confront Chinese managers where a more Confucian environment prevails. This may be either inside or outside their corporate boundary, for example, managers operating a Division of a large corporation in China or in dealings with an external supplier from Asia.

In the Chinese business environment, it is unavoidable that an auditing firm will be exposed to guanxi (Hwang and Staley, 2005; Taormina and Lao, 2007; Law and Hung, 2009). The potential audit risk and violation of ethical standards that would impact audit firms when operating in a society of guanxi should not be overlooked (Hwang and Staley, 2005). As a result, guanxi has been widely used in the Chinese society; it is a strong social cultural concept. Individuals can obtain legitimate benefits from organizations but guanxi may also carry negative consequence including cronyism, corruption, violation of organizational procedures, erosion of trust and independence (Khatri et al. 2006; Hwang et al., 2008), hence, favour exchanges between close guanxi parties within an organization may negatively affect the welfare of the others (the non-guanxi parties).

Western and Eastern approaches to guanxi are quite different. Law and Hung (2009) found that the social networking factor is a key factor that influences CPAs to become entrepreneurial start-ups in Hong Kong. Chinese business people often rely on guanxi for business information, advice and problem solving (Hwang and Staley, 2005; Taormina and Lao, 2007; Hwang et al., 2008). Hwang and Staley (2005) observe that in China, business people first strive to build guanxi with a potential customer, and business development follows afterwards. It was also found that once guanxi has been established, marketing costs and bad debt expense are lowered (Hwang and Baker, 2000). Yeung and Tung (1996) noted in their research that guanxi was the only item consistently chosen as a key factor that contributes to business success in China. Likewise, Au and Wong (2000) indicated that the ethical judgments of Chinese CPAs are negatively affected by guanxi. From a western research perspective, Wright and Booker (2005) comment that a former auditor's prior relationship with the audit client would likely impair auditor independence. Another US study conducted by Bowlin et al., (2009) show that there are concerns when auditors become managers of their audited clients. In a qualitative study in Poland, MacLulich and Sucher (2005) found that ethical issues were thus presented to be a likely problem for Polish auditors. Auditors may be over familiar with clients for their

built-in relationships, and thus the degree of thoroughness in the audit investigations may be lower, affecting the independence of the auditors. Auditor independence is further threatened by the very nature of the relationship between client management and the auditor (Windsor and Ashkanasy, 1995). Furthermore, prior studies have indicated that perceived auditor independence may differ very much in different countries (Cooper et al., 1994; Cooper et al., 1996; Patel and Psaros, 2000; Umar and Anandarajan, 2004; Cooper et al., 2006), therefore the importance of guanxi in Chinese society is worthy for our research. Hence in the context of the stewardship function and the above literature review leads to the following hypothesis:

H1: Guanxi has a negative influence on the perceived independence of auditors.

### **Client size**

Generally though, studies which have investigated the association between client size and auditor independence have been infrequent. Shockley (1981) commented that in a highly competitive environment, competition for audit clients increased and this gave clients greater opportunities and incentives to replace incumbent auditors. Auditors' dependence on their clients may increase. Emby and Davidson (1998) commented that auditors were in a relatively weak position in disputes with their clients, compared to other professional groups in society, that the existence of the competing audit firms in the audit market can provide a major source of power to clients. Reynolds and Francis (2005) agree that economic dependence clearly exists for large clients. This dependence is greater when a client is large relative to other clients in the accounting firm. They further comment that could lead to preferential treatment and favourable reporting by auditors. DeAngelo (1981) further found that economic consequences create strong incentives for accounting firms to be lenient and report favourably in order to retain large clients. Miller (1992) also reported that economic dependence could lead to favorably reporting for large clients. A subsequent study conducted in the U.S. found the impact of client size has a negative influence on the auditor independence (Carcello et al., 2000).

In order to make a classification of the definition of client size in this study, corporations which are constituents stocks of the Hong Kong Hang Seng Stock Index are classified as large corporations, while those not in the constituents stocks of the Hang Seng Stock Index are classified as small corporations. Thus the classification is consistent with the grouping categories in prior studies (Pany and Reckers, 1980; Knapp, 1985; Gul, 1989). In considering the impact of client size on the perceived independence of

auditors, the above literature review leads to the following hypothesis

H2: Large client size has a negative influence on the perceived independence of auditors.

To determine the interaction effects between the independent variables of *guanxi* and the client size factors, the alternative hypothesis H3 is proposed.

H3: The influence of *guanxi* on the perceived independence of auditors depends on client size.

### **Between-subject independent variables: types of respondent groups**

There have been several calls for cross-cultural behavioral and accounting ethics research (Umar and Anandarajan, 2004; Cooper *et al.*, 2006). Cohen *et al.*, (1995) suggest there is a need to explore international differences in auditors' ethical perceptions. Cooper *et al.*, (1996) in their research found that there are differences in the ethical perceptions and operational practices of auditors in Hong Kong and those in Australia. Hong Kong was under British rule for over 100 years. Although it was handed back to China in 1997, Western culture and accounting practice remains prevalent through various channels, in television, movies, lifestyle, social activities, and the educational system (Law and Hung, 2009). The power of the West has been, and still is, rooted in the forms of social, economic and cultural patterns that prevail in the society (Schaper & Volery, 2004). Hence, both Chinese and Western culture in the Hong Kong environment create a unique environment for the study of *guanxi*. The study of perceived national cultural differences and the impact of these cultural differences on commercial behavior justify the selection of auditors and CFOs in Hong Kong as respondents for this research (Patel and Psaros, 2000).

Hence H4 and H5 are proposed:

H4: The influence of the *guanxi* factor on the perceived independence of auditors depends on the respondent sample groups.

H5: The influence of the client size factor on the perceived independence of auditors depends on the respondent sample groups.

The final hypothesis is formed to examine whether there are differences in the perceptions of auditor independence among the three groups.

H6: There are differences in the perceptions of auditor independence among the three respondent groups.

### **3. Data collection method**

Given the exploratory nature of the research an experimental approach has been taken. Respondents are familiarized with the topic of the research through small vignettes of two Hong Kong companies one small and one large. Their views are then sought, through closed questions of the impact of *guanxi* on auditor independence. Different durations of *guanxi* are then posed (1,3,5 and over 5 years) in order to explore the different possible impact of timescale.

250 Big 4 auditors, 250 non Big 4 auditors and 250 CFOs were randomly selected from the Directory of CPAs booklet (Dijk, 2000). Research assistants were employed to make phone calls to the selected participants, requesting their participation before sending off the questionnaires to them (Law, 2008b). The respondents were assured of anonymity and of the voluntary nature of their cooperation in the survey. The survey package together with a prepaid envelope was then sent to those who agreed to participate. The package consisted of a copy of vignettes, the questionnaire and a cover letter signed by the researchers. Prior evidence in Australia and Netherlands supports contacting the respondents before sending off the questionnaires and suggests response rates of 70% to 80% might be expected (Roberts, 1999; Dijk, 2000). Baruch (1999) observes an average response rate of 59% for surveys of professionals and that this is an acceptable level. Thus similar techniques were used in this study in the expectation of a satisfactory response rate (Sekaran, 2000; Desira and Baldacchino, 2005). Collis and Hussey (2009) suggest that the response rate would be increased by keeping the questionnaire as short as possible and using closed questions of a non-sensitive nature.

### **Measurement**

The term '*guanxi*' was defined to the respondents and their attention focused on the relationship between auditor and client for the hypothetical small company, not registered on the HKSE. Attention was then turned to a larger size company which was registered on the HKSE. The respondents were asked to rate their perceptions of auditor independence in the vignettes on a five-point Likert scale ranging from 1 "*guanxi* seriously undermines independence" to 5 "*guanxi* strongly enhances independence." These perceptions dealt with the existence of and duration of *guanxi* between the auditor and client for each of one year, three years, five years and finally above five years.

Responses such as those required in this research are not unfamiliar to auditors. Pany and Reckers (1987) point out auditors often make repeated judgments in their daily work. Auditors are generally working on similar aspects of more than one audit during their daily work and repeated judgments are

often required (Bamber, 1983). Therefore, these audit judgments are likely to be *like* within subject responses. Some researchers have commented there exists a possible ‘demand’ effect in the within-subjects repeated measures (Pany and Reckers, 1987; Chang et al., 2002). Demand effect implies instructions may induce the participants attention in a certain direction and this may occur especially in experimental design studies. Findings in psychological research suggest however, that there is little evidence to show the experimental demand effect actually exists (Weber and Cook, 1972; Berkowitz and Donnerstern, 1982).

Moreover, in this research, possible bias due to learning effects from the subjects are controlled for by printing the order of the vignettes and questions in the questionnaire in a random manner (Gul, 1987; Gul, 1989; Dijk, 2000; Chung and Monroe, 2000; Law, 2008b). Gul (1989) further concludes that based on his extensive reviews of the literature there is *no clear-cut* evidence on the existence of “demand effects” in the repeated measures design. Fuller and Kaplan (2004) state that the advantages of the within subjects design in the mixed ANOVA far outweigh the disadvantages.

A mixed ANOVA (within subjects and between subjects ANOVA) is conducted for analyzing the main and interaction effects. Shannon and Davenport (2001) point out that the mixed ANOVA entails a most useful analysis. In the auditing literature, the uses of within subjects repeated ANOVA analysis techniques are commonly used in examining behavioral issues, and in researching auditors’ perceptions of independence (Ashton and Kramer, 1980; Shockley, 1981; Pany and Reckers, 1980; Pany and Reckers, 1987; Knapp, 1985; Gul, 1987; Gul,

1989; Dijk, 2000; Fuller and Kaplan, 2004; Law, 2008b).

To recap the experiment the two independent variables are:

1) existence and duration of *guanxi* with four levels, 1 year, 3 years, 5 years and more than 5 years relationships with the client, and

2) client size with two levels, large and small client.

The dependent variable is the perceived independence of the auditor in the auditor - client relationship, and the between-subjects independent variables are CFOs, Big 4 auditors and Non Big 4 auditors.

#### 4. Results

There were 193 responses from the CFOs, 178 responses from the Big 4 auditors and 153 responses from the non Big 4 auditors, giving response rates of 77%, 71%, and 61% respectively. The items in the survey showed satisfactory levels of reliability, with a Cronbach’s alpha of 0.84 and a normal data distribution. A test for non-response bias was carried out by comparing the first 30 responses and the last 30 responses of the second requests for the three groups respectively (Oppenheimer, 1976), but no significant differences in perceptions of independence were found and hence non-response bias was not considered a problem. For the CFOs sample, 69% of the respondents had 11-15 years of experience and 19% had more than 15 years of experience. Whereas for the auditors groups, 62% had 6-10 years of experience, 21% had 1-5 years of experience and 15% had 11-15 years of experience. The descriptive statistics for the means and standard deviations of the scores for the dependent variable, perceived auditor independence, are shown in Table 1.

**Table 1.** Descriptive statistics – perceived Auditor Independence by client size and Guanxi duration

Clients / Duration	Subjects (Types of samples)	Mean	Std. Deviation	N
Large clients, <i>Guanxi</i> with 1 years relationship	CFOs	3.01	1.34	193
	Big 4 auditors	4.57	.73	178
	Non Big 4 auditors	4.65	.77	153
	<b>Total</b>	<b>4.02</b>	<b>1.27</b>	<b>524</b>
Large clients, <i>Guanxi</i> with 3 years relationships	CFOs	2.29	1.25	193
	Big 4 auditors	2.90	1.73	178
	Non Big 4 auditors	3.35	1.52	153
	<b>Total</b>	<b>2.81</b>	<b>1.57</b>	<b>524</b>
Large clients, <i>Guanxi</i> with 5 years relationships	CFOs	1.58	1.13	193
	Big 4 auditors	1.63	1.05	178
	Non Big 4 auditors	2.28	1.24	153
	<b>Total</b>	<b>1.80</b>	<b>1.18</b>	<b>524</b>

Large clients, <i>Guanxi</i> with more than 5 years relationships	CFOs	1.11	.33	193
	Big 4 auditors	1.44	.93	178
	Non Big 4 auditors	1.71	1.09	153
	<b>Total</b>	<b>1.40</b>	<b>.86</b>	<b>524</b>
Small clients, <i>Guanxi</i> with 1 years relationship	CFOs	3.61	1.16	193
	Big 4 auditors	4.61	.80	178
	Non Big 4 auditors	4.63	.72	153
	<b>Total</b>	<b>4.25</b>	<b>1.05</b>	<b>524</b>
Small clients, <i>Guanxi</i> with 3 years relationships	CFOs	2.55	1.30	193
	Big 4 auditors	3.10	1.87	178
	Non Big 4 auditors	3.65	1.66	153
	<b>Total</b>	<b>3.06</b>	<b>1.67</b>	<b>524</b>
Small clients, <i>Guanxi</i> with 5 years relationships	CFOs	2.16	1.28	193
	Big 4 auditors	2.41	1.46	178
	Non Big 4 auditors	2.67	1.49	153
	<b>Total</b>	<b>2.40</b>	<b>1.42</b>	<b>524</b>
Small clients, <i>Guanxi</i> with more than 5 years relationships	CFOs	1.49	.96	193
	Big 4 auditors	2.12	1.42	178
	Non Big 4 auditors	2.68	1.56	153
	<b>Total</b>	<b>2.05</b>	<b>1.40</b>	<b>524</b>

Scores are from 1 *guanxi* seriously undermines independence to 5 *guanxi* strongly enhances independence

#### 4.1 Within subject analysis

For hypothesis 1, the multivariate test reported in Table 2 relates to the first within-subject independent variable – *guanxi*. Green and Salkind (2001) recommend reporting the familiar Wilks' lambda value. The variable for *guanxi* has an F value of 996 at  $p < 0.05$  and hence the result is statistically significant. As the variable is significant and has four levels, pairwise comparisons were undertaken

using the Bonferroni comparison (Green and Salkind, 2001) to reveal where the differences exist. The pairwise comparison (Table 4) shows that all four levels of *guanxi* are significantly different from each other at a  $p$  value  $< 0.05$ . The mean score for *guanxi* with 1 year of relationship drops from 4.18 to 1.76 for *guanxi* after a relationship of more than 5 years (see Table 3) and therefore H1 is supported.

**Table 2.** Multivariate Tests of client size and *guanxi* duration

Effect		F	Hypothesis df	Sig.
CLIENT	Pillai's Trace	91.503(a)	1.000	.000
	Wilks' Lambda	91.503(a)	1.000	.000
CLIENT * TYPESAMP	Pillai's Trace	.082(a)	2.000	.921
	Wilks' Lambda	.082(a)	2.000	.921
GUANXI	Pillai's Trace	996.578(a)	3.000	.000
	Wilks' Lambda	996.578(a)	3.000	.000
GUANXI * TYPESAMP	Pillai's Trace	15.466(a)	6.000	.000
	Wilks' Lambda	16.087(a)	6.000	.000
CLIENT * GUANXI	Pillai's Trace	11.049(a)	3.000	.000
	Wilks' Lambda	11.049(a)	3.000	.000

A Exact statistic

The statistic is an upper bound on F that yields a lower bound on the significance level. Design: Intercept+TYPESAMP Within Subjects Design: CLIENT+GUANXI+CLIENT\*GUANXI

**Table 3.** Mean values of influence of *guanxi* on Auditor Independence by *guanxi* duration

GUANXI	Mean	Std. Error	95% Confidence Interval	
			Lower Bound	Upper Bound
1 year	4.179	.033	4.113	4.244
3 years	2.975	.052	2.874	3.076
5 years	2.123	.042	2.042	2.205
More than 5 years	1.757	.033	1.692	1.822

**Table 4.** Pairwise comparisons of influence of *guanxi* on Auditor Independence by *guanxi* duration

(I) GUANXI	(J) GUANXI	Mean Difference (I-J)	Std. Error	Sig.(a)	95% Confidence Interval for Difference(a)	
					Lower Bound	Upper Bound
1 year	3 years	1.204(*)	.055	.000	1.057	1.351
	5 years	2.055(*)	.052	.000	1.919	2.192
	>5 years	2.422(*)	.045	.000	2.303	2.540
3 years	1 year	-1.204(*)	.055	.000	-1.351	-1.057
	5 years	.852(*)	.063	.000	.684	1.019
	>5 years	1.218(*)	.060	.000	1.060	1.376
5 years	1 year	-2.055(*)	.052	.000	-2.192	-1.919
	3 years	-.852(*)	.063	.000	-1.019	-.684
	>5 years	.366(*)	.042	.000	.256	.476
>5 years	1 year	-2.422(*)	.045	.000	-2.540	-2.303
	3 years	-1.218(*)	.060	.000	-1.376	-1.060
	5 years	-.366(*)	.042	.000	-.476	-.256

Based on estimated marginal means.

\* The mean difference is significant at the .05 level.

(a) Adjustment for multiple comparisons: Bonferroni.

For Hypothesis 2, the client size variable has an F value of 92 at  $p < 0.05$  (Table 2) and the result is significant. The means and pairwise comparisons (Tables 5 and 6) show that both levels of the variable are significantly different from each other at a p value

of  $< 0.05$ . The mean score for large client size (2.54) is significantly lower than that of small client (2.97), implying the larger client size has a negative influence on the perceived independence of auditors, thus H2 is supported.

**Table 5.** Mean values of influence of *guanxi* on Auditor Independence by client size

CLIENT	Mean	Std. Error	95% Confidence Interval	
			Lower Bound	Upper Bound
Large	2.543	.028	2.488	2.599
Small	2.974	.037	2.901	3.047

**Table 6.** Pairwise comparisons of influence of *guanxi* on Auditor Independence by client size

(I) CLIENT	(J) CLIENT	Mean Difference (I-J)	Std. Error	Sig.(a)	95% Confidence Interval for Difference(a)	
					Lower Bound	Upper Bound
Large	Small	-.430(*)	.045	.000	-.519	-.342
Small	Large	.430(*)	.045	.000	.342	.519

Based on estimated marginal means

\* The mean difference is significant at the .05 level.

(a) Adjustment for multiple comparisons: Bonferroni.



For hypothesis 3, Client\**Guanxi* has an F value of 11 at  $p < 0.05$  (Table 2). The result is statistically significant, and thus H3 is supported. The mean scores of the interactions is shown in Table 7. Tests of within subject contrasts (Table 8) show that the difference lays in level 2 versus level 3. That is the

mean score drops significantly from 3 years *guanxi* (2.85) to 5 years *guanxi* (1.83) (Table 7), indicating perceived independence is significantly impaired when duration of *guanxi* increases from 3 years of relationships with clients to 5 years of relationships in a large client environment.

**Table 7.** Mean values – client \**guanxi*

CLIENT	GUANXI	Mean	Std. Error	95% Confidence Interval	
				Lower Bound	Upper Bound
Large	1 year	4.073	.044	3.986	4.160
	3 years	2.849	.066	2.719	2.979
	5 years	1.832	.050	1.734	1.930
	>5 years	1.419	.036	1.348	1.490
Small	1 year	4.284	.041	4.204	4.364
	3 years	3.101	.071	2.962	3.240
	5 years	2.415	.062	2.294	2.536
	>5 years	2.095	.058	1.981	2.208

**Table 8.** Tests of within-subject contrasts

Source	Client	<i>Guanxi</i>	Type III Sum of Squares	F	Sig.
Client	Level 1 vs. Level 2		96.082	91.503	.000
Client * typesamp	Level 1 vs. Level 2		.173	.082	.921
<i>Guanxi</i>	Level 1 vs. Level 2		752.193	471.163	.000
	Level 2 vs. Level 3		376.582	182.031	.000
	Level 3 vs. Level 4		69.628	77.794	.000
<i>Guanxi</i> * typesamp	Level 1 vs. Level 2		46.551	14.579	.000
	Level 2 vs. Level 3		24.638	5.955	.003
	Level 3 vs. Level 4		11.630	6.497	.002
Client * <i>Guanxi</i>	Level 1 vs. Level 2	Level 1 vs. Level 2	.860	.189	.664
		Level 2 vs. Level 3	56.853	9.722	.002
		Level 3 vs. Level 4	4.488	1.348	.246

Client level relates to large and small company clients

*Guanxi* level relates to duration 1, 3 5 and >5 years duration

#### 4.2 Between-subject analysis

For hypothesis 4 the (*Guanxi*\* TYPESAMP) interaction has an F value of 16 at  $p < 0.05$  (Table 2). The result is statistically significant, and thus H4 is supported. Test of within-subject contrasts (Table 8) show that the four levels (durations) of *guanxi* are significantly different from each other for the three groups.

It is interesting to note that the CFOs have the lowest mean scores (that *guanxi* more seriously undermines independence) for all levels among the

groups, while non Big 4 auditors have the highest mean scores for all levels among the groups (Table 9). Overall CFOs consider the independence of auditors would be impaired under the different levels of *guanxi* relationships to a greater extent than the auditors. These results support the stewardship theory that the CFOs are concerned (as stewards) to give due regard to the the resources entrusted to the corporation under their control (Davis et al., 1997a; Slyke, 2006). This will be elaborated further in the following section.

**Table 9.** Mean values - Types of samples \**guanxi*

Types of samples	GUANXI	Mean	Std. Error	95% Confidence Interval	
				Lower Bound	Upper Bound
CFOs	1 year	3.306	.055	3.198	3.413
	3 years	2.422	.085	2.256	2.589
	5 years	1.870	.068	1.736	2.005
	>5 years	1.301	.054	1.194	1.407
Big 4 auditors	1 year	4.590	.057	4.478	4.702
	3 years	3.003	.088	2.830	3.176
	5 years	2.022	.071	1.883	2.162
	>5 years	1.778	.056	1.667	1.889
Non Big 4 auditors	1 year	4.641	.062	4.519	4.762
	3 years	3.500	.095	3.313	3.687
	5 years	2.477	.077	2.326	2.628
	>5 years	2.193	.061	2.073	2.312

For hypothesis 5, the (Client \* TYPESAMP) interaction has an F value of 0.08 at  $p > 0.05$  (Table 2). Thus H5 is rejected. There is no significant difference between the respondent groups concerning the influence of client size on the independence of auditors. This is perhaps not surprising and indeed a somewhat reassuring dimension of the study, that there is some commonality of thinking between the different samples on this point.

For hypothesis 6, the between-subject ANOVA reveals that there are significant differences in the

means among the three groups, F value of 140 at  $p < 0.05$  (Table 10). Post Hoc tests also confirm the results (Table 12). The mean scores of the CFOs (2.2) are the lowest among the groups while non Big 4 auditors have the highest (3.2) (Table 11). Hence, H6 is supported. This confirms the impression created earlier (see Table 1) that the lowest score for 'undermining independence' are awarded by CFOs. Big 4 auditors and to a greater extent non-Big 4 auditors do not report as much concern about the undermining of independence.

**Table 10.** Tests of Between-Subjects Effects

Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Intercept	3950.715	1	3950.715	12926.344	.000
Typesamp	85.904	2	42.952	140.535	.000
Error	159.235	521	.306		

Significant at the .05 level

**Table 11.** Mean values of Auditor Independence by subject

Types of samples	Mean	Std. Error	95% Confidence Interval	
			Lower Bound	Upper Bound
CFOs	2.225	.040	2.147	2.303
Big 4 auditors	2.848	.041	2.767	2.929
Non Big 4 auditors	3.203	.045	3.115	3.290

Table 12. Post Hoc tests

	(I) Types of samples	(J) Types of samples	Mean Difference (I-J)	Std. Error	Sig.
Bonferroni	CFOs	Big 4 auditors	-.6236(*)	.05745	.000
		Non Big 4 auditors	-.9779(*)	.05984	.000
	Big 4 auditors	CFOs	.6236(*)	.05745	.000
		Non Big 4 auditors	-.3543(*)	.06095	.000
	Non Big 4 auditors	CFOs	.9779(*)	.05984	.000
		Big 4 auditors	.3543(*)	.06095	.000
Hochberg	CFOs	Big 4 auditors	-.6236(*)	.05745	.000
		Non Big 4 auditors	-.9779(*)	.05984	.000
	Big 4 auditors	CFOs	.6236(*)	.05745	.000
		Non Big 4 auditors	-.3543(*)	.06095	.000
	Non Big 4 auditors	CFOs	.9779(*)	.05984	.000
		Big 4 auditors	.3543(*)	.06095	.000
Games-Howell	CFOs	Big 4 auditors	-.6236(*)	.05681	.000
		Non Big 4 auditors	-.9779(*)	.05847	.000
	Big 4 auditors	CFOs	.6236(*)	.05681	.000
		Non Big 4 auditors	-.3543(*)	.06455	.000
	Non Big 4 auditors	CFOs	.9779(*)	.05847	.000
		Big 4 auditors	.3543(*)	.06455	.000

Based on observed means. \*The mean difference is significant at the .05 level.

## 5. Discussion and implications

This empirical study makes several contributions. First, the result in H1 indicates that *guanxi* has a negative influence on the perceived independence of auditors. Independence is severely impaired when the *guanxi* with the client reaches five years or more. In Hong Kong, there is currently no mandatory rule enforcing Auditing Standards or monitoring of the impact of *guanxi* or other perceived familiarity risks to independence. Likewise, Section 203 of the U.S. Sarbanes Oxley Act (2002) only requires the reviewing partner of the public accounting firm to be rotated off of the audit every five years. However, the impacts of *guanxi* on the perceived independence of other auditors in the audit firm are ignored in the Sarbanes Oxley Act (2002). Several bills with provisions dealing with audit firm rotation were heavily debated in the U.S., however nothing was enacted into law because the U.S. Congress decided further study was needed (Daniels and Booker, 2009). Though this empirical finding originated from Hong Kong, Umar and Anandarajan (2004) point out that many corporations (MNC) have operations globally. The unique Confucian culture ingrained in the Chinese society could have a significant influence on the perceived independence of auditors, and the fairness of the consolidated audited financial statements that emerge from regional operations. Standard setters could seriously consider drafting ethical guidelines requiring the mandatory rotation of public accounting firms when the duration of *guanxi* with clients reaches a certain number of years

relationship. Though that may incur increased transaction costs (Williamson, 1981), the benefits could nevertheless outweigh the costs in the long run.

Second, the result in H2 reveals that large client size has a negative influence on the perceived independence of auditors. This result contradicts an early study conducted by Pany and Reckers (1980) in the U.S. Since this study is conducted in a society of Chinese Confucian culture, further research is recommended to validate this finding. H3 indicates that the longer the *guanxi* between the auditor and the large audit client, the greater the undermining of their perceived independence. The result in H3 reinforces the finding in H1, and confirms that *guanxi* is a significant factor influencing auditor independence particularly in Chinese society. Hence it is surprising that the effect of *guanxi* on auditor independence has largely been neglected in the accounting literature thus far.

Third, the result in H4 is interesting and contributing to the existing body of literature related to stewardship. It is promising to note that CFOs have the lowest mean scores for all levels of *guanxi* among the three groups. That is, they believe that *guanxi* more seriously undermines auditor independence. Results support the stewardship theory that asserts stewards' (CFOs) motives are aligned with the objectives of their principals (Davis *et al.*, 1997a). CFOs perceive that the utility gained from contractually aligned behavior is higher than the utility that can be gained through individualistic self serving behaviors, which are undertaken at the expense of the principal's goals (Davis *et al.*, 1997a).

The stewards (CFOs) place greater value on collective rather than individual goals, and consider the increasing levels of *guanxi* associated with the auditors are not in the best interests of their principals, and hence affect the reliability and fairness of the audited accounts. Further, H6 also indicates that there are significant differences for the impact of *guanxi* on the perceived independence of auditors among the three groups. The mean scores of the CFOs (2.2) are the lowest among the groups while non Big 4 auditors have the highest (3.2) (Table 11). Apparently CFOs give due regard to the resources entrusted to the corporation and this may result in lower perceptions of auditor independence than the auditors group. Nevertheless, there may be some other variables that contribute to the variation of perceived auditor independence between the groups and further research is recommended to explore this result. Such research may be based on interview, or case study and perhaps be of a longitudinal nature in the future.

Finally, whilst the sample groups held significantly different views on the effects of *guanxi* on auditor independence, they do not hold significantly different views on the impact of client size on auditor independence. Hence hypothesis 5 was not supported.

## Conclusion

This empirical study draws data from Hong Kong to examine the impact of *guanxi* on auditor independence. It makes several contributions to further our understanding and the results are consistent with stewardship theory. Given the lack of prior empirical research using stewardship theory to examine the impact of *guanxi* on perceived independence, this research contributes to the existing literature. Though this study is conducted in the Asia Pacific region, western counterparts in the U.S or U.K. should also find the results beneficial. For example, MNCs nowadays have subsidiaries or headquarters established globally, the impacts of *guanxi* have possible implications for their Far East operations, the fairness of their regional financial statements and ultimately affecting the consolidated audited accounts. With the increasing globalization of doing business, this study contributes some practical implications for multinational corporations that have business in Chinese societies.

In view of the critical importance of the *guanxi* factor on the perceived auditor independence, standard setters should consider devising ethical guidelines requiring mandatory rotation of public accounting firms. Though that may involve transaction costs (Williamson, 1981), the benefits would nevertheless outweigh the costs in the long run. *Guanxi* is grounded in the Chinese community and the interpersonal relationships between friends and family members are not necessarily in terms of money. In Hong Kong, life and getting work done is

all about connections. The impact of *guanxi* will determine the success of the business or what lengths a person must go to help the others. Hence, the non Chinese auditors working with Chinese managers should become accustomed to the practice of *guanxi*, if not this may result in misunderstanding, distrust, anger and even the end of a business relationship. No matter how much experience the non-Chinese management possess, the right *guanxi* can remove barriers when they encounter difficulties. Western auditors and CFOs have to consider the impact of *guanxi* on auditor independence, as we take this subject forward.

This research was exploratory in dealing with the impact of *guanxi* in a Chinese environment which are familiar with a Western notion of auditor independence. It sought the opinions of major players (subjects) in the audit process. *Guanxi* will be familiar to all respondents and in this research a single item variable was used to identify *guanxi* to the respondents and this has been used successfully in previous research (Lee and Humphreys 2007). However future research could attempt to deconstruct the *guanxi* characteristic into distinct elements. Additionally, case studies could be adopted to explain further the impact of *guanxi* using interviews and research of a longitudinal nature could occur to discover more about how it is founded, how it grows and its consequent impact.

## References

1. AICPA. (2008). *American Institute of Certified Public Accountants*, <http://www.aicpa.org>, accessed on 12 June 2008.
2. Alleyne, P., Devonish, D. and Alleyne, P. (2006). "Perceptions of auditor independence in Barbados," *Managerial Auditing Journal*, Vol. 21 No. 6, pp.621-635.
3. Arens, A., Elder, R. and Beasley, M. (2008). *Auditing and Assurance Services*, 12th edition, New Jersey: Prentice Hall.
4. Ashbaugh, H., LaFond, R. and Mayhew, B. (2003). "Do non audit services compromise auditor independence? Further evidence," *The Accounting Review*, Vol. 78 No. 3, pp.611-639.
5. Ashton, R. and Kramer, A. (1980). "Students as surrogates in behavioral accounting research: some evidence," *Journal of Accounting Research*, Vol. 18 No.1, pp.1-15.
6. Au, A. and Wong, D. (2000). "The impact of *guanxi* on the ethical decision making of auditors", *Journal of Business Ethics*, Vol. 28 No. 1, pp.87-94.
7. Bamber, M. (1983). "Expert judgment in the audit team: a source reliability approach," *Journal of Accounting Research*, Vol. 21 No. 2, pp.402-422.
8. Bartlett, W. (1993). "A scale of perceived independence: New evidence on an old concept," *Accounting, Auditing and Accountability Journal*, Vol 6 No. 2, pp. 52-67.
9. Baruch ,Y. (1999). "Response rate in academic studies", *Human Relations*, Vol. 52, pp.421-438.
10. Beattie, V., Fearnley, S. and Brandt, R. (1999). "Perceptions of auditor independence: UK evidence,"

- Journal of International Accounting, Auditing and Taxation*, Vol. 8 No. 1, pp.67-107.
11. Berkowitz, L. and Donnerstern, E. (1982). "External validity is more than skin deep," *American Psychologist*, pp.245-256.
  12. Bowlin, K., Hales, J. and Kachelmeier, S. (2009). "Experimental evidence of how prior experience as an auditor influences managers' strategic reporting decisions," *Review of Accounting Studies*, Vol. 14, No. 1, pp.63-88.
  13. Carcello, J., Hermanson, D. and Huss, H. (2000). "Going-concern opinions: The effects of partner compensation plans and client size", *Auditing, A Journal of Practice & Theory* Vol. 19 No. 1, pp.67-78.
  14. Carey, P., Subramaniam, N. and Chua, K. (2006). "Internal audit outsourcing in Australia", *Accounting and Finance*, Vol. 46, No. 1, pp. 11-30.
  15. Chang, J., Yen, S. and Duh, R. (2002). "An empirical examination of competing theories to explain the framing effect in accounting related decisions," *Behavioral Research in Accounting*, Vol. 14 No. 1, pp.35-64.
  16. Chung, H. and Kallapur, S. (2003). "Client importance, non audit services and abnormal accruals," *The Accounting Review*, Vol. 78 No. 4, pp. 931-955.
  17. Chung, J. and Monroe, G. (2000). "The effects of experience and task difficulty on accuracy and confidence assessments of auditors," *Accounting and Finance*, Vol. 40 No. 1, pp.135-152.
  18. Cohen, J., Pant, L. and Sharp, D. (1995). "An exploratory examination of international differences in auditors' ethical perceptions", *Behavioral Research in Accounting*, Vol. 7 No. 1, pp.37-64.
  19. Collis, J. and Hussey, R. (2009). *Business Research*, London: Palgrave.
  20. Cooper, B., Leung, P. and Mathews, C. (1994). "Internal audit: An Australian profile", *Managerial Auditing Journal*, Vol. 9 No. 3, pp. 13-19.
  21. Cooper, B., Leung, P. and Mathews, C. (1996). "Benchmarking- a comparison of internal audit in Australia, Malaysia and Hong Kong", *Managerial Auditing Journal*, Vol. 11 No.1, pp. 23-29.
  22. Cooper, B., Leung, P. and Wong, G. (2006). "The Asian Pacific literature review on internal auditing", *Managerial Auditing Journal*, Vol. 21, No. 8, pp. 822-834.
  23. Daniels, B. and Booker, Q. (2009). "Bank loans officers' perceptions of audit firm rotation", *The CPA Journal*, Vol. 79 No. 1, pp. 36-42.
  24. Davis, J., Donaldson, L. and Schoorman, F. (1997a), "Toward a stewardship theory of management", *Academy of Management Review*, Vol. 22, pp.20-47.
  25. Davis, J., Donaldson, L. and Schoorman, F. (1997b). "The distinctiveness of agency theory and stewardship theory", *Academy of Management Review*, Vol. 22, pp.611-613.
  26. DeAngelo, L. (1981). "Auditor independence, "low balling" and disclosure regulation," *Journal of Accounting and Economics*, Vol 3, pp.113-117.
  27. DeFond, M., Raghunandan, K. and Subramanyam, K. (2002). "Do non audit service fees impair auditor independence? Evidence from going concern audit opinions," *Journal of Accounting Research*, Vol. 40 No. 4, pp.1247-1273.
  28. Desira, J. and Baldacchino, P. (2005). "Jurors' and self perceptions of the statutory auditors in Malta," *Managerial Auditing Journal*, Vol 20 No. 7, pp. 691-706.
  29. Dijk, M. (2000). "The influence of publication of financial statements, risk of takeover and financial position of the auditee on public auditors' unethical behavior", *Journal of Business Ethics*, Vol. 28 No. 4, pp. 297-305.
  30. Emby, C. and Davidson, R. (1998). "The effects of engagement factors on auditor independence: Canadian Evidence," *Journal of International Accounting, Auditing and Taxation*, Vol. 7 No. 2, pp. 163-179.
  31. Firth, M. (1980). "Perceptions of auditor independence and official ethical guidelines," *The Accounting Review*, Vol 55 No. 3, pp. 451-466.
  32. Fuller, L. and Kaplan, S. (2004). "A note about the effect of auditor cognitive style on task performance," *Behavioral Research in Accounting*, Vol. 16 No. 1, pp. 131-143.
  33. Gendron, Y. and Suddaby, R. (2004). "Professional insecurity and the erosion of accountancy's jurisdictional boundaries," *Canadian Accounting Perspectives*, Vol. 3 No. 1, pp. 85-115.
  34. Goodwin, J. and Seow, J. (2002). "The influence of corporate governance mechanisms on the quality of financial reporting and auditing: perceptions of auditors and directors in Singapore," *Accounting and Finance*, Vol. 42 No. 3, pp.195-223.
  35. Green, S., and Salkind, N. (2003). *Using SPSS for Window and Macintosh: Analysing and Understanding Data*. 3<sup>rd</sup> edition, New Jersey: Prentice Hall.
  36. Groen, A., Wakkee, I. and Weerd, P. ( 2008). "Managing tensions in a high tech start up," *International Small Business Journal*, Vol. 26 No. 1, pp. 57-63.
  37. Gul, A. (1987). "Field dependence cognitive style as a moderating factor in subjects' perceptions of auditor independence," *Accounting and Finance*, Vol 27 No. 1, pp.37-48.
  38. Gul, A. (1989). "Banker' perception of factors affecting auditor independence," *Accounting, Auditing and Accountability Journal*, Vol. 2 No. 3, pp. 40-51.
  39. Hillison, W. and Kennelley, M. (1988) "The economics of non audit services," *Accounting Horizons*, Vol. 2 No. 3, pp.32-40.
  40. Hwang, D. and Baker, R. (2000), *Proceedings of Global Awareness Society International Conference*, New York, May.
  41. Hwang, D. and Baker, R. (2003), "Recent financial miscues and accounting reforms in the USA", *Proceedings of Global Awareness Society International Conference*, Washington, May.
  42. Hwang, D. and Staley, B. (2005). "An analysis of recent accounting and auditing failures in the United States on U.S accounting and auditing in China," *Managerial Auditing Journal*, Vol. 20 No. 3, pp. 227-234.
  43. Hwang, D. Staley, B., Chen, Y. and Lan, J. (2008). "Confucian culture and whistle blowing by professional accountants: an exploratory study," *Managerial Auditing Journal*, Vol. 23 No. 5, pp. 504-526.
  44. Ho, C. (2005). "Corporate governance and corporate competitiveness: an international analysis", *Corporate*

- Governance, An International Review*, Vol. 13 No. 2, pp. 211-253.
46. Hoitash, R., Markelevich, A. and Barragato, C. (2007). "Auditor fees and audit quality", *Managerial Auditing Journal*, Vol. 22 No. 8, pp. 761-779.
  47. Jones, K. and Chen, C. (2005). "The effect of audit outcomes on evaluators' perceptions", *Managerial Auditing Journal*, Vol. 20 No. 1, pp. 5-18.
  48. Johnson, D. and Pany, K. (1984). "Forecasts, auditor review and bank loan decisions," *Journal of Accounting Research*, Vol 22 No. 2, pp.731-743.
  49. Knapp, M. (1985). "Audit conflict: an empirical study of the perceived ability of auditors to resist management pressure," *The Accounting Review*, Vol 60 No. 2, pp.202-211.
  50. Law, P. (2008a). "Auditors' perceptions of reasonable assurance in audit work and the effectiveness of the audit risk model," *Asian Review of Accounting*, Vol. 16 No. 2, pp. 160-178.
  51. Law, P. (2008b). "An empirical comparison of non Big 4 and Big 4 auditors' perceptions of auditor independence", *Managerial Auditing Journal*, Vol. 23 No. 9, pp.917-934.
  52. Law, P. and Hung, J. (2009). "Factors influencing Hong Kong CPAs' entrepreneurship in the accounting profession", *Journal of Human Resource Costing and Accounting*, Vol. 13 No.1.
  53. Law, P. and Yuen, D. (2010). "Employment by clients of former CPAs from different non audit services departments on auditor independence", *Corporate Ownership and Control Journal*, Vol. 7. (In press).
  54. Lee, P. K. C. and Humphreys, P. K. (2007) "The role of Guanxi in supply management practices", *International Journal of Production Economics*, Vol. 106, 450-467.
  55. Lin, Z. and Chen, F. (2004). "An empirical study of audit expectation gap in the people's republic of China," *International Journal of Auditing*, Vol 8, No. 2, pp. 93-115.
  56. Lovett, S., Simmons, L. and Kali, R. (1999), "Guanxi versus the market: ethics and efficiency", *Journal of International Business Studies*, Vol. 30 No. 2, pp. 231-47.
  57. MacLulich, K. and Sucher, P. (2005). "A local realization of auditor independence construct in Poland: counteracting iron curtain syndrome in academic writing," *Critical Perspectives on Accounting*, Vol 16, pp. 593-612.
  58. Majid, A., Gul, F. and Tsui, J. (2001). "An analysis of Hong Kong Auditors' perceptions of the importance of selected red flag factors in risk assessment," *Journal of Business Ethics*, Vol 32 No. 2, pp.263-274.
  59. Mautz, K and Sharaf, A. (1961). *The Philosophy of Auditing*. Sarasota, Florida: American Accounting Association.
  60. Mayer, R., Davis, J. and Schoorman, D. (1995). "An integrative model of organizational trust", *Academy of Management Review*, Vol. 20, pp.709-734.
  61. Miller, T. (1992). "Do we need to consider individual auditor when discussing auditor independence," *Accounting, Auditing and Accountability Journal*, Vol 5 No. 2, pp. 74-84.
  62. National Statistic Bureau (2005). *China Statistic Annual*, National Statistic Bureau, Beijing.
  63. Oppenheimer, A. (1976). *Questionnaire Design and Attitude Measurement*, New York: Basic Books.
  64. Pany, K. and Reckers, P. (1980). "The effect of gifts, discounts and client size on perceived auditor independence," *The Accounting Review*, Vol 55, No. 1, pp.50-61.
  65. Pany, K. and Reckers, P. (1987). "Within vs between subjects experimental designs: a study of demand effects," *Auditing: A Journal of Practice and Theory*, Vol 7 No. 1, pp. 39-53.
  66. Patel, C. and Psaros, J. (2000). "Perceptions of external auditors' independence: some cross cultural evidence," *British Accounting Review*, Vol. 32 No. 3, pp. 311-338.
  67. Pirie, W. and McCuddy, M. (2007). "A preliminary test of the validity of a proposed intertemporal stewardship theory", *Managerial Finance*, Vol. 33 No. 12, pp. 970-979.
  68. Poldony, J.M. and Page, K.L. (1998), "Network Forms of Organization", *Annual Review of Sociology*, pp. 57-76.
  69. Quick, R. and Rasmussen, B. (2005). "The impact of MAS on perceived auditor independence-some evidence from Denmark," *Accounting Forum*, Vol 29 No. 2, pp. 137-168.
  70. Reynolds, J. and Francis, J. (2001). "Does size matter? The influence of large clients on office level auditor reporting decisions," *Journal of Accounting and Economics*, Vol 30, No.2, pp.375-400.
  71. Richard, C. (2006). "Why an auditor can't be competent and independent: A French case study," *The European Accounting Review*, Vol. 15 No. 2, pp. 153-179.
  72. Roberts, S. (1999). "In defense of the survey method: an illustration from a study of user information satisfaction," *Accounting and Finance*, Vol. 39, No. 1, pp.53-77.
  73. Schaper, M. and Volery, T. (2004). *Entrepreneurship and small business: a Pacific Rim perspective*, John Wiley & Sons, Australia.
  74. Shockley, R. (1981). "Perceptions of auditors independence: An Empirical Analysis," *The Accounting Review*, Vol 56 No. 4, pp.785-800.
  75. Sucher, P. and Bychkova, S. (2001). "Auditor independence in economies in transition: a study of Russia," *The European Accounting Review*, Vol. 10 No. 4, pp. 817-841.
  76. Shannon, D. and Davenport, M. (2001). *Using SPSS to solve statistical problems*, Prentice Hall: New Jersey.
  77. Slyke, D. (2006). "Agents or stewards: using theory to understand the government non-profit social service contracting relationship", *Journal of Public Administration Research and Theory*, Vol. 17 No. 1, p. 157-187.
  78. Smith, D. and Hall, M. (2008). "An empirical examination of a three component model of professional commitment among public accountants", *Behavioral Research in Accounting*, Vol. 20 No. 1, pp.75-92.
  79. Taormina, R. and Lao, S. (2007). "Measuring Chinese entrepreneurial motivation, personality and environmental influences," *International Journal of Entrepreneurial Behaviours and Research*, Vol.13 No. 4, pp. 200-221.
  80. Teoh, Y. and Lim, C. (1996). "An empirical study of the effects of audit committee. Disclosure of non audit fees, and other issues on auditor independence: Malaysian evidence," *Journal of International*

- Accounting, Auditing and Taxation*, Vol. 5 No. 2, pp. 231-248.
81. Umar, A. and Anandarajan, A. (2004). "Dimensions of pressures faced by auditors and its impact on auditors' independence. A comparative study of the USA and Australia," *Managerial Auditing Journal*, Vol. 19 No. 1, pp. 99-116.
82. Wellman, B., Chen, W. and and Dong, W. (2002). "Networking *Guanxi*." pp. 221-41 in *Social Connections in China: Institutions, Culture and the Changing Nature of Guanxi*, edited by Thomas Gold, Douglas Guthrie and David Wank. Cambridge University Press, 2002.
83. Weber, J and Cook, T. (1972). "Subject effects in laboratory research: an examination of subject roles, demand characteristics and valid inferences," *Psychological Bulletin*, pp. 273-295.
84. Williamson, O. (1981). The economies of organization: the transaction cost approach", *The American Journal of Sociology*, Vol. 87 No. 4, pp. 548-577.
85. Windmoller, R. (2000). "The auditor market and auditor independence," *European Accounting Review*, Vol. 9 No. 4, pp. 639-642.
86. Windsor, C., and Ashkanasy, N. (1995). "The effect of client management bargaining power, moral reasoning development, and belief in a just world on auditor independence", *Accounting, Organization and Society*, Vol. 20 No 7/8, pp. 701-720.
87. Wright, C. and Booker, Q. (2005). "Auditors' need for a cooling off period," *The CPA Journal*, Vol. 75 No. 12, pp. 24-29.
88. Yeung, I. and Tung, R. (1996), "Achieving business success in Confucian societies: the importance of *guanxi* (connections)", *Organizational Dynamics*, Vol. 25 No. 2, pp. 54-65.