

DIFFERENT BUSINESS ETHICS IN CHINESS  
AND WESTERN CULTURES

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## **Abstract**

With the development of economic and cultural globalization, the study of business ethics has been arisen in recent years. Business ethics involves in many fields such as culture, ethics and business behaviors.

Generally speaking, universal ethics refers to the basic human rights and obligations of the agreement to all human beings. While the “Integrative Social Contracts Theory” can be used as an effective tool to analyze the universal ethics. In the framework of universal ethic, their has the specific ethical characteristics of Chinese and Western cultures, specifically speaking, Western ethics based on rules and emphasizing the equality and individual rights to avoid the conflicts among social members; Chinese ethics based on family and relations which tries to maintain a stable social order.

This paper puts particular emphasis on discussing the issue of business ethics in China which aims to arouse the ethical consciousness of Chinese enterprises. Comparatively speaking, Chinese ethical systems have the dual influences on business behaviors, on the one hand, Chinese enterprises tend to manage emotionally which have the harmonious interpersonal relationship, high cohesion, and centralized decision-making authority; on the other hand, nepotism, parents system, the neglect of individual rights and equality and the weakness of institutionalized management is the malady of the Chinese enterprises.

Only dealing with the ethical conflicts between different cultures, can more Chinese multinational enterprises succeed globally and more foreign companies invest in China.

**Key words:** business ethics, ethical values, Integrative Social Contracts Theory,  
ethical dilemmas

## **Abstract**

Com o desenvolvimento da globalização econômica e cultural, o estudo da ética nos negócios tem ganhado importância nos últimos anos. A ética nos negócios envolve muitas áreas, como cultura, ética e comportamentos de negócios.

De um modo geral, ética universal refere-se aos direitos humanos básicos e obrigações de acordo com todos os seres humanos. A “Teoria Integrativa do Contrato Social” pode ser usada como uma ferramenta eficaz para analisar a ética universal. No âmbito da ética universal, as culturas Chinesa e Ocidental têm as suas características éticas específicas. Especificamente falando, a ética ocidental é baseada em regras e enfatiza a igualdade e os direitos individuais para evitar os conflitos entre os membros sociais; a ética chinesa é baseada em relações familiares e que tenta manter uma ordem social estável.

Este artigo coloca particular ênfase para discutir a questão da ética nos negócios na China, que tem como objetivo despertar a consciência ética das empresas chinesas.

Comparativamente falando, os sistemas éticos chineses têm uma dupla influência sobre comportamentos empresariais. Por um lado, as empresas chinesas tendem a gerir emocionalmente, tendo a relação interpessoal harmoniosa, alta coesão e um modelo de decisão centralizado; por outro lado, o nepotismo, o sistema dos pais, a negligência dos direitos individuais e da igualdade e a fraqueza da gestão institucionalizada é a doença das empresas chinesas.

Apenas lidando com os conflitos éticos entre as diferentes culturas, poderão as empresas multinacionais Chinesas ter sucesso globalmente e receber na China mais investimento de empresas estrangeiras.

**palavras-chave:** ética de negócios, valores éticos, Integrative Social Contracts Theory, dilemas éticos

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## **Chapter 1 Introduction**

### **1.1 Research purpose**

China has been faced with the fierce economic competition and the inevitable cultural shock when entered into the WTO. In this thesis, trying to provide some valuable suggestions to Chinese enterprises, especially on international operations by comparing the differences and similarities of business ethics in Chinese and Western at different cultural background. The reasonable analysis may help to absorb the positive factors of the business ethics in Western cultures and make a better application of our traditional morality through correct inheritance and positive promotion in commercial practice.

As Peter Pratley said, there has two purposes of business ethics: “it evaluates human practices by calling upon moral standards; also it may give prescriptive advice on how to act morally in a specific kind of situation(Pratley,1997: 9)”. Moral standards are the precondition of business ethics; they provide guidance for making every right or wrong decision. For example, some behaviors are forbidden, such as lying, stealing and killing. Of course, there exist a certain moral standard at the different cultural background. Though business ethics is constantly changing with the transformation of the culture values, the rooted customs are still impacting the most of the business behaviors.

The first purpose of this thesis is to make a comparison of different business ethics in Chinese and Western cultures so that the Chinese enterprises can have deeper cognition of it. As the saying goes, take the essence and discard the dregs. Thus enterprises can see a clear picture of the development direction. The other purpose is to provide the reference to both Chinese and Western enterprises, especially for those multinational corporations who try to handle issues and adapt preferably in the different cultural environment.

### **1.2 Thesis structure**

In Literature Review, there have some theories to explain and analyze the universal ethics and specific ethics. Then, Chapter 3 makes use of a comparative approach to

figuring out different traditions and trends of business ethics in Chinese and Western cultures and to provide some ethical issues related to Chinese cultural values. Last part closes up with the conclusions of the whole thesis and advances suggestions to academic researchers and business participants, who are and will be contributing to the building of a rational business ethical system in China.

## **Chapter 2 Literature Review**

### **2.1 Historical origin of ethics and cultural influence**

Two thousand years ago, Herodotus first proposed the relationship between the ideological culture and morality. In his theory, he used anecdotes to show that all conceptions we made, whether right or wrong, are following by the code of ethics and human moral behaviors under the appropriate cultural cognition (Pratley, 1997: 10). Besides, The German sociologist Max Weber believes that a methodological-rational way of life and the protestant ethics is the key factor for capitalism, which has promoted the development of modern capitalism in the Western world. There are four main points included in Weber's views on protestant ethics:

- (1) Not only the pursuit of money and wealth is not an evil, and the pursuit of the maximization of interests can be recognized.
- (2) Laborious work considering as a virtue and a moral obligation.
- (3) Emphasis on discipline and self-control.
- (4) Free labor is the basis of Rational organization and rigorous planning. (Weber, 1987: 40)

### **2.2 Research areas of business ethics**

“The process of evaluating decisions, either before or after, with respect to the moral standards of the society's culture (Fritzsche, 1998: 42)”, said by David J. Fritzsche's. Concretely speaking, there are five kinds of activities in business ethics (De George, 1999: 24-25):

- (1) applying ethical principles in business practices to decide whether the actions are moral or not;
- (2) pay attention on moral reasoning, for instance, whether moral terms can be applied appropriately to all human beings;
- (3) analyzing the presuppositions of business from a moral point of view, for instance, the questions about the morality of economic systems;
- (4) Sometimes beyond ethics into other areas in the field of knowledge, such as economics and organization theory. For example, there is a moral obligation for

multinational companies to the host country.

(5) describing morally praiseworthy and exemplary actions, not just reactions to scandals and violation of fundamental norms.

### **2.3 “Global ethics” and ethical relativism**

In 1990, the Swiss theologian Hans Kung firstly initiated the proposition of “Global Ethic” in his book which named *Global Ethic and Global Responsibilities*. With the development of the theoretical research, the book about the Global Ethic which named the Declaration of the parliament of the World Religions published in 1993. With the advent of this book, he announced that global ethics is not a unified global ideology or single religion that can transcend all existing religions in the world, but a set of obligatory values and common ideas on human morality and basic beliefs. (Kung, 1997). The development of the global ethics based on the wave of globalization and more and more global dialogue among scholars. However, the word ‘Global ethics’ has aroused the disputes with its advent and development. In 1997, the Universal Ethics Project was established by the UNESCO which is the abbreviation of United Nations Educational, Scientific, and Cultural Organization, in this report, the supporters insist the global ethics that it can cross the cultural barriers and establish common moral norms through the dialogue, besides, try to solve the basic human problems through pursuing the different culture ceaselessly.

Reciprocity and humanity are two core principles in Global ethics. Specifically, for reciprocity, “do not do anything unto others what you do not want to do unto yourself” is the best way to describe it and it is also both a Christian rule and a Judaic motto, at the same time, it can be translated to ‘Ji Suo Bu Yu Wu Shi Yu Ren’ in Chinese. Furthermore, there are four rules, respect for life, order, honesty & trust and human equality originate from the aforementioned principles. Correspondingly, murder, stealing, lying, and rape are banned in all cultures. What global ethics illustrates is the minimal simplified content of human morality. Hans Kung believes the aforementioned two principles and four rules can help to rebuild a new and rational world order.

Some scholars believe that global ethics is actually a kind of moral universalism.



Zhao Tingyang denounces global ethics by comparing it with fundamentalism. He deems that it is easy to use moral thresholds to act as basic principles of universal ethics, but it is nonsensical to preach common morals without specific cultural context. The most convincing example is that people may have some much consensus on bad things, they may not agree with what is good. People with different cultural backgrounds usually have a different preference for virtues.

In contrast to the global ethics and moral universalism, ethical relativists insist that there is no cross-cultural values and ethical norms are various cultural codes in the different social environment. Ethical relativism denies the universal truth or objective standard to judge right or wrong. There are two lessons we can learn from ethical relativism despite its unilateral limitation. One is that it reminds us that some actions are only cultural products and many practices are merely peculiar to certain cultures. The other is that people have to keep an open mind to understand that our feelings are not necessarily the perceptions of the truth because the moral views can reflect the prejudices of our societies (Donaldson, 2002: 418).

As people who advocate global ethics has shown that there are some moral codes are universal to all human beings. Therefore, ethical relativism or ethical universalism cannot be sufficiently persuasive respectively. James Rachels, an American philosopher, summarizing his theoretical point as following: “There are some moral rules are in common in all societies because those requiring for the presence of society. Cultures may differ in what they regard as legitimate exceptions to the rules, but this disagreement exists against a background of agreement on the larger issues. Not every moral rule can vary from society to society (Rachels, 2002: 410-419)”.

This thesis basically holds the standpoint of an integration of both specific and universal ethics, because neither overestimating the amount of difference between cultures nor overlooking the cultural influence on ethics is a precise research manner. The ethical relativistic analysis focuses on ethical differences against specific cultural backgrounds while ethical universalistic narration represents the basic norms that apply equally worldwide. It would be dangerous to accept the ethical relativism and ethical universalism respectively. The former would cause the consequences that they

can accept all kinds of local habits even if they may cause serious harm, such as employing the child labor. The latter would lead to the ethnocentrism that there is a belief existing in the mind of the local customs that they may have the universal standard (Pratley, 1997: 13).

#### **2.4 Integrative Social Contracts Theory**

In recent years, a prominent research development in business ethics is the Integrative Social Contracts Theory (ISCT) advocated by Thomas Donaldson and Thomas Dunfee, and this theoretical model serves as a foundation for evaluating ethical decisions (see table 1). The social contract is “an informal agreement concerning behavioral norms that developed from shared goals, beliefs, and attitudes of groups of people or communities”(Fritzsche, 1998: 43). Business organizations can gain legitimacy through a social contract with society. The way to resolve ethical conflicts between cultures is to understand the implicit meaning of the “contracts” that govern the moral relationships among organizations, nations and cultures. ISCT model bases on the perception that business ethics consists of both specific moral standards and general moral principles. Therefore, it recognizes the moral diversity among various cultures while maintaining certain universal norms, which conduces to avoiding Western bias in ethical decisions.

**Table 1 Integrative Social Contracts Theory (ISCT)**

Hypernorms			Universal	
		1. Personal freedom		
		2. Physical security & well-being		
		3. Political participation		
		4. Informed consent		
		5. Ownership of property		
		6. Right to subsistence		
		7. Equal dignity to each human person		
		<b>Micro Social Contract</b>	<b>Globally</b>	<b>Based</b>
		1. Moral free space		
		2. Free consent with right to exit		
		3. Compatible with hypernorms		
		4. Give contract preference to local suppliers		
		<b>Micro Social Contract</b>	<b>Community</b>	<b>Based</b>
		Individual Norms (e.g.)		
		1. Do not lie in negotiations		
		2. Honor all contracts		
		3. Give hiring preference to native born		
		4. Give contract preference to local suppliers		
		5. Provide a safe workplace		

A. Hypernorms are universal norms and they impose certain moral requirements on all business activities and provide the basis of evaluating other norms. They prescribe the moral principles that are fundamental to human existence and are reflecting in a convergence of religious beliefs, political viewpoints and philosophical thoughts across all communities. Hypernorms include as following:

(1) core human rights including the personal freedom, physical security and well-being, political participation, informed consent, ownership of property, and right

to subsistence.

(2) There have a duty to respect for the dignity of each person (Fritzsche, 1998: 44). Hypernorms set up the basic ethical structure and thus serve as the foundation for the development of social contracts. Donaldson also sets basic moral standards for enterprises to develop in a cross-cultural environment. Ethical threshold are constituted with three values as following: respect for human dignity, respect for basic rights, and good citizenship. These core values determine the moral minimums for business practices (Donaldson, 2002: 394-395).

B. Social contracts exist at two levels. Macro social Contract functions on the global level and provides global norms (hypernorms). It also indicates specific conditions under which micro social contracts may be developed. In table 1, “moral free space” refers to specific norms that have not been ruled out by hyper norms. It allows for differences of business practice without challenging core values so that communities can develop norms that are adapted to their particular cultures via micro social contrasts. Micro social contrasts function on the community level to guide business practices. The norms derived from micro social contracts must not violate hypernorms. Therefore, if a member of one community wants to do business in another community, some conflicts of different moral norms on the micro level may occur. For example, in China, “nepotism” may be accepted by its micro social contract, while in Western countries, moral norm is “equal opportunity”. All micro social contracts are subordinated to hypernorms. As long as a micro social contract accord with the hypernorms, that contract may be viewed as morally legitimate. When conflicts occur, the hypernorms prevail.

## **Chapter 3 Different business ethics in Chinese and Western cultures**

### **3.1 Central ethical values in two cultures**

There had a prevailed discussion on Chinese and Western cultures among various cultural groups in China around “May 4<sup>th</sup> movement”. Chen Duxiu pointed out that Chinese cultures based on family, sentiment and imagination while the West based on individual, law and science (Qi Liang,2003:125). Besides, Wu Sen indicated that science, laws, and religions are the three backbones of Western culture while two footstones of Chinese culture are morality and art.

“The West is rule-based, and China is relationship-based” said by Hooker to explain the differences between China and the West. In other words, the most significant difference between Western and Chinese culture is that: the West relies on internalized universalizing rationality during the Chinese lives in self-consciousness.

#### **3.1.1 Ethics in Chinese culture**

Although other traditional Chinese philosophies like Taoism, Legalism and Buddhism all have an important effect on Chinese characteristics, this thesis will mainly focus on the Confucianism and its impacts on business ethics. Worldwide scholars all have contributing effect in the formation of many factors of Chinese culture, but the Confucianism always as the cornerstone on the basis of Chinese characteristic culture.

As the longest continuous civilization in the world, Chinese culture has a long tradition of record to keep and collect. Therefore, we can trace abundant historical evidence to draw a true picture for Chinese people and see how Chinese culture values work differently from Western ones on ethics. To be honest, the Confucianism is beyond most of the people’s capability, consequent, some pivotal values that are most helpful to study Chinese ethics and its impact on business behaviors are extracted .

##### **3.1.1.1 Collectivism and family values:**

American psychologist Traindis (1988) formulated an “Individualism-Collectivism

Scale” to illustrate a cultural difference between the East and the West. His hypothesis based on that Eastern people stand on the pole of collectivism and Western people represent individualism. His theory encountered many challenges including the diverse voices from Chinese scholars. For example, Taiwan psychologist Yang S. K. proposed that the collectivism of China be confined to the family. China may appear the small collective tendency if it beyond the family bound, thus it is an in-group collectivism instead of universal collectivism. For the sake of veracity, Yang suggests naming Chinese collectivism as “familial collectivism” (Yang K.S., 2004: 93). In Chinese society, the family is the most basic functional unit, furthermore, cultivated in Chinese families, people acquire a set of strong family-oriented experiences and habits may gradually apply them in social affairs. In this way, “familiarization” can take effect outside the family to transform and extent familial ethics to non-family organizations (Yang K.S., 2004: 94).

In the family group, the Confucian advocates that the individual willingness should be submitted to the family will. The culture of a family has the diffuse influences on the whole family members in their whole life. Such as, Parenthood is the kind of mutual relationship in which children support their parents with filial piety and parents care for their children with love and kindness, in other words, we can use Xiao and Ci in Chinese to translate these two expressions. Then, the harmony between the father and the son, the husband and the wife, the elder brother and the younger brother, is the ideal Confucian family view. What’s more, filial piety is the highest flight among Chinese family values, like that, “If a person can respect his parents and love his child, he must respect all the elders and love all the children in the world”. Therefore, the family is the prototype of Chinese society, and an analogy of ethics exists between them. From here, we see a great difference between Chinese and Western ethics. Specifically, Chinese ethics from the family virtues and extended to social areas while the logic of Western ethics is just in the opposite way. In western ethics, a social moral sanction in social adjustment of interpersonal relationship, family ethics is the extension of social ethics in family scope since the ancient Greek era. Moreover in Chinese ethics, a consanguineous relationship is the top level, but

kinship has already been cut off in the West.

It is saying said that the essence of collectivism in China is reflected in the Chinese family and kinship system. The Chinese people have established a close interaction, like family collectivism in the social unit. In the decision making, the Chinese should consider taking the interests of their own group as a priority when they are making the decisions.

### **3.1.1.2 Relational values**

With the impact of collectivism, the Chinese try to find their place in social relations. Each person plays different roles. Therefore he is not conceived as an independent individual, but a kind of relationship exists. China's relational orientation is mainly manifesting in two Confucian principles: maintain harmony with family and associates, and show proper deference to superiors (Hooker, 2003: 183). The following norms can partly represent the relational orientation value in Chinese ethics, and they are correlating with each other.

#### **a. Wu Lun**

An essential relational norm is Wu Lun--- five universal and basic human relationships in Chinese ethics. They are governing the relationships between ruler and subject, father and son, husband and wife, elder and younger brothers, senior and junior friends. Wu Lun contains such obligations as the senior partner holds mastery of the junior and the junior obey and respect the senior.

The dyadic relationship makes everybody in the society find his own position and act different roles conforming strictly to social surrounding instead of individual willingness. Chinese ethics emphasizes the coherence of social role while Western ethics focuses on the coherence of individual or selfhood (Yang K.S., 2004: 97).

#### **b. Harmony**

Chinese people have a long tradition of standing up for existing order. In fear of "Chaos", Chinese people regard keeping a constant social order as a kind of group complex (Yang K.S., 2004: 99). The pursuit of harmony is the harmony itself, which ethics tries to avoid the conflict. A person who has destroyed the harmonious relationship is considered immoral, whether he is justified or not. The Confucian

emphasizes the moral behavior of all kinds of relationships to achieve the Harmonious Society: adapting the collective, controlling the emotions, avoiding confusion, competition, and conflict. The harmony orientation controls not only interpersonal relationship but also the relationship between human and the Nature. Chinese people regard a human as a part of nature and believe that the human should not try to overcome or master nature, but can learn how to adapt to it so that can reach a harmony. It is also under the influence of “non-being” to do with fewer risks and less innovativeness. In Western societies, people tend to control their own lives, even to make natural environment serve human needs, which shows explorative ambition.

### **c. The doctrine of the mean-Zhong Yong**

The Chinese avoidance of conflict and the need for harmony is a product of the Confucian notion of “Zhong Yong”. The concern for the mean leads to a high degree of moral self-control or self-regulation. The Chinese avoid passing harsh judgment or criticism and find it difficult to have frank dialogs except among trusted friends. In Chinese ethics, public action should be taken seriously and legal action is regarded as an extreme behavior to solve problems. This may help explain why the Chinese are always reluctant to resort to the law. Some scholars argue that Chinese children are traditionally raising in big families where they may be exposed to many points of views.

“Consequently, they learn that circumstances have an important bearing upon what is right or wrong, and compromise in most cases is inevitable (Yau, 1994: 71)”. In contrast, Western children are usually brought up with the clear concepts of right and wrong. The doctrine of mean confounds moral norms and weakens the effect of laws and regulations.

### **d. Guan Xi**

Guan Xi may be the most preponderant one among special cultural traits in Chinese people. It can translate to “personal contacts” or “personal connections”. Guan Xi pervades every part of Chinese society and determines people’s social identities. There is a “relational determinism” which may indicate Chinese characteristics. All social conducts depend on what kind of Guan Xi between people and the moral



standards may also differ between a close Guan Xi and a distant Guan Xi. Chinese people may show collectivist inclination within an in-group and show egoism to strangers with whom no Guan Xi has established. Therefore, nepotism more likely appears in Chinese society.

For examples, there are many family enterprises existing in China and we must admit that it really has many advantages related to the unique ethical bond. In family enterprises, the internal personal relationships are usually harmonious. The familial emotion decreases the personnel floating and dismissal and employees tend to be more cohesive. But the family relationship is not good to the further and healthy development of the company, such as, the leader cannot judge the staff equitably who has the distant Guan Xi with him, even when the staff made the mistake. Thus, Guan Xi and nepotism will have an unhealth influence in China.

#### **e. Ren Qing and Face**

Ren Qing and Face are two valuable social resources in a relationally oriented society like China. They have five similarities:

- (1) they both operate in the network of interpersonal relationship;
- (2) they can be increased or decreased, and be assessed by their amount;
- (3) they can be deposited or overdrawn;
- (4) they can be given or withdrawn;
- (5) they can transfer to the third party (Yang K.S., 2004: 98).

Due to the indispensable function of Guan Xi in social lives, Chinese people desire for the retribution in social activities, and reciprocity of favors between two people regarding as a cause-and-effect relationship. Thus Ren Qing and Face act as both investment and assets in balancing interpersonal relationships.

For the sake of face, Chinese people tend to avoid saying “no” to avoid being embarrassed or offending others, hence Chinese people try to protect others from losing face. Expressing disagreement indirectly is regarded as an act of consideration. The strong constraint tries to meet the expectation of others then to forms a mutually restrictive power upon all social members.

#### **f. Li**

As Hofstede and other scholars put that Confucianism is not a religion but a philosophy or theory of social relations – it provides a set of guidelines for proper behaviors. Among them, Li is an important concept, translated as “etiquette” or “politeness”. A person should obey the rules of Li so as to live harmoniously with others, and when all members are obedient, the society will be in order. In this sense, Li dictates the manner in which the Chinese position themselves in the hierarchical society and perform their roles accordingly. The essential function of Li is to build the social order in harmony upon hierarchical social relationships. Due to its controlling force in daily life, it used to function in China as a law does in Western societies.

**g. Yuan**

Yuan has rooted in hearts of most Chinese people. It means everything or every relationship happened is predestining; it is not controlled by anyone. The predetermination is governing by a powerful external force--- supernatural force or social law, which human beings cannot understand or control. With the existing Yuan, interpersonal relationships such as friendships or marriages are doomed. People cannot jump the traces. Thus they try to search for the establishment of interrelationships with others (Yau, 1994: 69-70). On the negative pole, Yuan may also lead to the conception of passive fatalism.

**i. Authority:**

Instead of social equality and individual freedom advocated by Western societies, Confucianism emphasizes social hierarchy and order. Chinese cultures base on a rigid, hierarchical social structure. Obviously in China, all men are born unequal. According to Confucianism, social order has precedence over individual rights; thus the Western conception of democracy finds no logical footing in Chinese society. Chinese people have a strong respect for authority, teachers, parents, elders and leaders are easily trusted without being questioned. It is regarded as a virtue to be modest, obedient and self-effaced. In Chinese tradition, age means wisdom and must be respected. Hierarchy is honored, and every social member should fulfill his duty as defined by his social position. Authority dependence causes the worships on leaders and doctrine to existing rules and authority respect becomes more like an act of ingratiation than a

expression of people's true believes.

### **3.1.2 Ethics in Western culture**

“Western culture resulted from the merger of two great cultural streams: the rationalistic tradition of the classical Hellenistic world and the Judeo-Christian religious heritage. Ancient Greece anticipated the West's reliance on reason, and Judaism provided through Christianity a religious foundation for its secularism” (Hooker, 2003: 243). Western cultures certainly have enormous variety, but this thesis attempts to exhibit something in common, which share a cluster of mutually supporting traits. The tie of Western cultures is “universalizing rationality” or “scientific rationality”, which encourages people to pursue knowledge and truth in social practice and advocates individualism (Qi Liang, 2003: 281). Western culture highly values individualism and the interests of the individuals are paramount. Therefore, Western business relationships are based on self- interest, people tend to be self- motivated and task-oriented, and they seek personal recognition.

By way of contrast, Chinese people from a more collective society base their work relationships on mutual self- interest, seek to advance the interests of the group, and seek group rewards. Furthermore, the equity in Western minds originally lies in the equity and independence of selfhood, and then expands to equity in political, economical and cultural areas. Contrastively, the Chinese regards equity as only a moral issue. What Chinese culture highlights is “the fairness of all human beings”, not “the equity of every individual” (Qi Liang, 2003: 280). Therefore, egoism and individual rights are not considered as ethical norms in China. The followings are some mainstream ethical norms among traditional Western values and their application in business areas.

### **(1) Norm of Rights and Duties**

Definition: Individual's freedom is not to be violated.

By Locke (property) and Kant (personal rights)

**Table 2**

Strengths	weakness	Used in Business Areas
1. Ensures respect for individual's personal freedom and property 2. Parallels political "Bill of rights"	1. Encourages individualistic, selfish behavior	It is used where individual's personal rights or property are in question. For example, employee privacy, job tenure, work dangerous to people's health.

### **(2) Norm of Justice**

Definition: Equitable distribution of society's benefits and burdens.

By Aristotle and Rawls

**Table 3**

Strengths	weakness	Used in Business Areas
1. The "democratic" principle. 2. Does not allow a society to become status or class dominated. 3. Ensures that minorities, poor, handicapped receive opportunities and a fair share of the output.	1. Can result in less risk, incentive and innovation	It is used for performance appraisal, setting salaries and distribution of rewards and punishment to create fairness and equity.

**(3) Utilitarianism**

Definition: The greatest good for the greatest number.

By Bentham, Adam Smith and David Ricardo

**Table 4**

Strengths	weakness	Used in Business Areas
1. Concepts, terminology, methods are easiest for business people to use. 2. Promotes view of entire system of exchange beyond “this firm”. 3. Encourages entrepreneurship, innovation, productivity	1. Impossible to measure or quantify all important elements 2. “Greatest good” can Degenerate into self-interest 3. Can result in abridging another’s rights 4. Can result in neglecting less powerful segments of society	It is used in all business decisions and will be dominant criteria in most cases.

**(4) Caring**

Definition: Responsibility to a person because of relationship:

By Gilligan and Noddings

**Table 5**

Strengths	weakness	Used in Business Areas
1. Emphasizes care and responsibility for people 2. Builds trust, healthy communications and teamwork 3. Supports community and good for group	1. Poor at discriminating various responsibilities and equities 2. Without personal relationship there are no obligations	It is used where interpersonal relationships are emphasized such as the concern for the family needs of employees and performance of group members.

In conclusion, rationality and individuality are two basic components in Western values, and the comparatively stable aspects in West minds are as following:

(1) Science has the utmost efficiency. Men have absolute power to conquer the nature. It encourages people to make the most use of natural resources and to better human lives. While it may also cause the exaggeration of science's effect and neglect its negative impact on the natural and society.

(2) The Western minds develop the idea of a social contract that individual rights cannot be violated, and hence the individual has priority over society. It maintains human dignity and respect human rights and freedom while the extreme egoism that causes inhospitality and conflicts of interpersonal relationship and disregards the welfare of other interest groups is also a product of this idea.

(3) The western value uses rationality to direct morality according to the rationalist tradition, which emphasizes that instrumental rationality has priority over human rationality. It gives priority to the physical over the supernatural, and to the material over the spiritual life. During the capitalist economic crisis, the phenomenon of exceeding production waste is a kickback of this value.

Because Western business ethics planted in the soil of traditional Western culture, it leads to insuperable deficiencies in business area, such as the environmental pollution by industrial production, the tension and conflicts between employees and employers, and the extreme pursuit of interests. Therefore Chinese enterprises cannot copy all contents from Western business textbooks. The sensible way is to learn the strength from the West to make up the deficiency in Chinese business ethics and retain our valuable traditions.

### **3.1.3 Divergence and convergence**

Hooker has ever discussed with some of his Chinese students and got their ethical complaints on Westerners (Hooker, 2003: 326):

“The problem with Westerners, the Chinese might say that they care too much about universal principles and too little about what really matters. They talk loftily about preserving human rights and the environment in some distant countries, but they have little concern for the feelings of people in the same room. Courtesy, respect, and

saving face are alien concepts. Westerners divorce their spouses, abandon their elders to institutions and provide weak discipline for their children. No ethical norm is more important than caring for human beings around one, and yet Westerners get so caught up in legalistic abstractions that they forget the fundamentals.”

This comment has correspondingly proven the forenamed ethical values between the two cultures. Nevertheless, the ethics undergo changes as the culture does. The question between divergence and convergence is actually a matter of how to deal with the tradition and modernization. Although Chinese ethical values form a consistent system throughout generations, they have recently undergone a drastic transformation. Western thoughts and ideology have played an important part in social changes in China. Zhu Qian conducted a survey on Chinese cultural values in the year of 1988. He found that Chinese people in that period had following traits:

- (1) steadily held the strong family concept and relationship,
- (2) retained diligence as a virtue;
- (3) pursued more loaves and fishes;
- (4) turned more distant;
- (5) kept less respect for elders;
- (6) tended to criticize the doctrine of the mean;
- (7) began to suspect faith;
- (8) still lacked the enterprising and adventurous spirit.

Recent economic successes in other Chinese- dominated countries and regions as Hong Kong, Singapore and Taiwan have also shown the inevitable changes in value systems in their process of social and economic transformation, which have aroused great interest of scholars to study Confucian ethics. There seems to be a consensus among researchers that Confucian ethical influence combined with the Western advantages on technology and management has contributed to an economic achievement in these regions. Thus, Chinese traditional values are not necessarily a stumbling block to the industrialization or modernization. Hong Kong is a good example of how ethics has served the economic growth. The prosperity of Hong Kong is partly due to the consideration and perseverance of the labor force, which try

always to be in harmony with their employers (Yau, 1994: 67).

Like cultural divergence brings the harassment in ethical judgments, the trend of convergence again arouses some worries. The convergence hypothesis deems that with sufficient time for modernizing forces to take effect on cultural values, all differences will be eliminated. Consequently, some Chinese intellectuals tend to be worried about that our countrymen's nativism is in danger of being lost under the eroding forces of modernization. With strong respect for the technical power of the West, the Chinese desperately strive for material and scientific transformations. Then there comes out a question that how to cope with the fruit and the poison of the Western cultures. Michael Harris Bond has found that modernization does not conflict with the status of being traditional Chinese. Some traditional values such as interpersonal harmony and familism can surprisingly coexist with modern values like competition (Bond, 1994: 110-116). It indicates that developing Chinese economy does not necessarily mean sacrificing the cultural identity, which laid good foundation for the feasibility of Chinese enterprises learning ethical business concepts from the West. It can concluding that divergence always exists between Chinese and Western societies and convergence is appearing with the mutual understanding and tolerance of cultural under the trend of globalization. The divergence need not imply that Chinese and Western people cannot live together. "One key to coexistence would seem to be a willingness for each society to understand, respect, and make an accommodation to the culture and worldview of their neighbors" (Hooker, 2003: 327).

### **3.2 Chinese cultural values and business ethical behaviors**

Many scholars have found it a paradox that Confucianism that extremely despises profit nevertheless helps to bring about a high-speed development of the economy. It indicates that Chinese business ethics derived from cultural-specific values has a dual influence over the whole society. Since the ethical system has both its merits and its defects, the positive and negative influences co-exist and reflect in business behaviors.

#### **3.2.1 Empirical findings of Chinese business ethics**



It is no doubt that cultural values must play their roles in ethical behaviors. For example, U. S. managers tend to be more concerned with ethical issues while Korean managers tend to treat bribery as an entry fee to a business proposition. The Canadians appear to be more inclined to blow the whistle while the Taiwanese are more likely to cover for a superior's unethical behaviors. The Taiwanese and Hong Kongese are more likely to discriminate on the basis of sex. Empirical evidence shows: Chinese business persons more resemble the above managers from Korean, Taiwan, and Hong Kong in the way of dealing ethical affairs. At the same time, there are also some similarities across cultures. For example, there is little difference in the ethical standards of marketing practices between British and Chinese managers doing business in Hong Kong (Fritzsche, 1998: 70-71).

In the fall of 1995, the first large-scale empirical study on business ethics was conducted in several cities in East China, with the aim of collecting data on business people's ethical perceptions and commenting on the current and expected future state of business ethics in East China. The study jointly sponsored by the Philosophy Department and the Center for Applied Ethics at Fudan University, Shanghai. The research group carried out surveys by distributing questionnaires and making interviews in 59 enterprises of various industries, with 800 business people. There are some significant results, for example, 72% respondents thought that enterprise should get rid of the control by government, 39% respondents regarded the practice of offering and accreting kickbacks as ethical, and only 17% held that business management should appoint by the board of directors. The result implies that the ethical perceptions of some business people in East China are self-contradictory, and the state of business ethics is complex and flexible. Despite some common perceptions, there are still some popular international ethical values unacceptable in the eyes of Chinese business people. Take business leaders for example(Wu Xinwen, 1999):

(1) Among 42 business leaders, 16 confirmed that their enterprises had formal and written codes of ethics or similar standards; 26 admitted that they did not have them. Most of them thought that enterprises did not need to set up ethics organization to

supervise business behaviors and the institutionalization of ethical codes for business behaviors were not integrant. It implied that ethical business behaviors, mainly depended on people's conscientiousness and lacked a strong constraint in regulation.

(2) Despite the fact that 35 leaders often or occasionally took ethical aspects into consideration, four business leaders thought business decision-making had nothing to do with ethics.

(3) There were 26 leaders approving that the market economy was good to improve business ethics because it could foster the independence and autonomy of the enterprise. However six leaders, from state-owned enterprises, thought socialist ethics could not coexist with a market economy. It suggests that some senior business leaders in East China had not understood well the ethical function of the market economy.

We have to admit that East China is just a particular region, and the result of this region cannot represent the whole state of business ethics in China. However as the most developed region of China, it is the example and progressing direction of the other regions. Many years have passed since then. Things may change dramatically in China whereas some core values in people's minds may still exert their influence on today's business practices.

### **3.2.2 Business behaviors related to Chinese ethics**

As stated in Literature Review, business ethics covers all the complex relationships in every link of business activities and thus gives rise to multifarious issues. The thesis will mainly focus on those issues that are attributable to the influence of culture-specific values in Chinese business activities.

#### **3.2.2.1 Corruption and bribery**

Many Western business people emphasize that doing business in China is not just a matter of price and product. To succeed in the Chinese market, foreign business people must rely on good personal relationships (Guan Xi). The value of collectivist orientation brings the high contact rate among group members with informal channels and high loyalty. Chinese businessmen often believe that following the principle of "Ren Qing" is the utmost importance in making the business go smoothly and earn

more money. Gifts presented should be expensive enough to match the income of the givers so that they are giving a face to the receivers (Yau, 1994: 77). The convention of Ren Qing and Guan Xi may lead to some ethical conflicts in cross-cultural business behaviors. The Chinese term of “going through the back door” make people on every level automatically use personal relationships to accomplish something (De Mente, 1989: 132). Relationship building may provide a relatively stable and trusting basis for trade and negotiation, but it may also ruin the ethical system by containing bribery. Bribery is a sensitive issue throughout the world. Take Shell Company for example. Annually, all managers are asked to sign a Letter of Representation in which they confirm not only the probity of their accounts, but also that they have not been party to the offering, paying or receiving of bribery. These principles are applied worldwide within the Shell organizations as a powerful tool in the process of globalization (Duncan Peter, 24). Bribery and corruption may do harm to the rule of free competition, which is the basis of the market economic system.

### **3.2.2.2 Fair play and employment equity**

Confucius advocated that social stability built on the inequality of human beings. Confucius’ idea has inherited as the guideline for Chinese people even to the present. On the contrary, the West highly emphasizes equality, which reflects in two aspects: one is internal equality such as equal opportunity to develop and to promote for employees; and the other one external equality such as fair business competition. Due to the strong familial ethics in Chinese culture, what is nepotism or cronyism in the West may be mainstream and functional behavior in China (Hooker, 2003: 317). The main reason for nepotism is the pivotal role of the family in Chinese society. “Elders rely on their children to support them in old age, and children rely on their elders to get them jobs”(Hooker, 2003: 319). That can also explain why patriarchy and despotism are prevailing in Chinese enterprises, especially in family enterprises and state-owned enterprises in which the modern business management system is weak.

### **3.2.2.3 Government of man versus government by law**

In ancient Chinese society, especially in the economic field, law and regulations were not complete and perfect. As many economic activities depended upon

conventions and customary practices, the sincerity and honesty of the merchants and the trust between them were important. “They exchange favors by supplying goods or credit without signing legal documents and believe that the signing of any legal document will terminate the reciprocity of doing favors” (Yau, 1994: 74). Harmony, trustworthiness and tolerance have been injected as virtues into the minds of business people, and have transformed them into a long and deep ethical norm that plays an important role to eliminate cheating and chaos in business activities (Shi Zhonglian, 1997). However, the negative impacts coexist. People are reluctant to whistle blow the unethical behaviors and tend to “understand” the situation in which wrongdoing happens. Thus, the ethical principles become more flexible and difficult to operate efficiently. Just as Hofstede puts that Confucianism is a set of pragmatic rules for daily life, the Chinese ethics lacks the tradition of rationality and government by law (Hofstede, 1991: 135-165). Together with the empirical study conducted in East China in 1995, it can be concluded that Chinese business ethics is deficient in institutional constraints and controls. Moreover, in relationship-determined society, business is based on trust between individuals, and thus transparency is unnecessary, which makes unethical behaviors easier to avoid being punished.

#### **3.2.2.4 Righteousness versus profit**

Confucianism was not concerned with profits. “Preservation of the heavenly principles and the elimination of human desires” suppressed the human quest for material interests (Shi Zhonglian, 1997). “The five constant virtues” --- benevolence Ren , righteousness, Yi propriety Li , wisdom Zhi and trustworthiness Xin --- urge individuals to control personal desires and emotions, restrain self- interest for the benefit of the group, avoid conflict, and maintain harmony. “Most Americans feel that Individualism is good, and at the root of their country’s greatness. On the other hand, Chairman Mao Tse-Tung of China identified individualism as evil. He found individualism and liberalism responsible for selfishness and aversion to discipline; they led people to placing personal interests above those of the group, or simply to devoting too much attention to one’s own things”(Hofstede, 1991: 71). In traditional Chinese culture, “noblemen” who believe that emphasizing profits would demean

themselves by destroying the “righteousness” tend to scorn the pursuit of wealth and interest. With the economic transformation during the past two decades, Chinese people no longer abstain from talking about “money” openly and those “wealth heroes” appear as shining stars on the public stage. Things shift from one end to the other dramatically, whereas a new problem comes out: the inflation of pursuing material life may cause money worship and eventually damage the whole ethical system of Chinese society. Both the profits and morality (righteousness) are the foundations of the enterprise’s existence and development.

A statistical analysis of survey data collected in 1994 and 1995 in China, South Korea, Mexico and U.S. found that the predominant ethical decision principle in China was act utilitarianism and the principle of rule utilitarianism received the least support compared with the circumstance of the other three countries (Etheredge and Erdener, 1999: 61). This means that with China’s economic transformation towards market mechanism, people are more likely to assess business activities according to whether it can produce the greatest possible good for the stakeholders than to translate utilitarianism standards to ethical business codes. The weakness of government by law can also prove this viewpoint. To build a rational ethical system, on the one hand, we should reject the Confucian tendency to deny material and individual interests; and on the other hand, we may advocate the essential values of Chinese culture to overcome the drawbacks of act utilitarianism by paying attention to the human rights, individual justice, and personal relationships.

### **3.3 Conclusions**

Confucian values have a double influence over business ethics. Positively, they ensure people’s interdependence and unity, produce harmonious interpersonal relations, pursue long-term business development, and cultivate the sense of righteousness. Negatively, they despise scientific rationality and institutional construction, deny individual interests and self-development, and cause inequity of competition and corruption. The positive and negative influences co-exist and thus our ethical system has both its merits and deficiencies.

The following reasons may explain the paradox presented at the beginning of this

part — how does Confucianism that extremely despises profit bring about a high-speed economic development in Southeast Asia. The remolded Confucianism, combined with Western valuable ethical norms, facilitates the building of a unique business pattern including active intervention by the government, emotional and harmonious relationships among all people inside and outside of business, concern for the well-being of staff and employees, a strong sense of family and clan, a strong collective consciousness in the enterprises. “These characteristics have formed a new mode of modernization, which the American sociologist Peter Berger called the Eastern mode of modernization” (Shi Zhonglian, 1997). These characteristics can also disprove Max Weber’s viewpoint that Confucian ethics cannot fit for the modern economic development.

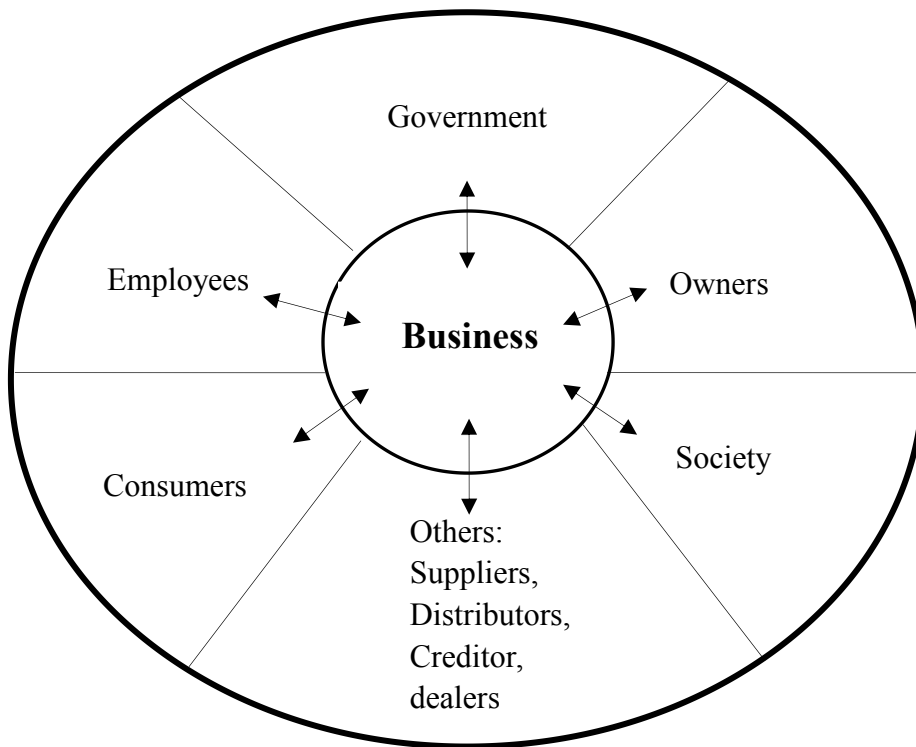
### **3.4 Ethical decision-making in different cultures**

Business ethics is reflected in business activities as a branch of the applied ethics. Business organizations and participant people are the leading roles in business activities, so the behaviors of them are crucial to ethical environment. It is obvious that enterprises should seek the maximized profit, but they should achieve it according with the ethical standards. It is a serious challenge for enterprises to satisfy all shareholders and make business decisions with certain ethical norms simultaneously in a cross-cultural environment.

#### **3.4.1 Interests and responsibilities of business**

According to C. B. Handy, there are six different interest groups around an enterprise. (see chart 1)

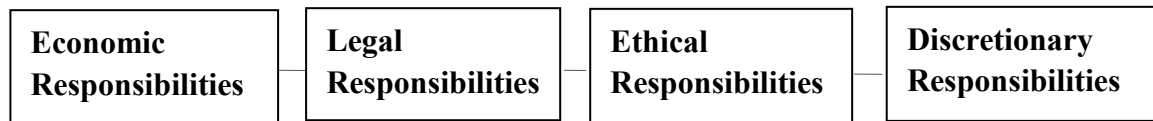
**Chart 1 Business and interest groups (Bhatia, 2003: 153)**



The six interest groups around a business can be classified as internal interest groups like “owners” and “employees”, and external interest groups including consumers, suppliers, creditors, distributors, dealers, government and society. We can further add some other interest parts into it, such as competitors and the environment. “Many firms also recognize some obligation to their industry or trade” (Lucas, 2003: 20).

Business is the most important institution nowadays to provide interest to all groups ranging from individuals to the society. The interests of owners, employees, customers, even government are quite understandable. However, there has been a long time that the social responsibilities of business did not get acknowledged. During 1950s to 1960s, there was a representative saying by Milton Freidman— the only responsibility of business should be maximizing interest in fair and free market competition by fully using resources (Mao Yu, 2003). With the advancement of study in business ethics, social responsibilities have received more recognition and turned into a set of complex concepts containing economic, legal and ethical elements. (see chart 2)

**Chart 2 Four-part social responsibilities model (Bhatia, 2003: 17)**



Ethical responsibility refers to behavior that is expected by the society, but not codified in a law. Discretionary responsibility refers purely voluntary obligation that an organization assumes. They two constitute social responsibilities of business.

There are some general norms on business responsibilities, which have been accepted by most international institutions:

- (1) When pursuing economic profits, an enterprise should not do any harm to others.
- (2) An enterprise should take on the responsibilities of benefiting both internal and external groups such as customers, employees, suppliers, governments and communities.
- (3) An enterprise should handle the environment.
- (4) An enterprise should handle the sustainable development of the society.

In the year of 2002, the European Union launched its project of “Business Social Responsibility”, and many Western enterprises paid more attention on social responsibilities after Enron Scandal (Mao Yu, 2003). As the eighth biggest oil company in the world, Conoco Philips has entered the Chinese market for many years. Conoco Philips Corporation just names itself as a “society citizen responsibility enterprise” to show its moral attitude in business operation. Because existing in and benefiting from the society, an enterprise should take on its responsibilities to the society and the circumstance of society also reacts on the development of it.

Take Shell for example. Its so-called Royal Dutch/Shell Group Statement of General Business Principles applies equally to corporate decision-making and to the individual behavior expected of employees in conducting Shell business. Shell operating companies may elaborate their own statements to meet national situations, but this Statement of General Business Principles serves as a basis, on which they pursue the highest standards of behavior. The principles define four responsibilities (Duncan, 1998: 23):



- (1) Shell companies are responsible to shareholders, to protect their investment and give them an acceptable return.
- (2) We have a responsibility to all employees, to provide good and safe working-conditions. We are required to develop and make the best use of the talents of employees and to offer them equal opportunities, and to encourage their involvement in the planning and direction of their work.
- (3) We have a responsibility to customers to provide products and services that give value in terms of price and quality. Moreover, which are backed up by the requisite technological and commercial expertise.
- (4) Moreover we have the responsibility to be good corporate members of society, to observe the applicable laws of the countries where we work and to give due regard to safety and environmental standards and societal aspirations.

According to empirical study conducted in East China in 1995, 31% of the respondents held that the enterprise is primarily responsible to consumers, 26% to employees, 18% to stockholders, 14% to the government, and 11% to the society and the environment. The statistics show that the respondents' perception is closely relating to the industry and nature of the enterprise they belong to. For example, 67% respondents in state-owned and collective enterprises choose "government" as their answer and business people from manufacturing industry emphasize responsibility to "consumer" (Wu Xinwen, 1999: 331-332).

### **3.4.2 Ethical dilemma and decision-making**

As global trade expands, corporations may find their ethical codes being seriously challenged. The dilemma happened in two ways: on the one hand, managers must strike a balance between what a business wants and what society or community accepts; on the other hand, there should also be a trade-off between what a particular culture accepts and whether this can reconcile with business ethics. This thesis will focus on the latter one, that is, the ethical dilemma in a cross-cultural context. When ethical norms contradict each other in different cultural context, there has to be a compromise somewhere.

"According to Rushworth Kidder, the toughest choices are Right versus Right.

They are genuine dilemmas precisely because each side is firmly rooting in one of our basic, core values. Four such dilemmas are so common to our experience that they stand as models, patterns, or paradigms. They are Truth versus Loyalty, Individual versus Community, Short-term versus Long-term and Justice versus Mercy (Bhatia, 2003: 39-40)".

Ethical dilemmas usually come up with the conflicts of cultural values. According to the previous narration, Chinese people tend to be less concerned with Truth and Justice, and may be classified into Community and Long-term value dimensions, yet Western values highlight Truth, Justice and Individual freedom. Then how to manage ethic conflicts across cultures Thomas Donaldson and Thomas Dunfee's Integrative Social Contracts Theory (ISCT) can be taken as a good foundation for enterprises to evaluate their ethical dimensions in the decision-making process. The judgment of ethical issues is basing on the moral standards of the decision maker with certain cultural background. Moral standards can divide as general principles (hypernyms) and specific norms (social contracts) in ISCT model. Furthermore, companies must be:

(1) Respect for core human values, which determine the absolute moral threshold for all business activities. Core human values define minimum ethical standards for all companies. Some seemingly divergent values may actually converge at key points such as respect for human dignity and basic rights.

(2) Respect for local traditions. For business, respecting cultural differences is a crucial ethical practice.

(3) The belief that context matters when deciding what is right and what is wrong. Some practices that are unethical in one setting may be acceptable in another. However, there are also some activities that are wrong no matter where they take place.

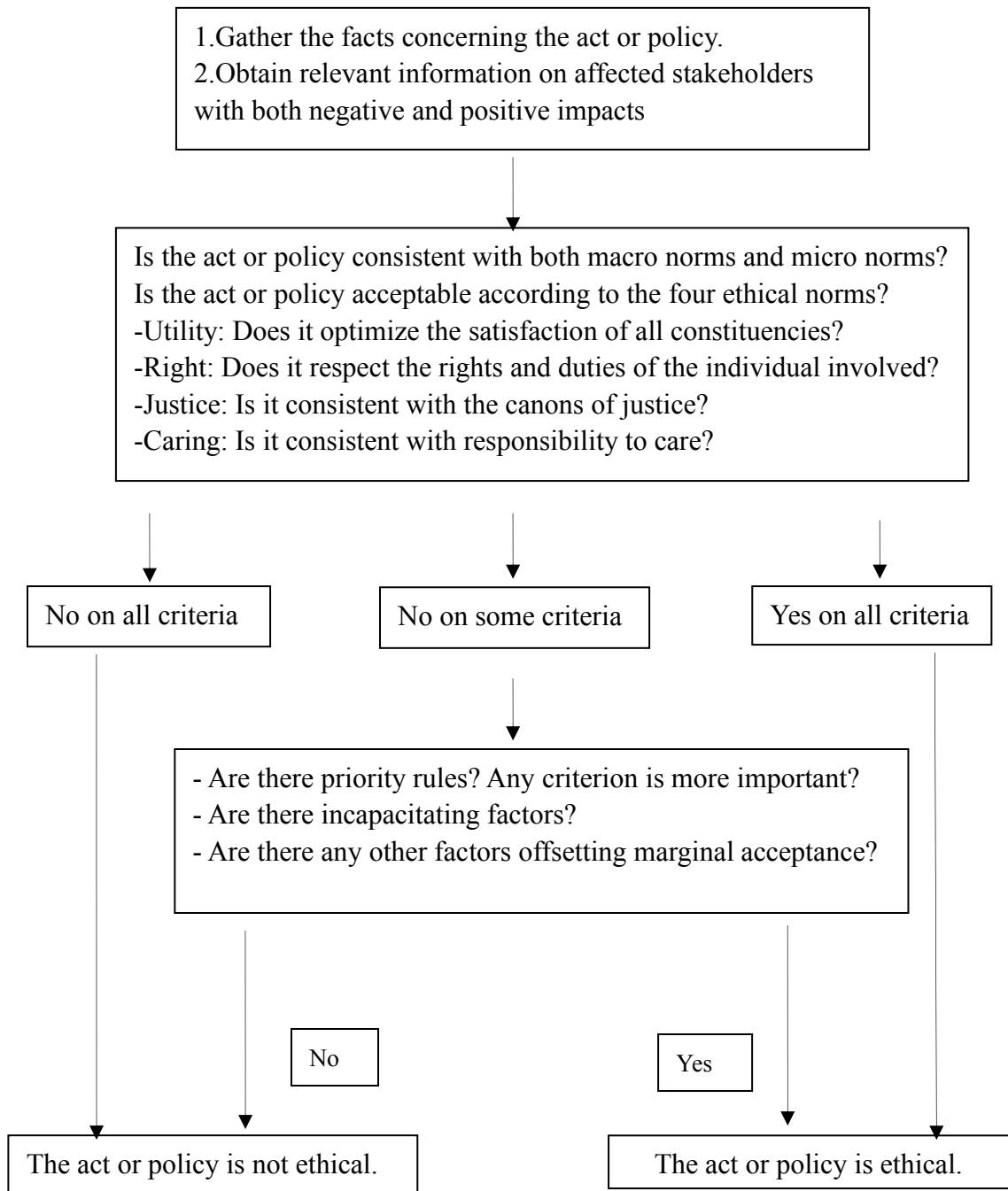
These are just general principles to guide ethical behaviors. Nevertheless, they cannot operate in an identical manner around the world. People in different cultures may have different expectation, satisfaction, and requirements. Different societies have different ethical values and priorities. Thus, the final decision requires judgment

and close consideration of the decision maker. With the expansion of global trade, we are exposed to diversified micro norms that make ethical dilemmas not easy to solve. It is helpful to apply a set of “priority rules” from ISCT model to decide the preference. Moreover, it is significant to build a system that can rapidly take the appropriate remedial measures and learn from the experience, once an unethical action happens.

Chart 3 is a decision-making diagram that integrates the mainstreams of ethical business norms in the world and ISCT method. It is beneficial for Chinese enterprises to resort to so that the influence of deficient cultural factors can get an offset. Take gift giving as an example. As previously mentioned, etiquette or “Li” is an important norm in Chinese ethics, so giving a gift to business partners is a natural behavior in Chinese business. However, it may conflict with the rule-based norm on a fair, just and transparent trade in Western culture. Then a foreign decision maker should determine before conducting business in China that whether gift giving is acceptable or not. Actually gift-giving does not violate any core human value and most businessmen agree that business without adopting this practice seems impossible in China. As a result, gift giving may be permissible for a Western company in China, even though it conflicts with its home ethical standard. This conclusion has been widely accepted even by those multinational corporations that are strictly against bribery (Donaldson, 2002: 479). Of course, gift giving is only acceptable within limited scope and intention. When it exceeds certain limits, it will collide with core human values. Under the cross-cultural background, ethical norms are not easily derived, and even if people develop adequate norms, the norms themselves cannot automatically make any decision. People still need to judge by their perception of facts with certain cultural values. Here are some measures that may help enterprises act more ethically in a cross-cultural context:

- (1) develop sensitivity to other culture and a thorough understanding of ethical norms
- (2) make ethical decisions using a strict judgment procedure
- (3) set up a remedy system to answer up ethical blunders

**Chart 3 Ethical decision-making diagram**



## Chapter 4 Case Study

This part will focus on discussing ethical behaviors of enterprises in Chinese and Western cultures, instead of analyzing corporate culture itself, to show how business behaviors reflect their ethics, which are inherited from different cultures.

### Case 1 Levis in China

#### Case backgrounds:

##### a. Ethical problem challenging business interest

In 1993, Levis Strauss & Co. (LE &Co.) faced one of its most difficult decisions in corporate history: Should it continue to conduct business in China or withdraw business and stick to its own ethical standard? On the one hand, the Chinese market can provide more than one billion consumers and low production costs. On the other hand, “its human rights violations have long been condemned by international bodies” and does not accord with ethical standards of LE &Co. itself.

##### b. Ethical stance of LE & Co

Founded in the United States in 1873, LE &Co. became the world’s largest clothing manufacture in 1977 and it has been a leader among U.S.-based corporations in recognizing the importance of business ethics. In early 1992, it established a set of new global sourcing guidelines to ensure that its worldwide contractors’ standards mesh with the company values and the company will not source in countries failing to meet its guidelines. The contractors should abide by the following criteria:

- (1) Child labor is prohibited
- (2) Prison labor is prohibited
- (3) The work environment must be safe and healthy
- (4) Water effluence must limit to certain prescribed levels
- (5) Employees cannot work more than sixty hours a week and must be allowed one day off in seven
- (6) Business partners must comply with legal business requirement

The country selection standards applied by LE &Co. The concern with the brand name, health and safety requirement, human rights, legal requirements, and political

or social stability. LE &Co. Deems that ethics is a ground rule, not just a factor in decision-making, and ethical values should take precedence over non-ethical values.

The company adopted the “Principled Reasoning Approach” (PRA) with six steps:

- (1) defining problem
- (2) agreeing on the principles to be satisfied
- (3) identifying both high-impact and high-influence stakeholders and assessing their claims
- (4) brainstorming possible solutions
- (5) testing the consequences of chosen solutions
- (6) developing an ethical process for implementing the solution

### **c. The China situation**

According to the U.S. Department, “China’s human rights practices fell far short of internationally accepted norms”. The problems on human rights were reporting to LE &Co. in three areas:

- (1) Legal process: arbitrary arrest and detention without formal legal proceedings.
- (2) Prison labor: the production of “forced labor” for export
- (3) Expression and Association: restricted personal freedom

Regarding to labor conditions, child labor was widespread, especially in rural areas and no minimum wage was found. At the same time, the problem of false labeling and counterfeit persisted badly, and China was called “the single largest operator of U.S. copyrights”.

Obviously, the investigation result of LE &Co. Provided clear evidence that China could not answer for the ethical criteria of the company. LE &Co. Management also felt that it could not improve the situation because ethical violations were “beyond what could be remedied strictly through company communication and cooperation with contractors.” However, withdrawing from China would make it hard to find alternative contractors with available quota at reasonable prices and would also mean losing the biggest sales opportunity. Some people said that with the acknowledgment of company’s responsibility to the society, the company also needed to consider its responsibilities to shareholders and employees. Others argued that continuing

manufacturing in China would damage LE &Co.'s high reputation throughout the world.

#### **d. The process of ethical decision-making against China issue**

To address the issue regarding company's continued operations in China, LE &Co. Set up a China Policy Group (CPG), composed of 12 employees who together devoted 2,000 hours to reviewing the ethical situation in China and consulting a wide range of related scholars and stakeholders. CPG was asked to use PRA to make recommendations based on company's ethical values.

In 1993, the CPG delivered a report to LE &Co.'s Executive Management Committee. CEO and Chairman of LE &Co., Robert Haas, made the decision of forgoing direct investment in China and ending existing contracts over a period of three years due to "pervasive violations of basic human rights." He maintained "the company had more to gain by remaining true to its ideals than by continuing to produce in China." LE &Co. Recognized its cost of losing Chinese market, and considered it as the price it must pay to uphold its integrity and protect its brand image.

#### **Personal comments:**

Many valuable lessons can draw from this case.

Firstly, there is a strong link between good ethics and good business. The reputation for a company is of great importance in both Chinese and Western cultures. Economic interest could not be the determining factor when it conflicts with ethical values. LE &Co. Does not only concentrate on its business profit, but takes well on its social responsibilities and unifies a set of ethical codes that provide clear guidance for business behaviors. Moreover, most of the Chinese enterprises had not set up their moral codes or ethical principles. In 1996, Horizon Survey Company released its "Survey Report on Business Ethics of Chinese Entrepreneurs", which collected the data from 300 business leaders in Beijing, Guangzhou, and Shanghai. The result showed that only 34% respondents had ever heard of the notion of "business ethics" and only 15% people could relatively roundly apprehend the meaning of it (He Qinglian, 1998: 188). From this perspective, LE &Co. Gives a good example for

Chinese enterprises to promote their ethical conscientiousness.

Secondly, an ethical decision should be made on the basis of a thorough understanding of cultural differences. Hypernorms are general principles that allow some free space to develop concrete moral standards on the micro level. LE &Co. carefully investigated the China situation before it made a withdrawing decision. It is worthwhile to point out that the discussion about LE &Co.'s judgment on China's violation of human rights goes beyond the scope of this thesis, whereas we should admit that the efforts of obtaining relevant information do facilitate to eliminate cultural bias in business behaviors.

Thirdly, maybe the most important learning form LE &Co. is its decision-making which process by CPG group through PRA procedure based on ethical company guidelines. According to Hofstede's dimension, Chinese culture tends to be low uncertainty avoidance compared with high uncertainty avoidance in Western minds. That means Chinese people are much closer with "government by man" instead of "government by law". Especially when concerned with ethical matter, Chinese enterprises would be unlikely to enforce rigid rules or written principles to business operation. In the face of ethical conflicts, people's innermost moral consciousness can take certain effect whereas the most efficacious way is to use obligatory guidance to resist unethical temptation. Ethical codes and approaches should, on the one hand, be explicit to be used, and, on the other hand, they have to leave free space for decision makers to judge in different situations with cultural sensitivity. Chinese enterprises can introduce the instructive experience from Western rule-based ethical concepts so as to build up our ethical codes and decision-making approach based on international practice and Chinese specific cultural values.

## **Case 2 China Aviation Oil Corp. in Singapore**

### **Case backgrounds:**

#### **a. Loss of 550 million US dollars**

China Aviation Oil (Singapore) Corp. (CAOSCO) is a subsidiary company listed on Singapore market. Its parent company, China Aviation Oil Holding Co.(CAOHC) is



directly under the supervision of Stated-owned Assets Supervision and Administration Commission (SASAC). In December 2004, CAOSCO was reported a \$ 550 million speculation loss on the futures market of oil, which has touched off a heated debate on the supervision and management of Chinese state-owned enterprises.

#### **b. The risk management system of CAOSCO**

China National Enterprise Federation ever valued the risk management system of CAOSCO as the best among Chinese enterprises and the Securities Investors Association of Singapore granted CAOSCO the award of “Most Transparent Company”. Its managerial experiences were even taught in Singapore MBA courses. Actually CAOSCO owned a Risk Management Committee consisting of financial professionals and its internal risk control regulations should have prevented it from a big loss. Therefore, the loss of 550 million US dollars greatly astounded people. Financial Times said it was the worst scandal in Singapore after the bankruptcy of Barings Bank in 1995.

As a subsidiary of a state-owned enterprise, CAOSCO violated the regulation of SASAC to dabble in OTC oil derivatives market and its risk control system did not operate even when it began to lose in the speculative exchange. It was obvious that the Risk Management Committee existed only in name and prearranged countermeasures did not take any effect. When we probe into the reasons for CAOSCO’s collapse, we may find ethical roots behind its painful lessons.

#### **Personal comments:**

This case no doubt exposes the defect of CAOSCO’s management system to the public. However, corporate governance is only superficial matter, and profound reasons can be explored to explain the problems between authority and system, ethics and law. Traditional Chinese values can be clearly traced back in the case of CAOSCO’s loss.

#### **a. Internal reason: “government of man” instead of “government by law”**

The president of CAOSCO, Chen Jiulin, has another title — Vice president of CAOHC. His dual identity made him the actual operator and supervisor simultaneously. It was reported that CAOSCO had ever borrowed 100 million US

dollars from CAOHC to make up the red. Then, why did CAOHC leave such a big risk alone at that time? The core problem in the crisis was that the leaders surpassed the corporate system. In corporate management, Chen Jiulin's personal competency and achievement won him absolute authority over both internal system control and also the supervision from the parent company. We cannot deny the existence of a set of rules in CAOSCO to avoid uncertainty while the key point is how to ensure the rules in full effect. In this case, according to the regulation of CAOHC, CAOSCO had no authorization to engage in bulk futures exchange or speculation. However, under the strong control of Chen Jiulin himself, the regulative rules turned to be just in the name.

Under the Western ethics that are basing on social contract theory, effective corporate governance emphasizes power balance and mutual restriction. While Chinese business ethics tends to use broad general principles to replace the rigid system of laws. Furthermore, high power distance cultivates “manager stars” and apotheosizes companies. With the constant mounting of personal power, the business leaders may ignore the system control and government of man may gain extensive recognition by employees and even superiors.

Does a company need a hero or a star? The glory is not harmful by itself and the adoration on legendary leaders may strengthen internal cohesion inside businesses. However, without effective institutional management, the defect of dictatorial human-oriented governance is conspicuous. With the internationalization of Chinese business, CAOSCO event calls us attention that systematic supervision and institutional management should be strictly executing to overcome human weakness.

#### **b. External reason: parents and the son**

It is certainly not Chen Jiulin's own mistake that can explain the whole event. This is actually a typical case of insufficient and weak supervision in China. Neither CAOSCO's parent company CAOHC nor CAOHC's superior SASAC can escape their responsibility. We can observe that the patriarchal behaviors supersede institutional restrictions throughout risk management and decision-making process. The same story has often happened in Chinese families. CAOSCO, like a favorite son

of CAOHC and SASAC, used to gain great honor from its profit-earning capability and performance. With the accreditation from its parents, CAOSCO operated as the sole import supplier of CAOHC, which almost monopolizes the whole aviation fuel supplying in the Chinese market with the authorization of the government. Therefore, the son held strong power in overseas competition and to some extent it could hedge against the exterior supervision and control.

Before the great loss was made public, CAOHC had transferred US \$ 100 million to its son, with the attempt of making up a deficit. We cannot help asking why CAOHC could do so under such a big hazard? In this case, CAOSCO was not treated as an individual entity, but a member of a big family. When the market participants all pertained to one collective interest group, there could be a great challenge for the normal operation of supervision system. This is a case concerned with moral hazard: a certainty or an insurance itself creates risks.

### **c. Social impact**

Complaints and doubts have come after CAOSCI event. If it had earned a lot in this zero-sum game by getting out of line on speculative investment, would it still be condemned? This utilitarian point of view is somewhat dangerous in business operation. According to Integrative Social Contracts Theory (ISCT), there are some ethic norms that are culturally universal. The greatest possible profit is surely not the only criterion to judge business behaviors. Historical experiences and lessons show that purely act utilitarianism on business ethics may lead to many social problems and the blurring and malfunction of systematic controls is just one of its consequences.

The problems are actually pervading among many state-owned enterprises that go into the overseas futures market. If they are treated as independent entities, the first challenge they are facing is the issue of business credit standing. The credit of state-owned enterprise actually comes from government support; nevertheless CAOSCO event has clearly revealed the ill effects of paternalism. Competitors are one of the interest groups of business, and there is also an obligation of fair play to them. The over-protection on state-owned enterprises grants them policy advantages when competing with foreign counterparts in the international market, which may

conflict the ethics of fair play in Western minds. Under this circumstance, the trustworthiness and reputation of Chinese state-owned enterprises are in peril of demolition. Therefore, improving business ethics with a sound credit system and rational practices is of great significance to the construction of market economy in China.

## **Chapter 5 Conclusion**

### **5.1 Research Summary**

Comparatively speaking, the Chinese ethics, family- and relation-based, attempts to draw a closer relationship among group members by stressing the role and position of each member and thus keep society well ordered; the Western ethics, rule-based, advocates human rights and individual equity in order to avoid conflicts among group members.

By comparing and contrasting Chinese and Western ethics reflected in business behaviors, we can find that Chinese style has its own merits and deficiencies. Hence, in the process of building a new system of business ethics adapting to China's modernization, we should be clear about what to inherit from Chinese traditional cultural values and what to borrow from the Western minds to offset our own weaknesses. According to ISCT model, universal and specific ethical norms co-exist in business activities. Therefore, sometimes we should do as the Romans do when what the Romans do conform to universal standards; sometimes we have to stick to our own values when what the Romans do conflicts with the universal standards; sometimes we and the Romans just do in respective way that differ in micro norms but consistent with universal principles.

There is no doubt that the case study cannot exhaust all the specification of ethical issues in the cross-cultural context, but it does show that Chinese enterprises can improve their management and institutional building by taking ethical elements into account. Chinese business ethics is featuring by harmonious and friendly interpersonal relationships and highlights humanistic and emotional management. These characteristics are beneficial for strengthening interior cohesion and centralizing decision-making authority. Nevertheless, the above-mentioned cases tell us that Confucian ethics also result in cronyism, the neglect of human rights and equity, prevailing paternalism and weak institutional control over ethical behaviors. Some old ethical concepts do not meet the requirements for modern business development in multicultural context and thus need to be reestablished or enriched by

new contents. Chinese enterprises should combine Chinese and Western elements to sharpen the competitive edge in the international market. Only by conforming to moral norms, can business behaviors be brought under rational control and converted into a huge force that drives social progress

## **5.2 Suggestions for academic study and business practice**

A Chinese scholar points out that the study of business ethics in China is still at its beginning and there is still a lot of work for both Chinese academic community and enterprises to do (Gao Guoxi, 2002):

(1) An in-depth investigation of the moral status and level of business activities, including surveys, personal interviews, and other techniques, may help to grasp the ethical problems in China and to frame suitable moral codes.

(2) An introduction of recent achievements in the field of business ethics from Western countries may provide a great deal of valuable experience and enlightenment for the development of Chinese business ethics both at home and abroad.

(3) A thorough understanding of cultural similarities and differences is the basis of solving ethical dilemmas and develop macro and micro norms in business practices.

(4) Cooperation between academic scholars and business practitioners is crucial to developing scientific and rational ethical principles to guide business behaviors.

It is noticeable that research across cultures is much more complex than research within a culture. Take the possible survey for example. The most obvious problem is language, because sometimes it is very difficult to find identical words in meaning between different languages, which may lead to different perceptions towards the same questions. Furthermore, what kind of respondents can reflect typical Chinese and Western style remains another problem. The possible survey may carry more fragmentation on respondents' backgrounds.

In a world of change, it is not easy to gauge social values and expectations on a global scale, with so many different cultural frameworks, points of view and clashes of interests. The issue of business ethics is immensely complex, with no easy answer or straightforward solution. Even though people develop an adequate sense of morality and frame effective ethical codes, there is still not an omnipotent solution to

all dilemmas. In some cases under cross-cultural context, we have to understand, tolerate, and even compromise between different ethical norms. However every effort, no matter from academic study or business practice, will deserve well of the advancement of Chinese business ethics.

Here are some measures that may help upgrade Chinese business ethics:

#### (1) Education

People's perception on business ethics is not innate. It comes from our learning and experience in business behaviors and it may change and develop in step with the social, economic and cultural progress. Without education, people may not observe ethics consciously, especially in a business area where profits are usually prevailed over social responsibility. Hence, there needs to be a continuous education process to cultivate people's ethical consciousness.

#### (2) Enforcement

The business should be clear about its responsibilities both economically and ethically. The useful experience of multinational companies like LE &Co , tells us that the stipulation of ethical principles is essential to the expansion and development of an enterprise.

#### (3) Supervision and restriction

There should be supervision and restriction mechanisms to ensure that relative regulations and rules on ethical business behaviors would not be violated. In the case of CAOSCO, professionals had mapped out a set of strict and complicated supervision regulations, whereas the unrestricted power of the president himself made the supervision system totally vain. Therefore, supervision at all levels should go with the distribution and restriction of power and every interesting part should be granted limited authority and rights. Besides the supervision enacted in the business, there also needs to be external forces to participate in building rational business ethics. The government, media and the public may actively involve in the whistle blowing of unethical business behaviors.

#### (4) Encouragement

Rewards and penalties can be regarded as effective motive forces to encourage

people to do business more ethically. Those who do not accord with ethical principles should be penalized so that moral norms must be recognized along with pursuing profits

### **5.3 Research limitations and further efforts**

The first limitation concerns with the orientation of cultural values. Hofstede's major research on cultural dimensions was conducted during 1970s. Since then, many changes have taken place both in the East and the West. With the tide of globalization, China has undergone a drastic transformation towards modernization, which will certainly lead to transformation in cultural values. At the same time, a campaign of learning from the East springs up in the West, and many scholars advocate that some ethical concepts of Confucianism can be used to heal the illness in the Western world. Hence, it is necessary to test further and reassess the cultural values of China and the West at present to portray a real situation of ethical status in the two cultures.

The second limitation deals with the identification of culture's impact on business ethics. Because variable elements may work in the decision-making process, it is difficult to differentiate cultural effects. Consequently, there remain a lot of divergent opinions on the negative and positive roles that cultures play in business activities. Here an empirical study may be more persuasive than analytical presentation. Future efforts should be made to conduct a cross-cultural survey, such as questionnaire, on some key business ethical issues to make a quantitative judgment.

The third limitation, according to the forenamed declaration, is related to the complexity of business activities and the inevitable clash of some cultural values. Even though the ethical norms sets and the decision-making procedure got enforced, those ethical dilemmas could still be tough for the enterprise to step out. Furthermore, as a developing country with a large population, China cannot catch up with the West in many areas such as economic strength, science and technology, democratization and juridical system. Therefore, some internationally acknowledged ethical principles are not feasible in China nowadays. For example, LE &Co. made a judgment that China had violated basic human rights, and we have to admit that China cannot follow all the fundamental ethical norms coded by international organizations. The building



of a rational ethical system is not a separate cause and business ethics must develop along with Chinese economic and social progress.

A further limitation comes from the background of myself. On the one hand, I was raised in traditional Chinese culture, and, on the other hand, I have no enough working record in international business to experience the cultural shock on ethics by myself. These make me fully depend on collecting materials to make an analysis, which may not shake off a skin-deep limitation. Given the above limitations, the research has to proceed in order to minimize possible errors.

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