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TOWARDS A socIAlliLy RESPONSIBLE CHiNA: A PRELIMINARY INVESTIGATION OF THE IMPLEMENTATION OF THE GLOBAL COMPACT

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Abstract: The proper handling of Codes like the “Global Compact” of the United Nations is still quite new in China. On the positive side, it can be seen as a framework of what Corporate Social Responsibility (CSR) is all about, which is accepted and promoted by the Chinese government through various initiatives. However, the in-depth research into companies which signed the Global Compact strongly suggests that there is still a wide spread ignorance of the concrete content and the implicit demand for transparency and accountability of such a code. For further progress of the implementation of the “Global Compact” there needs to be more decisive and combined efforts to properly communicate how an ongoing process of communication, messages from different layers of leadership, training seminars inside the committed institutions conducted on a regular basis could enhance and communicate to all stakeholders the specific and realistic meaning of Codes in a given context. In order to be truthful, this may always pinpoint to concrete difficulties of Codes. Actually a proper whistle-blowing mechanism should be in place so that inappropriate business practices could be dealt with while securing the confidentiality of the Whistle-Blower. Instead of just being afraid to lose face, the challenge to address thorny issues related to the ten principles should be seen as a mutual learning opportunity. Special care should be given that the codes should be aligned to Business Strategy. Ethical codes are still quite often viewed – certainly not only in China – as a set of nice ideas, which do not work in practice and are often suspected to seriously harm its own competitive advantage. Codes need to be conceived as help to assist its adherence to shape their specific brand. The article argues to honor, on one side, the first approaches to acknowledge the relevance of Corporate Social Responsibility. On the other hand, it leaves no doubt that much stronger efforts must be taken in order to align the vital business interests with an ongoing implementation of codes in order to get the desired social impact.

Keywords: Global Compact, whistle-blowing, transparency, accountability

Introduction to Empirical Context

CSR in China
Corporate Social Responsibility (CSR) first appeared in China in the early 1990s because of the demand for ethics programs and social responsibility audits by global buyers and the spread of global standards such as SA8000 (Shen & Fleming, 2008). Over the last half-decade, active involvement by local and
national government and the emergence of domestic standards on CSR has led to the rapid mainstreaming of the concept in China (Lu, 2008). In 2009 the Fortune China survey found 56 percent of a total of 1851 respondents answered affirmatively to the question, “Is CSR a trend that is here to stay in China?” (Forbes China, 2009). This was an increase from 49 percent in 2008. The survey found that the most commonly recognized features of CSR amongst Chinese managers included producing high quality products and services (91 percent), environmental protection and saving resources (91 percent), observance of business ethics (89 percent), employee health (88 percent), workplace safety (85 percent), and shareholder rights (82 percent). These findings suggest that, in China as elsewhere, CSR is perceived as an important management tool and strategy supporting core business objectives.

However, awareness of CSR does not necessarily equate to a fully-fledged embracing of the concept. A commitment to transparency and accountability are commonly seen as integral components of CSR, yet only 54 percent of Chinese managers felt CSR required ‘transparent social policies’ to address the needs of stakeholders. Independently verified non-financial reporting through CSR or sustainability reports is a strong demonstration of a firm’s commitment to transparency and accountability. While CSR reporting is on the rise in China, the total number is still relatively low and reporting standards are lagging international norms. Considering the number of managers who responded to the Forbes survey, for instance, the actual number of firms reporting in 2009 was very low. Rarely do reporting firms submit to third party assurance (in 2009, only 6.1 percent of all CSR reports were verified by independent organizations) and information disclosure is often insufficient and partial (Goldenbee, 2009).

Moreover, despite its increasing salience (Moon & Shen, 2010), CSR as a concept is still underdeveloped amongst the majority of Chinese small and medium sized firms. One of the most widely established definitions of CSR describes it as the range of ethical and discretionary responsibilities firms undertake including, but not limited to, their economic and legal responsibilities (Carrol, 1979). In China’s developing market environment, compliance with the law is not always taken for granted. As such, many managers and executives feel that abiding by the law and contributing to the economy, through job-creation and paying taxes, constitutes the ultimate yardstick of a firm’s responsibility to society. Amongst this dominant group, the concept of CSR is often rejected, or seen as synonymous with corporate philanthropy and cause related marketing.

Drivers of CSR in China

The factors driving CSR development in China are distinct from other countries. While bottom-up pressure from civil society and the media characterized the emergence of CSR in Europe and the US (Moon & Shen, 2010), in China most significant proponents and facilitators of CSR have come from the top down. Clearly, the weakness of civil society partially accounts for this deviation. In the absence of a strong civil society, other factors have played a much larger role in setting the agenda and shaping CSR practices in China. In addition, the perspective of CSR as corporate philanthropy among many managers has prevented the bottom up emergence. Clearly, CSR’s development in China is unique when compared to other nations’ experience.

Internationally, demands from business customers, the spread of global standards on quality and social responsibility, and the positive example set by multinational corporations have made a considerable impact in driving CSR development in China. Facing a competitive business environment with highly questionable practices (Ip, 2008), coupled with a weak legal and regulatory system, many multinational
corporations implement strong CSR programs in China to manage the myriad of operational risks that they encounter. Similarly, global standards such as SA8000, ISO9000 and ISO14000 have become important in helping global buyers to monitor and manage supply chain issues such as workplace labor standards, environmental protection and product safety (Lu, 2008). Such initiatives reassure external stakeholders that firms do not debase their ethical or quality standards while working in China, and at the same time, through positive spillover to domestic enterprises, have played a key role in the development of CSR practice in China.

Domestically, another important factor in the development of CSR has been the involvement of government. CSR was long viewed with suspicion by the Chinese central government, which argued it was a concealed form of trade protectionism. Over the last five years, national and local governments have increasingly embraced CSR and used the concept to encourage the growth of voluntary action by businesses (Tian, 2006). This change in perspective coincides with the government’s push towards building a harmonious society. It also reflects the growing popularity of the idea that governments can’t be expected to address tall contemporary societal goals alone (Moon, 2004). In this way CSR in China can help the government to shift some of its public burden of responsibility onto the private sector, and in so doing, rally greater private resources to achieve the government’s lofty environmental and social development targets.

National and local governments have played a catalytic role in the development of CSR in China, creating minimum ethical standards for corporations while facilitating and endorsing various private CSR initiatives. This is strongly echoed in the Fortune China survey, in which ‘Government Policy or Guidelines’ and ‘Government Attitudes’ are identified as the two most important motivations for businesses to operate in a responsible way. In 2005, the China Textile and Apparel Council, with the support of the government, developed its own textile industry standard, the CSC9000T. Also in 2005, Article 5 in the Chinese Corporate Law directed corporations to accept public supervision and undertake social responsibilities. In 2007, the state-owned Assets Supervision and Administration Commission (SASAC) established guidelines for CSR implementation in State-Owned Enterprises (SOEs). This initiative likely explains why SOEs comprised 70 percent of the total reports released in 2009 (Goldenbee, 2009). In 2008 and 2009, the Ministry of Commerce (MOFCOM) launched guidelines for CSR compliance in foreign invested enterprises and financial institutions, respectively. Similarly, the Shanghai Stock Exchange, Shenzhen Stock Exchange, and China Banking Association have each enacted guidelines to encourage CSR reporting by business enterprises.

Global Compact
UN General Secretary Kofi Annan conceived the UN Global Compact program at the Davos World Economic Forum in 1999. It is commonly viewed as a response to popular discontent over the perceived negative impacts of globalization in the areas of human rights, labor, environment and anti-corruption. Recognizing the important contributions made by responsible business in the promotion of socially equitable and environmentally sustainable development, the Global Compact aims to be a vehicle for mainstreaming and embedding a set of shared values throughout markets and business activities across the world while simultaneously mobilizing resources and multi-sector collaboration in support of the UN Millennium Development Goals.
The Global Compact describes itself as a ‘leadership platform’ and ‘strategic policy initiative’ for companies committed to advancing ten universally shared business principles. Companies who sign up to the Global Compact must submit a letter of commitment from their Chief Executive, followed by annual reports known as the Communication on Progress (COP) demonstrating their continued commitment to the ten principles, as well as how they are implementing the principles in their operations and strategies. The COP thus represents a commitment by signatories, to transparency and accountability. While the Global Compact does not set itself the task of assessing and monitoring compliance with the ten principles, companies failing to communicate in accordance with the rules of the Global Compact can face expulsion.

For participants, part of the benefit of signing up to the Global Compact lies in helping them to manage the complexity of the dynamic global CSR environment, and the growing thickness of moral responsibility ascribed to businesses. The UN Global Compact acts as a ‘moral baseline’ and point of reference for companies with integrity, based on established universally shared principles. It can be viewed as part of a firm’s reputational management. Through the COP, firms are able to show external stakeholders the relationship between the set of values to which they ascribe and their actions. The initiative also allows a forum for discussion and the sharing of best-practice, promoting novel cross-sector partnerships, and access to the UN’s large experience and expertise on environmental, social and governance issues.

Since its foundation, the Global Compact has faced strong criticism from civil society, due to its failure to include effective monitoring of participants, and the participation of many companies is perceived to be either lacking in integrity or visibly uncommitted to the initiative. Critics argue that the Global Compact is used by companies as a fairly transparent means of public relations and CSR window dressing. As a result, various studies have sought to assess the impact of the Global Compact. None however, have focused specifically on China.

The Global Compact first launched in China in 2001. In the last 4 years, participation has grown dramatically from 45 participants in 2006 to 209 by the end of 2009. Involvement of businesses in China is gaining real momentum. In the context of the rapid development of the CSR environment in China in recent years, this study hopes to contribute to the understanding of the relationship between the Global Compact and CSR development in China, as well as the understanding of the factors which drive and limit CSR development more generally.

Data

Survey and Interviews
In order to gain more information on the factors affecting compliance with the UN Global Compact, we conducted a survey of 189 companies listed on the Global Compact website as business participants in the People’s Republic of China. The purpose of the survey was to ascertain participants’ awareness of the Global Compact and to gain information on implementation of the Global Compact’s principles. The survey took place from September–December 2009. Out of 189 firms, 80 firms responded for a total response rate of 42%.
In terms of survey design, we opted for a brief phone survey that could be concluded in five minutes or less. The survey asked participants (a) whether or not they were aware that they were members of the Global Compact, and (b) whether they would be willing to share details of their participation to an NGO. Forty-two respondents showed a lack of awareness and were unwilling to co-operate further. Thirty-eight organizations indicated some awareness of the Global Compact and expressed a willingness to co-operate further.

After the survey, we conducted 12 interviews with firms that had responded to our survey and expressed a willingness to cooperate further. When a firm agreed to an interview, a researcher who was fluent in Chinese would speak over the phone for 10 – 20 minutes, asking 8 pre-determined questions. Following the interview, the researcher would write down all responses, and then submit the transcript to a professional translator. Once the interview had been translated into English, we examined the transcript in order to ascertain further information on the possible causes of non-compliance among Chinese firms. These questions are reproduced in Appendix 1.

Archival
We collected data on business participants in the Global Compact in China from 2000 – 2008 in order to gain some insight into factors affecting implementation of the UN Global Compact Code of Conduct. This data was obtained from the UN Global Compact website. Information on characteristics of participating firms includes the type of company, the company’s sector, and the joining date. In addition, the website has archival data on organizations’ communication of progress, which refers to the firms’ obligation to issue reports to the United Nations on their progress in internal implementation of the Global Compact’s Standards. Data is available on both the issuance of communication and the effect that communication has on the status of the firm.

Since communication (on progress) is a positive obligation placed on firms as a condition of membership, fulfilling this obligation results in no change to their status. If a firm issues an exemplary report, the UN office records this in a Notable Communication list. If a firm fails to issue a report, the firm’s status changes from communicating to non-communicating. If a business participant maintains a non-communicating status, one of two outcomes may occur. Prior to 2009, the firm would be designated as inactive. Post 2009, the firm would be removed from the Global Compact.

This change in policy introduces a potential bias in the data, as the removal of some firms from the Global Compact website negatively impacts the public accessibility of their data. In order to account for this bias, data collection from the UN website was carried out prior to July 2009. These results were then compared with the UN website listing post July 2009 in order to insure that the sample has information on most of the firms, compliant and non-compliant, that volunteered to participate in the Global Compact in China between 2000 – 2008. However, the UN practice of removing all information from their website pertaining to delisted firms does mean there is a bias towards compliance in the data.

There are a total of 283 firms in our data set from 2000 – 2008, out of which 21% of firms are compliant, with an average of 2.5 years from entry into the Global Compact to the submission of a communication that fulfills UN standards on reporting. Seventy-nine percent of firms are non-compliant. These findings are summarized in Table 1.
Table 1. Summary Statistics

<table>
<thead>
<tr>
<th>Category</th>
<th>Total</th>
<th>Mean</th>
<th>Min</th>
<th>Median</th>
<th>Max</th>
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<tr>
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<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
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<tr>
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<td>.291</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

**Dependent Variable**

We derived two separate measures of familiarity, which capture the firms' experience with the global compact for all firms present in the general population. The first variable is familiarity, which measures the number of times a firm has submitted a full report. Since firms are required to report annually, and some firms fail to do so, the count of the number of times a firm has submitted a full report helps to determine a firm's overall experience with reporting. In addition, we constructed a scale variable of familiarity, which measures the duration between reports. To supplement these measures, we used tenure, the overall time each firm spent in the general population.

**Control Variables**

Left censoring is not an issue, as the observation window for the dataset begins in 2000, the year of the launch of the Global Compact in China. Entry indicates that a firm has signed up for the Global Compact. An organization was coded one (1) if it was a company (Limited Liability Company); while zero (0) indicates that it is an SME.

We examined each firm in order to determine whether or not the firm was listed on a stock exchange. In the listed variable, 1 indicates that the firm is presently listed on a Chinese or international exchange. Whether a firm is a State Owned Enterprise (SOE) is indicated in the SOE variable, in which a value of 1 means that the firm is an SOE.

We constructed a categorical variable to account for the geographic area of each firm, in order to determine whether the degree of industrialization in the immediate business environment of the organization impacted compliance. In the variable area, 1 indicates North, 2 indicates Northeast, 3 indicates East, 4 indicates West, 5 indicates the South or Central China, and 6 indicates Hong Kong or Taiwan. In addition, we constructed a separate categorical variable for the various industries of the firms, including Oil & Gas, Basic Materials, Industrials, Consumer Goods, Health Care, Consumer Services, Telecommunications, Utilities, Finance, and Tech. Table 2 summarizes and correlates all variables.
Table 2. Bivariate Correlation Table

<table>
<thead>
<tr>
<th>Variable Name</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
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<tr>
<td>Entry</td>
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<td></td>
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<td>SME</td>
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<td>-.06*</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>-.01</td>
<td>-.02</td>
<td>.20*</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>SOE</td>
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<td>.12*</td>
<td>-.18*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
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<td>-.20*</td>
<td>-.14*</td>
<td>.39*</td>
<td>1.00</td>
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<td></td>
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</tr>
<tr>
<td>Area</td>
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<td>-.08*</td>
<td>-.13*</td>
<td>-.01</td>
<td>-.24*</td>
<td>-.15*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Run Ten</td>
<td>-.20*</td>
<td>.11*</td>
<td>-.07*</td>
<td>.03</td>
<td>.02</td>
<td>.08*</td>
<td>-.08*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tenure</td>
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<td>-.10*</td>
<td>-.12*</td>
<td>.08*</td>
<td>.03</td>
<td>.12*</td>
<td>-.12*</td>
<td>.61*</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fam</td>
<td>.19*</td>
<td>.31*</td>
<td>-.09</td>
<td>.02</td>
<td>.14*</td>
<td>.06*</td>
<td>-.09*</td>
<td>-.18*</td>
<td>-.28*</td>
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<tr>
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<td>-.01</td>
<td>.02</td>
<td>.15*</td>
<td>.15*</td>
<td>-.12*</td>
<td>-.16*</td>
<td>-.26*</td>
<td>.93*</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Methods

Event-history analysis (Tuma & Hannan, 1984) was applied to estimate organizations’ likelihood of issuing a fully compliant report. This was formally defined as:

$$\mu(u) = \lim_{{\Delta u \to 0}} \frac{\Pr(issue(u + \Delta u) \mid \text{no issue}(u))}{\Delta u}$$

This reads as the conditional probability that an organization issues a report in full compliance with UN standards between tenure \(u\) and \(\Delta u\), provided that the organization did not issue this type of report at \(u\). A piece-wise constant exponential hazard specification was used to model the mortality hazard. The piece-wise constant exponential model had the following general form:

$$\mu(t) = \exp(\alpha p + \beta'x)$$

where \(\alpha\) is a constant that is allowed to vary between the tenure segments \(p\), and \(\beta'x\) is a row vector of coefficients (\(\beta\)) and covariates (\(x\)).

Results

Survey and Interviews

Out of the 189 companies surveyed, 58% (109) failed to cooperate, 22% (42) indicated a lack of awareness with the global compact program, and 20% (38) showed some awareness of the global compact program in their organization. State-owned enterprises comprised 11% of the total and also represented 10% of the total number of firms who failed to cooperate with our phone survey. Of the SOEs that responded, 33% showed an awareness of their organizations involvement in the global compact, while 14% indicated a lack of awareness of the program.
The interview questions focused on the resources devoted to the implementation of the Global Compact and the difficulties companies faced in this implementation. Resources were measured in two ways: first, whether or not the company had a department devoted to standards, and second, the amount of employees responsible for implementation. Responses were split, as 50% of companies either had a standards department or integrated Global Compact implementation into their employees work day, while 50% lacked a standards department or did not devote employee time.

The majority of firms signed up for the Global Compact because they valued the Global Compact’s principles. Companies that devoted resources to Global Compact implementation also reported that, in addition to valuing the Global Compact principles, they wanted to present a positive public image. One company stated that they joined the Global Compact in response to pressure from foreign partners.

Seven firms stated that the most salient difficulty in implementation was the lack of understanding from their business partners. Three firms indicated that they needed more guidance from the United Nation in addition to this lack of network comprehension. Only one company reported any type of resistance in implementation.

In terms of reporting, four companies report every year, two companies submit some information, and two companies do not report, with 4 non-responses. Half of the companies that devote resources to the Global Compact report annually, although two companies that devote resources do not report. The two companies that did not report also indicated that they have problems communicating the importance of the Global Compact to their exchange partners.

**Archival**

Table 3 presents the results of the event history analysis of the rates of reporting in full compliance with the standards of the global compact. Model 1 in Table 3 shows the effects of the control variables, including whether the organization is a company, an SOE, whether it is listed on a stock exchange, the geographic area of a firm, and the firm’s industry. The SOE variable had a significant effect on the rates of reporting.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Robust Std</th>
<th>95% Conf</th>
<th>Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOE</td>
<td>.546</td>
<td>.250</td>
<td>.055</td>
<td>1.037</td>
</tr>
<tr>
<td>Tenure Running</td>
<td>2.063</td>
<td>.437</td>
<td>1.206</td>
<td>2.919</td>
</tr>
<tr>
<td>Tenure</td>
<td>-1.922</td>
<td>.436</td>
<td>-2.758</td>
<td>-1.088</td>
</tr>
<tr>
<td>Familiarity</td>
<td>-.257</td>
<td>.259</td>
<td>.794</td>
<td>2.743</td>
</tr>
</tbody>
</table>

The results shown in Table 3 provide modest support for the effect of tenure and familiarity on the rates of reporting. Both overall tenure and familiarity have a negative relationship, suggesting that the length of time a company spends in the global compact does not encourage full compliance in reporting. However, running tenure has a positive relationship with reporting.
Discussion

The results of the survey point to some penetration of awareness of the Global Compact. However, a slight majority of respondents reported a lack of awareness, which may be due to the following factors. The employee contacted for the survey may not have personal knowledge of the program. As indicated by the interviews, not all companies that agree to participate in the Global Compact devote internal resources to this initiative. In addition, the Global Compact is relatively new, which may have an effect on overall company awareness.

Interviews were used to compliment the archival and survey data in the hope that firms may provide detailed information that could be used to open the ‘black box’ of the organization. The small number of interviews prevents accurate inferences from being drawn, but do help to shed light on the overall complexity of compliance with an external corporate social responsibility standard. For instance, companies that devote resources to the internal implementation of the Global Compact do not necessarily feel the need to report on their progress. On the other hand, companies that do not devote resources to the implementation of the Global Compact and express concern over a lack of guidance from the UN, issue reports every year that are in full compliance with reporting standards. Clearly, there are numerous factors that influence compliance.

Our study of the archival data led to two interesting results. First, SOEs are more likely to comply with the reporting standards than non-SOEs, including companies that are listed. There are a number of explanations for this phenomenon. An SOE may be more familiar with the practice of reporting internal progress to an outside entity. Alternatively, there may be a self-selection bias at work in the data. Large SOEs that compete in the national and international arenas may have higher incentives to address public image issues than non-SOEs. In the only interview conducted with an SOE, the respondent indicated that image concerns were a motivation for the company’s participation in the Global Compact. Thus, these results may not be indicative of SOE commitment to social responsibility codes at a general level, but rather show that some SOEs do commit to CSR codes.

Second, the familiarity of a company with the tenants of the Global Compact at first leads to a higher likelihood of reporting. However, as tenure in the Global Compact increases over time, from which we infer that familiarity with the Global Compact also increases, the likelihood of compliance falls. In order to explain this result, we argue that familiarity with the global compact does not necessarily increase with a company’s tenure in the Global Compact. It is possible that firms sign up for the Global Compact, make no effort to report, and due to this lack of effort, or engagement with the rules, never gain in familiarity.

An alternative explanation would be firms that have some familiarity with reporting may not be in full compliance at the beginning of their tenure in the Global Compact. Over time, due to their capability in complying with standards or reporting with outside entities, their efforts to comply get better, leading to full compliance. Firms that lack familiarity with either reporting or compliance in standards may fail to report. Therefore, the likelihood of reporting initially rises, as firms become more familiar with Global Compact standards, and then, as the selection mechanism kicks in, falls. The selection mechanism, in this context, refers to firms’ capability to report.
Conclusion

Our findings seem to suggest that the proper handling of Codes like the Global Compact is still quite new in China. However it can be seen as a framework of what Corporate Social Responsibility, CSR, is all about which is accepted and promoted by the Chinese government with various initiatives. For further progress of the implementation of the “Global Compact” there needs to be more decisive combined efforts to properly communicate how an ongoing process of training seminars inside the committed institutions conducted on a regular basis could enhance and communicate to all stakeholders the specific and realistic meaning of Codes in a given context. In order to be truthful this may always pinpoint to concrete difficulties of Codes. Actually a proper whistle-blowing mechanism should be in place so that inappropriate business practices could be dealt with while securing the confidentiality of the Whistle-Blower. Instead of just being afraid to lose face, the challenge to address thorny issues related to the ten principles should be seen as a mutual learning opportunity.

Public conferences focused on the Global Compact should be conceived not so much on academic speeches but addressing the multiple difficulties in making the Codes meaningful for the participants. Special care should be given that the Codes should be aligned to Business Strategy. Ethical Codes are still quite often viewed – certainly not only in China – as a set of nice ideas that do not work in practice and are often suspected to seriously harm a company’s own competitive advantage. Codes need to be conceived as help, to assist its adherents shape their specific brand. An increasingly vocal Consumer Movement is certainly discerning carefully if companies truly honor their promises or go on to cheat their stakeholders.

Notes

1. Similarly, just 60 percent of managers felt that CSR required them to consider the expectations of the general public when designing business strategies

References


**Appendix 1**

**Question 1**: Do you have an executive department for Global Compact in your company?

**Question 2**: What is the total number of employees who are responsible for Global Compact in your company?

**Question 3**: What was the motive for your company to join the Global Compact?

**Question 4**: What difficulties does your company face in implementing the Global Compact principles?

**Question 5**: Does your company report on your progress in implementing the Global Compact Principles? What helps or hinders reporting?

**Question 6**: Do you want to continue your membership in the Global Compact?
THE IMPACT OF CYNICISM ON ETHICAL INTENTIONS OF INDIAN MANAGERS: THE MODERATING ROLE OF SENIORITY

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Abstract: In recent times, incidents of financial frauds by promoters with the connivance of top management have shocked and disappointed the corporate world. Such instances generate a pertinent question, what factors trigger such unprincipled behavior on the part of professional managers? We undertook a vignette study to examine if cynical attitudes could predict unethical intentions among Indian managers when faced with a range of ethical dilemmas. Cynicism—the belief that others are engaging in unethical acts or that unethical behavior is common or normal—has been found to predict unethical intentions. The study is an empirical evidence of the hypothesis that general and organizational cynicism influence ethical intentions. Hierarchical regression analysis on a sample of 199 Indian managers from different organizations provides strong evidence for the assumption of this study, i.e., the moderating role of level of management between organizational cynicism and ethical intentions. A three-way interaction effect was found, whereby managers working at middle and senior level management positions at higher levels of organizational cynicism were less unethical than managers at the junior management positions.

Keywords: general cynicism, organizational cynicism, Indian managers, ethical intentions, seniority

Introduction

The question of how managers make decisions about running their business and the ethical issues therein is of great interest to business leaders and organizational researchers alike. In recent times, Ramalinga Raju’s disclosures on the forging of accounts at Satyam Computer Services Ltd. have come as a deep shock and disappointment for corporate India. Raju founded Satyam Computers and was its Chairman until January 7, 2009, when he resigned from the Satyam board after admitting to corporate fraud and cheating six million shareholders, some of who lost their entire life savings. There is a view that many top professional managers at the company were also involved and complicit in the fraud (Thakurta, 2009). Given the inner workings of Satyam (the name ironically stands for truth), it is near impossible that the top managers were completely unaware of what the promoter was doing. These and other such instances generate the obvious and pertinent question: what factors trigger such unprincipled behavior on the part of professional managers?
One approach to analyzing the process of ethical decision-making and the antecedents therein is through a person-situation interactionist perspective (Trevino, 1986) that captures the interaction between personal and situational variables to produce ethical/unethical decisions. In this study, we examine the influence of employee attitudes such as general and organizational cynicism on their ethical intentions.

**Background**

The process of ethical decision-making (deciding on a series of actions that are legally and morally acceptable to the larger community) progresses through the four-stage Model of Moral Action introduced by Rest (1986). Accordingly, individuals (i) recognize a moral issue through moral awareness that a decision or action may help or harm others, (ii) make a moral judgment about the issue in a way that moral concerns override other concerns, (iii) establish an intention to act upon the judgment, and finally, (iv) act out intentions. Each stage does not automatically lead to the subsequent stage. When a moral issue is recognized, a moral judgment needs to be made on it. Making a moral judgment is facilitated by an individual’s cognitive moral development (Kohlberg, 1976) that operates in a range of six stages. Individuals generally perform at moral development levels lower than what they are capable of (Levine, 1979) and managers use lower levels of cognitive moral development in actual work environments compared to hypothetical situations (Trevino, 1986). Moral development and subsequently, judgment may thus be context dependent with organizational factors like the socialization process, authority factors and group dynamics influencing what is regarded as ‘right’ or ‘wrong’.

**Reasons for Unethical Behavior**

Several studies have explained why good people do bad things. With respect to organizational employees, Jones (1991) defined unethical conduct as “behavior that has a harmful effect upon others and is either illegal or morally unacceptable to the larger community.” Such behavior can begin with seemingly minor infractions such as fudging time sheets in order to meet unrealistic billing budgets, to stealing credit for other’s work, and putting self or departmental interests above the client’s interests (Lagan, 2006). The ongoing debate among organizational researchers is about identifying whether unethical conduct is the result of bad apples – unethical behavior attributed to personal characteristics, or due to a bad barrel – organizational or situational variables that trigger misconduct because unethical behavior seldom develops in a vacuum. It is caused not by lack of intelligence, but by lack of wisdom (Feiner, 2004), or virtue (Giacalone, 2004) and an overemphasis on maximizing shareholder value without regard for the effects of their actions on other stakeholders (Kochan, 2002). Profit sharing programs that intend to align management’s interests with those of the owners put pressure and provide an opportunity for managers to behave unethically. Love for money, once again, has been seen as a reason for evil (Tang & Chiu, 2003; Vitell, Paolillo & Singh, 2006, 2007) and unethical behavior among university students (Tang, Chen & Sutarso, 2007). Moral evaluation of an act can be a deterrent to unethical conduct and negative perception of the outcome lessen chances of indulgence. Interestingly, unethical behavior has been found to be considerably encouraged by significant others in organizations - especially superiors (Smith, Simpson & Huang, 2007), with the social network of relationships at work (Brass, Butterfield & Skaggs, 1998) providing constraints and opportunities that, in combination with individual characteristics, issues and organizational context, help account for unethical behavior. If this is the case, organizational context may
account for a lowering of moral standards. In summary, both attitudinal and organizational context factors have been found to predict unethical behavior.

One of the attitudinal variables that has been discussed as an antecedent of unethical behavior is cynicism, which is an attitude of disillusionment with society or institutions and a distrust of others (Anderson & Bateman, 1997). Though cynicism has been described both as a personality trait and an emotion, its most widespread usage has been as an attitude towards an entity (like an organization or society in general). In this study, we examine two kinds of cynical attitudes among Indian managers; first, as an attitude directed at society and people in general (general cynicism) and second, as an attitude directed specifically towards the individual’s employing organization (organizational cynicism). We then proceed to study the impact of these cynical attitudes on the ethical intentions of the aforementioned managers. We reviewed extant research undertaken on the impact of cynicism on ethical intentions of employees. Based on the review, specific hypotheses have been proposed. We then present the design and methodology followed by findings of the study. Finally, we discuss implications on academia and practitioners/industry.

Literature Review

Research suggests that cynical employees are less productive (Kanter & Mirvis, 1989), have low job satisfaction and organizational commitment (Dean, Brandes & Dharwadkar, 1998), are less likely to cooperate with corporate change efforts (Reichers, Wanous & Austin 1997) and have low morale (Premeaux & Mondy, 1986). For the organization, the potential consequences of employee cynicism can include lowered productivity and low morale, which can directly translate into loss of revenue (Argyle, 1989). Given that many of these malaises are seen in India, an inquiry into the presence and impact of cynicism is warranted. While Fisher, Shirole & Bhupatkar (2001) have described the stances Indian managers take when faced with an ethical dilemma as being one of cynicism, there has not been further study on their intentions and behavior during such times. Secondly, there has been little work on cynicism as an attitudinal factor among managers and its contribution to ethicality of intentions in Indian companies. The implications of this oversight assume significance as both general and organizational cynicism may contribute to lowered ethical intentions and may act as a driver and enabler of ethically questionable behavior. Third, existing works within organizational literature have not examined different forms of organizational cynicism like personality cynicism, societal cynicism, employee cynicism, organizational change cynicism and work cynicism (Abraham, 2000) while examining their impact on ethical intentions and work behavior. Fourth, although there is a growing body of research linking measures of the aversive “Dark Triad” personality constructs (psychopathy, narcissism and Machiavellianism) to poor moral functioning (Paulhus & Williams, 2002), the effects of organizational cynicism on employee intentions and decision making needs further exploration. In this context, a more definitive research on the effect of organizational cynicism in ethical decision-making in the workplace could be beneficial to organizations as well as their employees.

Cynical beliefs, attitudes and behavior could be a reaction to various entities like society, business in general or may have a specific organizational causation, resulting in a negative attitude towards top management and/or their change, management efforts and mistrust towards them. There has been no attempt to examine the correlation between general and organizational cynicism and thereby enable us to
conclude if a manager who is cynical about the society he lives in would also extend such thoughts towards his organization. Our effort is to understand cynicism from two angles, namely general cynicism and organizational cynicism.

**General Cynicism**

General cynicism is directed at various entities including society and business in general (Abraham, 2000). It materializes out of a perceived breach of contract between an individual and the society he is part of. As citizens and members of society, people are aware of their role in the social system and nurture expectations of reciprocity from governments and society in general. But the emergence of an information age and a globalized business environment, instead of feeling more secure and cared for, people feel alienated and disconnected from the success that only a few have been able to achieve (Abraham, 2000), and society has become more detached from the expectation of reciprocity remaining unfilled. This bitterness and perceived breach of psychological contract manifests itself in the form of general cynicism: a disappointment with and sourness for the society of you are a part of. The hallmark of a general cynic is an estrangement from social and economic institutions that are then blamed for his or her hardships. Cynics then become opportunistic and self-serving in an attempt to further their short-term interests (Abraham, 2000). In India, most of the cheerleaders of globalization and trade reform are the corporate tycoons and businessmen who are a fraction of India’s population. The average man on the street is of the opinion that the reforms benefit mostly the rich and the benefits that have trickled down to the masses have been disproportional. This creates an environment that promotes cynical thoughts and attitudes in society.

General Cynicism can be defined as the belief that others are engaging in unethical acts and that such unethical behavior is common or normal. We often look to the attitudes and behavior of others in judging the acceptability of our own attitudes and behavior. Consequently, the unethical behavior of others can trigger similar attitudes and even intentions in us. Therefore, we propose:

*Hypothesis 1: General cynicism is inversely related to ethical intentions.*

**Organizational Cynicism**

It is generally believed that with the current global meltdown affecting every kind of industry, the relation between employers and employees stand altered. Research indicates that organizational cynicism is on the rise in business and industry with cynical employees distrusting their leaders and believing that their employers will exploit their contribution at an opportune moment. While organizations are attempting “rightsizing” and “cost restructuring” in a bid to contain costs, employees are becoming increasingly cynical, believing that principles of honesty, fairness and sincerity are being sacrificed to further the self interests of leaders, leading to actions based on hidden motives and deceptions (Abraham, 2000). Increasing disparity in the salaries of the top management and the rest of the employees, poor organizational performance, and impending layoffs have been found to be predictors of cynicism (Andersson & Bateman, 1997).

Organizational cynicism is thus specific in its causality and is triggered by the perceived inequities in the organizational context. It comprises of a negative attitude toward one’s employing organization. Such a negative attitude consists of three dimensions: (1) a belief that the organization lacks integrity; (2)
negative affect toward the organization; and (3) tendencies toward disparaging and critical behaviors to 
the organization, which are consistent with these beliefs and affect’ (Dean, Brandes & Dharwadkar, 
1998).

Cynical attitudes towards one’s organization have been found to have far-reaching implications for 
both the organization and employees in the form of negative outcomes, such as lack of work commitment 
and less motivation, apathy, resignation, hopelessness, suspicion, contempt and scorn (Andersson, 1996; 
Andersson & Bateman, 1997; Dean et al., 1998; Abraham, 2000; Wanous, Reichers & Austin 2000). It 
essentially involves selfishness and fakery (Kanter & Mirvis, 1989, 1991). Such beliefs about the lack of 
integrity in an organization may trigger subsequent unethical behaviors among employees themselves. 
Hence, we propose:

_Hypothesis 2: Organizational cynicism is inversely related to ethical intentions._

**Seniority of the Employee in the Organization**

Another feature that is likely to have an impact on the ethical intentions of managers is the informal 
ethical culture of their organization. Studies have found that a formal ethics and compliance program 
alone does not substantially influence outcomes (Sinclaire, 1993; Weeks & Nantel, 1992). Further, even 
when ethical codes influence behavior, their impact is small compared to factors such as employee 
perception of fairness, leader commitment and the organizations overall culture (Weaver, 2004). Informal 
ethical culture can be made effective only if the following three key actions are consistently undertaken:

1. Keeping promises and commitments made to customers and employees and 
supporting employees in adhering to ethical standards.
2. Middle and senior managers demonstrating ethical behavior in their day to 
day decision-making thereby providing good role models for junior 
employees.
3. Ethics training, especially for junior employees to better prepare them to face 
challenging situations that may invite misconduct.

Middle and senior level managers, on account of their longer exposure to the ethical values of their 
organization and richer experience in analyzing and resolving ethical dilemmas, can be assumed to be 
more ethical than junior managers. Also, as they play the role of a boss and a role model to their 
subordinates, it is expected that they would adhere to higher standards of conduct in their everyday 
decision-making. We, therefore, put forward that:

_Hypothesis 3: The level of management of a manager moderates the relation between cynicism and 
ethical intentions._

**Research Design and Methodology**

**Sample**

Our study was conducted on a sample chosen from organizations belonging to manufacturing and service 
sectors, with a variety of experiences (junior, middle and senior management) and other demographics 
such as age and gender. 350 questionnaires were personally delivered to respondents, out of which 199 
completed surveys were returned. The response rate of 56% was higher than usually seen in survey 
research.
Table 1. Profile of Respondents (N= 199)

<table>
<thead>
<tr>
<th>Gender</th>
<th>%</th>
<th>Sectors</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>63</td>
<td>IT/ITES/BPO</td>
<td>23</td>
</tr>
<tr>
<td>Female</td>
<td>37</td>
<td>Healthcare/ Hospitality</td>
<td>9</td>
</tr>
<tr>
<td>Years of Experience</td>
<td></td>
<td>Telecomm</td>
<td></td>
</tr>
<tr>
<td>&lt; 5 years</td>
<td>43</td>
<td>Finance /insurance/banking</td>
<td>18</td>
</tr>
<tr>
<td>5 to 10 years</td>
<td>35</td>
<td>Chemicals/manufacturing</td>
<td>13</td>
</tr>
<tr>
<td>11 to 15 years</td>
<td>10</td>
<td>Engineering/infrastructure</td>
<td>9</td>
</tr>
<tr>
<td>16 – 20 years</td>
<td>6</td>
<td>Auto / auto equipment</td>
<td>12</td>
</tr>
<tr>
<td>21 – 25 years</td>
<td>4</td>
<td>Durables/FMCG/ Electronics</td>
<td>6</td>
</tr>
<tr>
<td>&gt; than 25 years</td>
<td>2</td>
<td>Real estate/ construction</td>
<td>5</td>
</tr>
</tbody>
</table>

Measures

A series of vignettes developed, pre-tested, and used by Fritzsche and Becker (1984) were used. Drawn from books on business ethics, these vignettes captured a wide variety of ethical issues and were modified to make them relevant to the Indian context. The five vignettes used in our study represented a broad range of issues from problems dealing with coercion and control, to conflict of interest, physical environment, paternalism, and personal integrity. Coercion and control (EDM1) was present when an external player tried to influence the management decision by using threat or extortion. Conflict of interest (EDM2) represents a situation where in pursuing one interest may jeopardize other interests, including those of the firm. The case on physical environment (EDM3) is one wherein the interest of long-term preservation of the environment is pitted against the economic self-interest of a firm. Paternalism (EDM4) is represented by a situation involving a choice between respect for the individual autonomy and attendant risks for the humanity at large. The last vignette (EDM5) presents an issue of personal integrity.

Respondents were asked to indicate their preferred action alternative on a five-point scale with 5 capturing the most ethical and 1 the least ethical choices. This scoring follows Fritzsche and Becker (1984) and indicates the extent to which each choice was based on principles of utilitarianism, right and justice. Age, gender, total work experience and tenure in the organization and level of management were the demographic variables included in the study. We undertook a causal study to understand the relationship between cynicism and ethical intentions. The research design comprised of a survey. A 15-item questionnaire adapted from Turner and Valentine, 2001 was used to measure general cynicism and a 9-item questionnaire measured organizational cynicism (Eaton & Struthers, 2002), which reported a Cronbach’s alpha of .71 and .83 respectively in our study. We attempt to explain the ethical intentions of managers based on their self-reports.
As actual behavior can be assessed as being ethical or unethical only when it is exhibited, the study measures only intentions to behave. However, if one accepts the theory of planned behavior (Ajzen & Fishbein, 1980), then there should not be significant difference between the indicated intentions and actual decisions (behavior) managers may take when faced with an ethical dilemma.

Analysis and Discussion

We tested the Hypotheses with response variables in the questionnaire with Correlation and Multiple Regression Analysis. Covariates used were age, gender, work experience, tenure in the organization and level of management at which the responding manager worked. Other than age, work experience and tenure, the variables used in the analysis were categorical. We excluded work experience and tenure from the analysis since they were highly correlated with age.

Table 2. Means, Standard Deviation and Pearson’s Zero Order Correlations for all Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Organizational Cynicism</td>
<td>2.86</td>
<td>0.95</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 General Cynicism</td>
<td>3.30</td>
<td>0.52</td>
<td>0.48**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Age</td>
<td>30.41</td>
<td>5.85</td>
<td>-0.07</td>
<td>0.12</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Sex</td>
<td></td>
<td></td>
<td>0.01</td>
<td>0.00</td>
<td>-0.18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Management Level</td>
<td></td>
<td></td>
<td>-0.10</td>
<td>0.02</td>
<td>0.51**</td>
<td>-0.17</td>
<td></td>
</tr>
<tr>
<td>EDM</td>
<td>3.13</td>
<td>1.03</td>
<td>-0.47**</td>
<td>-0.50**</td>
<td>0.10</td>
<td>0.02</td>
<td>0.11</td>
</tr>
<tr>
<td>EDM1</td>
<td>2.80</td>
<td>1.42</td>
<td>-0.38**</td>
<td>-0.39**</td>
<td>0.10</td>
<td>0.00</td>
<td>0.11</td>
</tr>
<tr>
<td>EDM2</td>
<td>2.87</td>
<td>1.35</td>
<td>-0.35**</td>
<td>-0.42**</td>
<td>0.03</td>
<td>0.00</td>
<td>0.12</td>
</tr>
<tr>
<td>EDM3</td>
<td>3.46</td>
<td>1.38</td>
<td>-0.33**</td>
<td>-0.29**</td>
<td>0.14</td>
<td>0.02</td>
<td>0.06</td>
</tr>
<tr>
<td>EDM4</td>
<td>2.93</td>
<td>1.39</td>
<td>-0.38**</td>
<td>-0.45**</td>
<td>-0.03</td>
<td>0.03</td>
<td>0.05</td>
</tr>
<tr>
<td>EDM5</td>
<td>3.59</td>
<td>1.18</td>
<td>-0.39**</td>
<td>-0.37**</td>
<td>0.15</td>
<td>0.04</td>
<td>0.09</td>
</tr>
</tbody>
</table>

NOTES:
*Correlation is Significant at the 0.05 Level (2-tailed)
**Correlation is Significant at the 0.01 Level (2-tailed)

We found general cynicism and organizational cynicism significantly correlated with Ethical Decision Making. On the other hand, age, gender and management level did not significantly correlate with Ethical Decision Making. These correlations support Hypotheses 1 and 2. Since there is significant inter-correlation between Organizational Cynicism and General Cynicism, it is premature to draw conclusions only from correlations. Hence, we performed a multiple regression.
Table 3. *Multiple Regression Analysis*

<table>
<thead>
<tr>
<th>Variable</th>
<th>EDM</th>
<th>EDM1</th>
<th>EDM2</th>
<th>EDM3</th>
<th>EDM4</th>
<th>EDM5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beta</td>
<td>t</td>
<td>Beta</td>
<td>t</td>
<td>Beta</td>
<td>t</td>
</tr>
<tr>
<td>Organizational Cynicism</td>
<td>-0.28**</td>
<td>-4.11</td>
<td>-0.23**</td>
<td>-3.11</td>
<td>-0.17*</td>
<td>-2.28</td>
</tr>
<tr>
<td>General Cynicism</td>
<td>-0.38**</td>
<td>-5.66</td>
<td>-0.29**</td>
<td>-3.94</td>
<td>-0.35**</td>
<td>-4.69</td>
</tr>
<tr>
<td>Age</td>
<td>0.10</td>
<td>1.51</td>
<td>0.10</td>
<td>1.28</td>
<td>0.00</td>
<td>-0.06</td>
</tr>
<tr>
<td>Sex</td>
<td>0.05</td>
<td>0.84</td>
<td>0.03</td>
<td>0.41</td>
<td>0.02</td>
<td>0.37</td>
</tr>
<tr>
<td>Management Level</td>
<td>0.05</td>
<td>0.69</td>
<td>0.05</td>
<td>0.65</td>
<td>0.12</td>
<td>1.61</td>
</tr>
<tr>
<td>Sex*OrgCyn</td>
<td>-0.02</td>
<td>-0.19</td>
<td>-0.04</td>
<td>-0.37</td>
<td>-0.08</td>
<td>-0.82</td>
</tr>
<tr>
<td>Sex*GenCyn</td>
<td>-0.10</td>
<td>-1.23</td>
<td>-0.06</td>
<td>-0.62</td>
<td>-0.08</td>
<td>-0.82</td>
</tr>
<tr>
<td>Level*GenCyn</td>
<td>-0.06</td>
<td>-0.57</td>
<td>-0.13</td>
<td>-1.04</td>
<td>-0.04</td>
<td>-0.30</td>
</tr>
<tr>
<td>Level*OrgCyn</td>
<td>0.29*</td>
<td>2.80</td>
<td>0.33*</td>
<td>2.89</td>
<td>0.21</td>
<td>1.87</td>
</tr>
<tr>
<td>R-Square</td>
<td>0.380**</td>
<td>0.219**</td>
<td>0.249**</td>
<td>0.181**</td>
<td>0.279**</td>
<td>0.240**</td>
</tr>
</tbody>
</table>

NOTES: * P < 0.05, ** P < 0.01
EDM- Average score of Ethical Decision Making

Table 3 presents regression analysis that provides stronger evidence on the significance of the proposed relationships. Standardized Partial Regression Coefficients (Beta) shows that Organizational Cynicism and General Cynicism significantly affect ethical intentions (EDM) through an inverse relationship thereby confirming the Hypotheses 1 and 2.

We then performed an analysis with the significant categorical variables (factors) and the continuous variables age, work experience and tenure. None of the continuous variables showed any significance in all of the five situations, so the final model had only level of management as the explanatory variable in the form of a moderator.
Our results showed the level of management (seniority) of the respondent as influencing ethical intentions of Indian managers. We studied managers belonging to three levels in the management of their organizations: junior level, middle level and senior management level. Junior management consisted of employees who had between one and five years of work experience; middle management had between five and fifteen years of experience with considerable number of reportees and made several operational decisions in their organization. The senior management comprised employees with more than fifteen years of experience and in charge of strategic decision-making in their respective companies.

We tested the moderation of level of management following the procedure laid down by Baron and Kenny (1986). According to them, a moderator is a variable that affects the direction and/or strength of the relation between an independent and a dependent variable. In other words, there is a moderator effect if there exists an interaction effect of the independent variable and the moderator variable on the dependent variable. The effect of a moderator, under the assumption that it linearly affects the relationship between the dependent and the independent variable can be measured by adding the product of the moderator and the independent variable to the regression equation. The moderator effect is measured by the effect of the product of the moderator and the independent variable.

In order to test Moderation hypothesis, we undertook a Hierarchical Multiple Regression Analysis (refer to Table 3). In Step 1, the main effects represented by independent and moderator variables were entered. In Step 2, the moderation effects (Baron & Kenny, 1986), also known as interaction variables,
computed as products of independent and moderator variables were entered in the equation. The F-value in Step 2, illustrates the significance of the regression model that represents the moderation effects. A significant increment of R² (Cohen & Cohen, 1983) in Step 2, indicates the presence of moderation effects (Youndt, 1986).

The significance of the interaction between Organizational Cynicism and Management Level (Level*OrgCyn) provided evidence to support the relation between Organizational Cynicism and ethical intentions based on the level of management (refer to Figure 1). The interaction between Organizational Cynicism and Management Level (Level*GenCyn) did not offer evidence to support the relation between general cynicism and ethical intentions based on the level of management. The three-way interaction was supported for Overall EDM (which is the average EDM score across the five vignettes), as well as three specific vignettes, EDM1, EDM3 and EDM4. This shows that middle and senior level managers who are low in organizational cynicism are less ethical than junior managers. This could be explained by the fact that these two categories of managers (middle and senior level) have had considerable practical experience in the running of their respective organizations and had become “worldly wise” to the harsh realities of the business world. Hence, when they are lower in organizational cynicism compared to the junior managers; their intentions were less ethical.

However, it is interesting to note that the difference in ethical intentions across different levels of organizational cynicism is lower than junior management. At higher levels of organizational cynicism, middle or senior managers were much less unethical than the junior managers were. This is an interesting finding and may be by the virtue of various organizational factors. First, on the account of their socialization into their organizational culture for a longer time and practicing laid out organizational standards of behavior for a longer time than junior management, middle and senior managers may be less unethical. Secondly, the organizational culture, which includes a pattern of basic assumptions that are developed by a given organization, offers ways of behavior that guide managers in coping with organizational dilemmas. Such assumptions, because of having worked well in the past are considered valid and therefore, are taught to new members as the correct way to perceive, think, and feel in relation to organizational dilemmas. Third, middle and senior level managers, because of their longer experience and realizing the long-term ineptness of unethical decisions may become more tempered in their responses, thus making them less unethical when compared to their junior managers even at higher levels of organizational cynicism.
Summary and Conclusions

As more employees begin to question corporate life, they have started experiencing more negativity and cynicism about their organizations, resulting in a change in behavior. Cynical employees are more likely to perceive inconsistencies within their organization’s policies, goals, and practices and question the integrity of their organizations. Yet, they are less likely to engage in the behaviors exhibited by highly committed employees (who are loyal to their organizations and consequently uphold organizational values) as this would also create cognitive dissonance in one’s attitudes and behavior - people who question the integrity of their organization can scarcely be personally attached to it. Our findings clearly point out that all employees who were more generally and organizationally cynical were less likely to be ethical in their intentions. Hence, organizations must learn to manage values with care to avoid disillusionment and organizational cynicism among employees and recruit people who have lower general cynicism. In addition, as there are indications of unethical tendencies being lesser among managers in middle and senior management positions, the role of organizational culture that can contribute to improving ethicality warrants added attention.

Though our research shows that cynical employees at all levels tend to have unethical intentions, previous studies (Anderson and Bateman, 1997) have found cynical employees to be ethical when they are required by management to act unethically. Future studies can introduce management expectations into the vignettes we have used to test employee reactions under such requests. One limitation of the study is the fact that we measured only ethical intentions. Future work might incorporate other methodologies in measuring ethical behavior to further our understanding of how it may be influenced by general and organizational cynicism.
References


**Appendix 1**

Vignettes used in the survey:

1. **Coercion and control**

Rollfast India Bicycle Company has been barred from entering a South East Asian country representing a large and flourishing market by collusive efforts of the local bicycle manufacturers. Rollfast could expect to net 15 crore rupees per year from sales if it could penetrate the market. Last week, a businessman from that country contacted the management of Rollfast and stated that he could smooth the way for the company to sell in his country for a price of Rs. 15 lakhs. If you were responsible for taking the decision, what are the chances that you would pay the price? (Tick your choice below).

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Definitely would pay</td>
<td>Might pay</td>
<td>Undecided</td>
<td>Might not pay</td>
<td>Definitely would not pay</td>
<td></td>
</tr>
</tbody>
</table>

2. **Conflict of interest**

Rajiv Mehra has recently accepted a job with a young dynamic microcomputer manufacturer. The microcomputer manufacturers are engaged in intense competition to become the first on the market with a software package which is highly user friendly. Mehra's former employer is rumored to be the leader in this software development. When Mehra was hired he was led to believe his selection was based upon his management potential. The morning beginning the third week on the new job, Mehra received the following memo from the CEO: "Please meet with me tomorrow at 8:15 for the purpose of discussing the developments
your former employer has made in microcomputer software." If you were Mehra, what are the chances you would provide your new employer with the software information? (Tick your choice below).

<table>
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<tr>
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<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Definitely would provide</td>
<td>Might provide</td>
<td>Undecided</td>
<td>Might not provide</td>
<td>Definitely would not provide</td>
</tr>
</tbody>
</table>

3. Environmental protection
Master Millers has developed a special milling process which yields a wheat flour which when used for bread provides a lighter, more uniform texture than conventionally milled wheat flour. Unfortunately, the process gives off more dust than the emission control equipment presently installed can handle and still maintain emissions within legal limits. Due to lack of availability, the company is unable to install new emissions control equipment for at least two years; however, if it waited that long to introduce the new process, competition would very likely beat it to the market.

The general manager wants to use the new process during the third shift which runs from 10 p.m. to 6 a.m. By using the process at that time, the new flour could be introduced and the excess pollution would not be detected due to its release in the dark. By the time demand becomes great enough to utilize a second shift; new emission control equipment should be available. If you were responsible for taking the decision, what are the chances you would approve the general manager's request? (Tick your choice below).

<table>
<thead>
<tr>
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<th>1</th>
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<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Definitely would approve</td>
<td>Might approve</td>
<td>Undecided</td>
<td>Might not approve</td>
<td>Definitely would not approve</td>
</tr>
</tbody>
</table>

4. Paternalism
Arun Roy, senior editor of J&P Publishing Company, has just received a manuscript from one of his most successful authors. It provides the most authoritative account yet published of the history of the development of the atomic bomb. However, the final chapter contains a detailed description of how the bomb is made. Jones has tried to convince the author to omit the last chapter stating that such information should not be made readily available to the mass market in paperback form. The author believes the chapter is critical to the success of the book and thus does not agree to its deletion. If you were Roy, what are the chances that you would publish the book? (Tick your choice below).

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Definitely would Publish</td>
<td>Might publish</td>
<td>Undecided</td>
<td>Might not publish</td>
<td>Definitely would not publish</td>
</tr>
</tbody>
</table>
5. Personal Integrity

Sudarshan Nair is working in product development for an auto parts contractor. Nair's firm received a large contract last summer to manufacture transaxles to be used in a new line of front wheel drive cars which a major auto manufacturer plans to introduce in the near future. The contract is very important to Nair's firm, which has recently fallen on hard times. Just prior to obtaining the contract, half of the firm's employees, including Nair, had been scheduled for an indefinite layoff. Final testing of the assemblies ended last Friday and the first shipments are scheduled for three weeks from today. As Nair began examining the test reports, he discovered that the transaxle tended to fail when loaded at more than 20% over rated capacity and subjected to strong torsion forces. Such a condition could occur with a heavily loaded car braking hard for a curve down a mountain road. The results would be disastrous. The manufacturer's specifications call for the transaxle to carry 130% of its rated capacity without failing.

Nair showed the results to his supervisor and the company president who indicated that they were both aware of the report. Given the low likelihood of occurrence and the fact that there was no time to redesign the assembly, they decided to ignore the report. If they did not deliver the assemblies on time, they would lose the contract. Nair must now decide whether to show the test results to the auto manufacturer. If you were Nair, what are the chances you would notify the auto manufacturer? (Tick your choice)

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definitely would not notify</td>
<td>Might not notify</td>
<td>May or may not notify</td>
<td>Might notify</td>
<td>Definitely would notify</td>
</tr>
</tbody>
</table>
Appendix II

Items used to measure General Cynicism
1. Anyone who completely trusts anyone else is asking for trouble.
2. It is hard to get ahead without cutting corners here and there.
3. The biggest difference between most criminals and other people is that criminals are stupid enough to get caught.
4. Never tell anyone the real reason you did something unless it is useful to do so.
5. Salespeople are only interested in making a sale, not customer service.
6. Big companies make their profits by taking advantage of working people.
7. Outside of my immediate family, I don't really trust anyone.
8. When someone does me a favor, I know they will expect one in return.
9. People only work when they are rewarded for it.
10. To a greater extent than what we realize, our lives are governed by politicians and big businesses.
11. Familiarity breeds contempt.
12. Reports of atrocities on minorities are generally exaggerated for political propaganda.
13. No matter what they say, men are interested in women for only one reason.
14. When you come right down to it, it is human nature never to do anything without an eye to one's own profit.
15. Businesses profit at the expense of their customers.

Items used to measure Organizational Cynicism
1. I believe that my company says one thing and does another.
2. My company’s policies, goals, and practices seem to have little in common.
3. When my company says it’s going to do something, I wonder if it will really happen.
4. My company expects one thing of its employees, but rewards another.
5. I see little similarity between what my company says it will do and what it actually does.
6. The company I work for makes me feel anxious.
7. I believe that my company lacks integrity.
8. I am not happy with the company I work for.
9. My company irritates me.
FACTORS INFLUENCING CONSUMER ETHICAL DECISION MAKING OF PURCHASING PIRATED SOFTWARE: STRUCTURAL EQUATION MODELING ON MALAYSIAN CONSUMER

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International Islamic University, Malaysia

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Abstract: The study explores the factors influencing consumer ethical decision making when purchasing pirated software. 300 questionnaires were distributed among potential respondents for this study, of which 250 were returned. After completing the screening process, only 200 responses were considered complete and valid to undergo data analysis. In this study, exploratory factor analysis was used to identify the salient attributes that impact consumer ethical decision making when purchasing pirated software. In addition, SEM (Structural Educational Modeling) was employed to identify the relationship among the variables. The results of the study showed that there is a significant relationship between consumer moralities, social influence, and consumer moral judgment towards the consumer ethical decision-making when purchasing pirated software. The outcome of this research showed a comprehensively integrated framework allowing policy makers and business enterprises to explore dimensions like morality, social influences and moral judgment and their effect on the consumer’s decision-making in purchasing pirated software. However, further research is needed to examine these factors in Malaysia with additional samples before generalizations can be accurately made.

Keywords: consumer behavior, software piracy, ethics, consumer morality, social influence, moral judgment

Introduction

Piracy has become a major problem for the software industry. The common research framework in studies of software piracy is based in the domain of ethical decision-making. However, certain studies suggest that many individuals do not treat software piracy as an ethical matter (Glass & Wood, 1996).

Malaysia, being a developing Asian nation and heading for a fully developed nation status by the year 2020, deals with piracy problems also faced by other Asian countries. In fact, in Malaysia, companies are losing money due to their products being substituted by pirated imitations. The Malaysian government continuously attempts to eliminate piracy to permit economic growth. According to the Business Software Alliance’s (2000), the intensity of software piracy in Malaysia is increasing at an alarming rate.
Givon, et al. (1995) estimated that US industries lose sales revenue of $17 billion annually to consumer piracy. In the decade since, the problem has not disappeared or abated. If anything, piracy is even more severe now than these estimates suggest. The estimated annual trade losses for software companies in Spain due to copyright piracy amounted to $173.8 million (www.iipa.com/rbc/1998/rbc_spain_301_98.html); the US motion picture industry loses about $2.5 billion annually because of the failure of governments to protect its intellectual property (www.mpaa.org/legislation/press/98/98_5_21a.htm); and the International Federation of the Phonographic Industry (IFPI) estimated that pirated disk sales jumped from 640 million units in 2000 to 950 million units in 2001, totaling close to $4.3 billion (Mariano, 2002, http://news.com.com/2100-1023-935120.html).

According to Haque, et al. (2009), piracy is an activity that carries a much greater threat to the economy, and social and cultural well being of a nation than generally realized by the consumer. Moreover, it is an activity where short-term gains are achieved at the expense of long-term disadvantages. They also state that China, Thailand, India and Malaysia are known as the ‘home for piracy’. Consequently, consumers are facing problems when attempting to distinguish the pirated products from the original ones. For instance, which one will they will buy; because the price of the original products are much higher than the pirated one. Although Atallah, et al. (2008) make clear demarcation lines on the issue of piracy; it is continuously expressed that the battle against piracy is a difficult fight and much pragmatism is required in deciding when and how to target the pirates. This paper proposes a statistical model to reflect the relationship of various theories and empirically hypothesized relationships of the factors that influence the consumer’s decision when purchasing pirated software in Malaysia. Furthermore, it examines the influence of three important factors: consumer morality, social influence, and moral judgment on the ethical decision process of the consumer in Malaysian perspectives.

**Literature Review**

In our research, we have explored what numerous studies have concluded over the years on whether consumer ethical attitudes are a key factor influencing software piracy (Ening & Christensen, 1991; Haque, et al., 2009; Logsdon, et al., 1994; Taylor & Shim, 1993). Since software piracy is illegal, the decision to purchase pirated software creates some stimuli that occur in the mind of consumers’ on certain ethical dilemmas, which affect their ethical decision process (Tan, 2002).

**Consumer Morality**

Studies have dealt with the impact of ethics on intent to use or on actual use of pirated products, i.e. software, clothes, and electronics (e.g. Babin & Griffin, 1995; Cordell, et al., 1996; Vitell, et al., 1991). Rest (1979) developed a model which depicts the ethical decision making process of an individual consumer when he or she intends to buy a pirated product. The model instructs that a person must first recognize the moral issue; then make a moral judgment and establish moral intent; and lastly, implement moral actions in the ethical decision-making process.

At the organizational level, moral standards influence policies and regulations concerning the ethical use of software. Unfortunately, traditional morality cannot characterize the piracy problem with any clarity (Johnson, 1995) because individuals confronted with ethical problems traditionally attempt to resolve them by appealing to moral standards and moral reasoning. Moral standards can be applied at
either the organizational or the individual level (Lau, 2006). Much of the ethical debate concerning software piracy is fueled by the question of what a “right” practice should be – ranging from maximizing the good of society to respecting the rights of stakeholders, such as software developers and computer professionals (Lau, 2006).

Logsdon, et al. (1994) applied Kohlberg’s theory of moral states to determine if higher levels of morality resulted in a lower consumption of pirated software. They examined 263 undergraduate and graduate students in the USA under the assumption that graduate students operate at a higher moral level because of their greater maturity, and thus, use less pirated software. The study disproved the underlying premise. In fact, graduate students consumed higher amounts of pirated software. Thus, from the overall discussion, we propose the following null hypothesis:

**H1:** *Consumer morality is not significant in ethical decisions regarding purchasing pirated software.*

**Social Influence**

Lee, et al., (1994), Vice President of Business Software Alliance, expressed that piracy in Malaysia is a social economic problem that affects all levels of society. Swinyard, et al. (1990) found that Asians adopt a more casual attitude towards software piracy than Americans, which they attributed to cultural differences. Husted’s (2000) study documented that per capita GNP, income inequality, and individualism were correlated with the degree of software piracy. Sims, et al. (1996) profiled students by their likelihood of using pirated software, and used gender (males pirated more), age (no difference), and PC familiarity (the greater it was, the stronger the pirating tendencies) as explanatory variables. The most important reasons for using pirated software were the cost of the original, and wanting to try it first before purchasing (Cheng, et al., 1997).

Social pressures can influence individuals to follow rules, as well as break them. The extent to which consumers are influenced by social pressures is dependent on their susceptibility to such pressures (Bearden, et al., 1989). According to him, consumer susceptibility is “the need to identify with or enhance one’s image in the opinion of significant others through the acquisition and use of products and brands, the willingness to conform to the expectations of others regarding purchase decisions, and the tendency to learn about products by observing others or seeking information from others.” Thus, the second null hypothesis used in our study is:

**H2:** *Social influence does not have significance with ethical decision on purchasing pirated software.*

**Moral Judgment**

Wagner and Sanders (2001) state that moral equity affects behavioral intention directly and indirectly (through ethical judgments) and actual behavior is determined by such intentions. Hence, this research includes morality, moral judgment (Tan, 2002; Wagner & Sanders, 2001; Kuo & Hsu, 2001). Individuals confronted with ethical problems traditionally attempt to resolve them by appealing to moral standards and moral reasoning. Moral standards can be applied at either the organizational or the individual level (Lau, 2006). Thus we can develop the third null hypothesis:

**H3:** *Moral judgment is not related with the ethical decision in purchasing pirated software.*

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Theoretical Framework

Based on the literature review, this research concentrates on a framework of factors influencing consumer ethical decision-making when purchasing pirated software. This framework emphasizes those variables such as salary/income, attitude and culture. These independent variables are positively related to the consumers’ ethical decision making in purchasing pirated software. The detailed diagram framework is given below:

![Diagram of factors influencing consumer ethical decision on purchasing pirated software.

Methodology

Since the major purpose of the study is to figure out the factors of the ethical decision on purchasing pirated software, a self-structured questionnaire was developed to collect the required primary data from inhabitants of the Selangor state in Malaysia. Primary data was collected randomly from the general people in the Klang Valley area by using convenience-sampling procedures. The questions were categorized and structured under the independent variables chosen and discussed in the literature review. Questions were asked of all three races of people in Malaysia: Malay, Chinese, and Indian. Zikmund and Babin (2007) argued that researchers generally use convenience samples to obtain a large number of completed questionnaires quickly and economically, or when obtaining a sample through other means is impractical. This method produces a large number of responses quickly and at a low cost. Convenience samples are best used for exploratory research when additional research will subsequently be conducted with a probability sample. The sampling frame for conducting the principal component analysis is comprised of 200 respondents, which have been taken from different races comprising of both male and female participants. A 7-point scale was used, ranging from ‘strongly disagree’ to ‘strongly agree’. A total of 300 sample sizes were found to be valid and distributed among the potential respondents for this study, of which 250 questionnaires were received. Each of the responses received was systematically screened for errors, and incomplete or missing responses. After completing the screening process, only 200 responses were considered complete and valid for a data analysis. This represents a success rate of 66%, which is considered to be extremely good in view of time, cost, certainty and geographical constraints. In this study, exploratory factor analysis was used to identify the salient attributes that impact consumer ethical decision-making when purchasing pirated software. Since factor analysis represents an analytical process of transforming statistical data (as measurements) into linear combinations of variables, it is a meaningful statistical method used to combine a large number of data into a considerably smaller number.
of factors with a minimal loss of information (Hair, et al., 2006). In addition, SEM (Structural Educational Modeling) has been carried out to investigate the relationship among the variables that influence the factors of ethical decisions in purchasing pirated software.

Data Analysis

Reliability Coefficient
In order to measure the reliability for a set of two or more constructs, Cronbach alpha is a commonly used method where alpha coefficient values range between 0 and 1, with higher values indicating higher reliability among the indicators (Hair, et al., 2006). Hence, 1 is the highest value that can be achieved (Table 1). In accordance with the Cronbach alpha test, the total scale of reliability for this study varies from .90 to .98, indicating overall high reliability factors. The reliability of this study is substantial in every perspective.

Table 1. Reliability Analysis for all Variables

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.883</td>
<td>.884</td>
<td>21</td>
</tr>
</tbody>
</table>

Factor Analysis
The results obtained from 200 respondents were thoroughly analyzed. In applying SPSS, Principal Component Analysis (PCA) was carried out to explore the underlying factors associated with the 21 items. The constructs validity was tested using Bartlett’s Test of Sphericity and The Kaiser–Mayer–Olkin Measure of sampling adequacy to analyze the strength of association among the variables. The Kaiser–Mayer–Olkin measures of sampling adequacy (KMO) were first computed to determine the suitability of employing a factor analysis. KMO is used to assess which variables to drop from the model due to multi-collinearity problems. The value of KMO varies within 0 and 1, and the KMO overall value should be 0.60 or higher to perform a factor analysis. If this is not achieved, then it is necessary to drop the variables with the lowest anti image values until the KMO composite value rises above .60. The results extrapolated from the Bartlett’s Test of Sphericity and KMO reveal that the factors were highly significant and eventually concluded that these variables were suitable for a factor analysis (Table 2).

Table 2. KMO and Barlett's Test

<table>
<thead>
<tr>
<th>Kaiser-Meyer- Olkin Measure of Sampling Adequacy</th>
<th>.878</th>
</tr>
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<tbody>
<tr>
<td>Bartlett's Test of Sphericity</td>
<td></td>
</tr>
<tr>
<td>Approx. Chi-Square</td>
<td>873.754</td>
</tr>
<tr>
<td>df</td>
<td>81</td>
</tr>
<tr>
<td>Sig.</td>
<td>.000</td>
</tr>
</tbody>
</table>

To determine the minimum loading necessary to include an item in its respective construct, Hair et al. (2006) suggested that variables with loading greater than 0.30 are considered significant, loading greater than 0.40 are more important, and loading 0.50 or greater are very significant. For this study, items with loading of 0.40 or greater were accepted. The results also showed the total variance explained for the
three factors to be 63.050%. The values of the following Table 2 indicate the affiliation of the items to a factor. Generally, the factor is the natural affinity of an item for a group. The higher loading (factor) indicates the stronger the affiliation of an item is to a specific factor. The findings of this study indicate that each of the three dimensions (Consumer Morality, Social influence, and Moral judgment) were homogeneously loaded to different factors. That means each of the dimensions that loaded into three different factors, all have proven to be significantly related to the consumer ethical decision making when purchasing pirated software.

Table 3. Factor Loading Matrices Following Rotation of Three-Factor Solutions

<table>
<thead>
<tr>
<th>Descriptions</th>
<th>F1</th>
<th>F2</th>
<th>F3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consumer Morality</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(cm1) Thinking of impact on the revenue of the original software company.</td>
<td></td>
<td></td>
<td>.772</td>
</tr>
<tr>
<td>(cm2) Thinking of impact on the revenue of the software seller.</td>
<td></td>
<td>.743</td>
<td></td>
</tr>
<tr>
<td>(cm3) Self motivated of not to buy pirated software</td>
<td></td>
<td>.691</td>
<td></td>
</tr>
<tr>
<td>(cm4) Feeling of guilty after buying pirated software</td>
<td></td>
<td>.688</td>
<td></td>
</tr>
<tr>
<td>(cm4) Feeling of Criminal offence</td>
<td></td>
<td>.672</td>
<td></td>
</tr>
<tr>
<td><strong>Social influence</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(si1) Encouraged by others not to buy pirated software</td>
<td>.825</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(si2) Institution provide Knowledge on piracy</td>
<td>.808</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(si3) Socially accepted of buying original software</td>
<td>.789</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(si4) Friends are against of buying pirated software unethical</td>
<td>.655</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Moral judgment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(mj1) Buying pirated software other than original</td>
<td></td>
<td>.853</td>
<td></td>
</tr>
<tr>
<td>(mj2) Feeling of erroneous of buying pirated software</td>
<td>.808</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(mj3) Self concept to purchase pirated product</td>
<td>.680</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Notes:** Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. Rotation converged in 5 iterations.

**Reliability Test**

Reliability is the degree to which the observed variable measures the “true” value and is “error free.” If the same measure is asked repeatedly, more reliable measures will show greater consistency than less reliable measures (Hair, et al., 2006). The coefficient alpha estimates for the multi-item scales used in this study are presented in Table 4. Reliability coefficients (Cronbach’s Alpha) were computed for the items that formed each factor. The reliability coefficients for the three factors: Consumer Morality, Social influence, Moral judgment were 0.823, 0.864, 0.781 respectively. As Table 4 shows, all alpha coefficients for the data exceed the minimum standard for reliability of 0.70 recommended by Nunnally (1978) for basic research. Thus, the results indicate that these multiple measures are highly reliable for measuring each construct.
Table 4. The Reliability Coefficients for Derived Factors.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Number of Cases</th>
<th>Number of Items</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Morality</td>
<td>200</td>
<td>5</td>
<td>.823</td>
</tr>
<tr>
<td>Social influence</td>
<td>200</td>
<td>4</td>
<td>.864</td>
</tr>
<tr>
<td>Moral judgment</td>
<td>200</td>
<td>3</td>
<td>.781</td>
</tr>
</tbody>
</table>

Confirmatory Factor Analysis (CFA)

Consumer Morality. For consumer morality, the modification indices for the covariance of measurement errors were: 9.543 between cm2 ("Thinking of impact on the revenue of the software seller") and cm1 ("Thinking of impact on the revenue of the original software company") and 12.745 between cm4 and cm5 ("Feeling of guilty after buying pirated software" and "Feeling of Criminal offence"). These two sets of measurement errors are logically conceivable to be correlated. Therefore, these correlated relations were allowed in the model. Each pair was added to the measurement model one at a time. After adding these three parameters, testing of the revised measurement model showed: $\chi^2$/d.f. = 1.243 ($\chi^2=13.768$, d.f=11); GFI=.962, AGFI=.956, CFI=.981, NFI=.952 and RMSEA=.034.

Social Influence. From our EFA as shown in Table 3, we have retained four measuring items for social influence. We could retain all these items after conducting CFA; the default model fit indices of attitude were adequate. The examination of the modification indices revealed that the measurement errors 24.434 between si2 ("Institution provide knowledge on piracy") and si4 ("Friends are against unethical buying pirated software") were correlated. The logical possibility for the correlation was allowed; therefore, these measurement errors were allowed to be related. After adding this parameter, the measurement model fit indices of price showed an adequate fit: $\chi^2$/d.f. = .079 ($\chi^2=10.213$, d.f=6); GFI=.972, AGFI=.967, CFI=.968, NFI=.952 and RMSEA=.046.

Moral Judgment. From our EFA as shown in Table 3, we have retained 3 measuring items for moral judgment. We could retain all these items after conducting CFA, as all those indicators were loaded with a loading factor more than 0.50. The fit indices from the default measurement model were: $\chi^2=.000$, d.f=0 (If the probability level cannot be computed, the model has zero degrees of freedom. The model should fit the data perfectly, and the chi-square statistic should be zero. Consequently, no probability level can be assigned to the chi-square statistic. The model is untestable.); GFI= 1.00, CFI=1.00, NFI=1.00 and RMSEA=.507. All indices represent an adequate fit of the model, except for the value of RMSEA. Therefore, there was no need to examine the modification indices.

Structural Equation Modeling (SEM)

Structural equation modeling (SEM) performed to test the hypothesized model using AMOS 7. SEM is known as a latent variable analysis or causal modeling as it provides parameter estimates for the direct and indirect links between observed variables. In Figure 2, boxes represent manifest or measured variables, whereas circles indicate latent or unobserved variables. As shown in Figure 4, the model’s exogenous variables (Consumer Morality = cm, Social influence = si, Moral judgment= mj) were measured by an X variable. There are five indicators used for the construct of Consumer Morality = cm;
four indicators used for the construct of Social influence $= \text{si}$; three indicators used for the Moral judgment $= \text{mj}$. Similarly, the model’s endogenous variables were measured by a Y (Consumer Ethical Decision on Purchasing Pirated Software) variable. Five indicators measured the construct of Consumer Ethical Decision on Purchasing Pirated Software (CEP).

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure2.png}
\caption{Factors influencing consumer ethical decision on purchasing pirated software model. (For total sample): Default model}
\end{figure}

**Statistical Significance of Parameter Estimates**

The test statistic here is the critical ratio (C.R), which represents the parameter estimate divided by its standard error. As such, it operates as a z-statistic in testing that the estimate is statistically different from zero. Based on a probability level 0.05, then the test statistic needs to be $>\pm1.96$ before the hypothesis (which estimates equal 0.0) can be rejected. Nonsignificant parameters, with the exception of error variances, can be considered unimportant to the model; in the interest of scientific parsimony, albeit given an adequate sample size, they should be deleted from the model.
Table 5. Standard Estimation of the Main Model

<table>
<thead>
<tr>
<th>Standardized regression weight</th>
<th>Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 Consumer Morality (CM)</td>
<td>0.127</td>
<td>0.041</td>
<td>3.948</td>
<td>0.000</td>
</tr>
<tr>
<td>H2 Social influence (SI)</td>
<td>0.567</td>
<td>0.053</td>
<td>3.504</td>
<td>0.000</td>
</tr>
<tr>
<td>H3 Moral Judgment (MJ)</td>
<td>0.405</td>
<td>0.206</td>
<td>3.281</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Hypotheses Testing

The structural equation model was examined to test the relationship among constructs. Goodness-of-fit indicates for this model to be chi-square/df = (316.457/167) = 1.894, GFI = 0.846, AGFI = 0.785, CFI = 0.827, NFI = 0.764. Figure 2 depicts the full model. Of the three paths hypothesized in the model, all the paths were significant at p < 0.05. (H1). Consumer morality is significant in the ethical decision made when purchasing pirated software. Therefore null hypotheses H1 is rejected at 0.5 level of significance p > 0.000. Regarding H2 (social influence is not significant in making the ethical decision on purchasing pirated software), our results revealed that social influence does have a strong significance in the ethical decision on purchasing pirated software Therefore; this null hypothesis is also rejected at p < 0.000. The result also highlighted that individual’s moral judgment is strongly related to the ethical decision on purchasing pirated software. Therefore, null hypotheses H3 is rejected as p > 0.000. Among all the significant variables, from our result, social influence and moral judgment is strongly related with the ethical decision consumers make when purchasing pirated software.

Conclusion and Implementation

There were many factors that influenced a consumers’ perception towards piracy. In this paper we mainly discussed consumer morality, social influence, and moral judgment. Hypotheses were developed for each of these variables showing the relationship that the variables have toward consumer ethical decision making when purchasing pirated software. When the Structural Equation Modeling test was run, consumer morality, social influence, and moral judgment showed that the null hypothesis should be rejected, concluding that there is a relationship between these variables and the dependent variable, which is the Consumer Ethical Decision Making When Purchasing Pirated Software.

According to Nissan (1991), there are two approaches that explain ethical behavior: slippery slope; and balanced book. The first one indicates that ethical deviations lead to ever-increasing transgressions. Bad deeds make individuals perceive themselves as bad, lowering their self-expectation, which ultimately
leads to more unethical behavior. Shoham, et al. (2008) said this argument is usually invoked against even small ethical deviations, which could lead to larger ones. The balanced book approach argues that slippery slopes do not necessarily exist for all individuals, exemplified by those who commit unethical acts that do not lead to larger transgressions (Reshef, 2001). While individuals want to behave ethically, they permit self-imperfections (Reshef, 2001). They deviate consciously, but judge themselves on a continuum of actions, some ethical, some not. Over time, good deeds improve and bad deeds impair the balance in the account (Shoham, et al., 2008). Moreover, people tend to cover their “moral overdraft” over time and use “moral reserves” to defend unethical choices (Nissan, 1993), or tendencies documented empirically (Nissan, 1991; Reshef, 2001). As a result, firms should advertise piracy as unethical. Firms also inform ethical individuals about the harm they suffer due to the unethical behavior of others. For example, an advertising campaign might emphasize the reduction in prices that might be made if software piracy were reduced. Such a campaign could try to persuade ethical consumers to take action, such as censuring their friends or not lending their legal copies of software to others to copy illegally.

Limitation and Direction for Future Research

First, a convenience sample was used. Further research is needed with a random sample of consumers. This research has been applied successfully to what we have learned in the piracy related literature of pirated product with evidence from Malaysia. Given the interesting results of this study and the managerial imperative arising from the situation, future research should focus on several perspectives: innovative ways to increase moral equity; identify the best methods to increase marketing efficiency.

References


ACHIEVING SUSTAINABILITY WITH A STAKEHOLDER-BASED CSR ASSESSMENT MODEL FOR FIEs IN CHINA

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Abstract: Foreign Invested Enterprises (FIEs) have been playing an important role in the fast developing Chinese economy, but there is a growing need to improve awareness and effective communication between responsible FIEs and stakeholders in China. On the one hand, FIEs’ stakeholders in China need ready access to relevant information on which to judge the social performance of individual FIEs in China; on the other, FIEs need additional insight into Chinese stakeholder concerns and expectations in order to better localize their CSR strategies and improve the impact and visibility of their CSR programs. This article, based on the results of international and domestic research on CSR, probes into the CSR criteria and guidelines for FIEs in China, and seeks to finally establish a feasible assessment system for later research and FIE sustainability auditing program in China.

Keywords: CSR assessment model, stakeholder, foreign invested enterprises, Chinese context

Introduction
By the end of 2008, there were 434,900 registered foreign invested enterprises (FIEs) in China (including 146,900 affiliated agencies). The total registered capital has reached USD 1,300 billion with total investment of USD 2,320 billion (The National Bureau of Statistics, 2009). As of the first half of 2002, most of the World’s Top 500 companies have established businesses in China with 3,096 projects, except for certain companies restricting investment from certain industries by Chinese regulations. Generally speaking, before 2009 the FIEs enjoyed fast and steady growth in China. Foreign investment has brought advanced manufacturing technologies and management know-how to China, which has helped in improving the domestic industrial structure, enhanced the quality of China’s economic development, mitigated the pressures of the job market, and contributed to China’s tax revenue. Meanwhile, FIEs have obtained global competitiveness with low-cost labor, local management talents and preferential policies specially offered to FIEs in China.

However, after the experience of the global economic recession in 2009, China has witnessed a decrease in foreign direct investment and a restructuring of FIEs (The Ministry of Commerce, 2009). The new challenges make it necessary for businesses worldwide to “fulfill the totality of its corporate social
responsibility” (Carroll, 1998) and “develop processes that involve the organization's stakeholders and that create organizational conditions for self-generation, creativity, resilience and action planning” (Elizabeth, James & Kathryn, 2010). Chinese consumers are increasingly supportive of CSR (Ramasamy & Yeung, 2008). In the meantime, the unethical conduct of some FIEs, such as “Bribery-Gate” of Siemens, has triggered the public attention and debate on their social responsibilities (Hairui, 2009). At such a critical moment of ensuring the steady, healthy and sustainable development of foreign investment in China, there is an urgent need of a scientific, comprehensive and feasible assessment system to monitor the ethical performance of FIEs and the fulfillment of their social responsibilities. There have been several well running international indices and assessment systems such as Dow Jones Sustainability Index (DJSI), FTSE4GOOD Index and JSE-SRI Index, but an assessment system catering to the foreign investment environment in China is still missing. Relevant surveys find that sustainable development is a universal challenge recognized by most business managers, but CSR practices are out of line with the awareness (Hou, 2007). Practitioners need new strategic insights and business operation guidelines to achieve sustainability. In this article, the conceptual model of an assessment system and index with consideration of the Chinese foreign investment context will be proposed based on the stakeholder theory and the Chinese context.

Theoretical Background

Research on the theoretical construct of CSR could be traced back to the 1950s, which marked the modern era of CSR and went through three major stages (Carroll, 1999). From the early 1960s to the late 1970s, the dominant theories were Corporate Social Response and Corporate Social Responsibility, of which “the four domains of Corporate Social Responsibility” (Carroll, 1979) remain at the core of the theoretical research. Carroll (1979) offered the definition of CSR as “…[encompassing] the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.” Later, he elaborated on his 1979 definition and categories of CSR:

“In my view, CSR involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. To be socially responsible...then means that profitability and obedience to the law are foremost conditions to discussing the firm’s ethics and the extent to which it supports the society in which it exists with contributions of money, time and talent. Thus, CSR is composed of four parts: economic, legal, ethical, and voluntary or philanthropic”. (Carroll, 1983)

The second stage started from the late 1970s to the mid-1990s. Wood (1991) revisited the theory of Corporate Social Performance (CSP) (Carroll, 1999) and developed and expanded Carroll’s “four domains of Corporate Social Responsibility” (Pinkston & Carroll, 1996). Based on Wartick and Cochran’s (1985) definition of corporate social performance, Wood took steps further and redefined the CSP as:

“...a business organization’s configuration of principles of social responsibility, process of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm’s societal relationships.” (Wood, 1991)

Wood’s reformulated and reconstructed a theoretical construct of corporate social performance (Table 1) and argued a tripartite linking of the three elements of principles, processes and outcomes (Wood, 1991):
Table 1. The Corporate Social Performance (Model Wood, 1991, pp: 694)

<table>
<thead>
<tr>
<th>Principles of corporate social responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional principles: legitimacy</td>
</tr>
<tr>
<td>Organizational principle: public responsibility</td>
</tr>
<tr>
<td>Individual principle: managerial discretion</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Processes of corporate social responsiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental assessment</td>
</tr>
<tr>
<td>Stakeholder management</td>
</tr>
<tr>
<td>Issues management</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Outcomes of corporate behavior</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social impacts</td>
</tr>
<tr>
<td>Social programs</td>
</tr>
<tr>
<td>Social policies</td>
</tr>
</tbody>
</table>

(1) Principles: Borrowing from Carroll’s (1979) four categories of CSR, he developed the principles of CSR which state that business institutions should use the power responsibly, of which the society has granted its legitimacy. Organizations should be responsible for outcomes involving society (Wood, 1991), and the managers should act toward socially responsible outcomes.

(2) Processes: Intro-organizational responsiveness processes, including assessing environmental conditions, attending to the demand of stakeholders and developing plans and policies for responding to changing conditions (Ackerman, 1975) and social issues (Wartick & Cochran, 1985), allow the conceptual development shifting from the categorization to the implementation phase (Frederick, 1978), which complement but does not replace corporate social responsibility (Wartick & Cochran, 1985), and integrate the theories of Corporate Social Response and Corporate Social Responsibility which originally were independent from each other.

(3) Outcomes: The three elements: social impacts of corporate behavior; programs developed to implement social responsibility and policies of companies to handle social issues and stakeholder interests (Wood, 1991) constitute the resulting outcomes of corporate actions and choices (Windsor, 2001) which “are of direct and obvious interest in the assessment of corporate social performance” (Wood, 1991).

As Wood puts it:

“...CSP as a multi-faceted whole, beginning with the input of motivating principles, carrying through with responsive processes, and ending with observable outcomes.” (Wood, 1991)

Wood provided a valuable framework for overall analysis of business and society by having a “micro-level” dimension that emphasized outcome or performance (Carroll, 1999) through which he focused on the interface between businesses and the environment (Wartick & Cochran, 1985).

From the mid-1990s and up to the present, the academic circle has witnessed the third stage of development when the stakeholder theory arose as the theoretical construct of relevant research in this area. In his book Strategic Management: A Stakeholder Approach, Edward Freeman first described the basic characteristics of the stakeholder theory, and explained the effect and importance of this theory to the sustainable development of the enterprise from a strategic perspective (Freeman, 1984). His definition of stakeholder states as follows:
“...any group or individual that can affect or is affected by the achievement of a corporation’s purpose” (Freeman, 2004).

Freeman’s stakeholder theory makes clear the responsibility of businesses to various groups of protagonists within the society (Ramasamy & Yeung, 2008) that have a stake in the company. The model considered 7 stakeholders originally: the shareholders, as well as the employees, both workers and management (Peter & Nancy, 2009); the customers; government; competitors; suppliers; community (Freeman, 1984), which was later remodeled and categorized by Freeman (2003) into the “internal” (financiers, suppliers, employees, communities and customers) and external (NGOs, environmentalists, governments, critics, media and others). Criticism about stakeholder theory focused on the ambiguity of its definition (Fassin, 2009) and difficulty to identify and manage because it is context-specific (Hall & Vredenburg, 2005). However, it still remains the “fundamental and useful” unit of analysis about business’s social responsibility by helping managers become more effective in identifying, analyzing and negotiating with key stakeholders (Freeman, 2004) because of its comprehensiveness and feasibility.

**Methodology and Structure**

In this article, instead of building the discussion on the philosophical or theoretical point of view, a different approach has been chosen by first comparing and analyzing the structure of the existing CSR assessment systems and indices (three international and one domestic) and then referencing the stipulations from laws and regulations in China and international CSR standards, rules, guidelines and principles, which serve as the framework of the conceptual model. Based on this framework, this article will propose an assessment model for FIEs in China.

**Review of the Existing Assessment Systems and Indices**

Out literature review finds the majority of the existing international and domestic assessment systems and indices adopt the triple-bottom line theory (TBL) rather than the stakeholder theory (see Table 2). This approach and arrangement has enabled the rating institutions and businesses to gain an ambiguous picture of the enterprises’ social responsibilities.

<table>
<thead>
<tr>
<th>Index</th>
<th>Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dow Jones Sustainability Index</td>
<td>Stakeholder</td>
</tr>
<tr>
<td>FTSE4Good Index</td>
<td></td>
</tr>
<tr>
<td>JSE-SRI Index</td>
<td></td>
</tr>
<tr>
<td>CASS “China Top 100 CSR Development Index”</td>
<td>Stakeholder √</td>
</tr>
<tr>
<td></td>
<td>Triple-bottom Line √</td>
</tr>
</tbody>
</table>

**Dow Jones Sustainability Index (DJSI)**

The Dow Jones Sustainability Index was the first sustainability index in the world, which was created by Dow Jones, STOXX and SAM in 1999. The DJSI has 3-tiers of criteria based on the TBL theory. The 1st-tier criteria include economic, environmental and social responsibilities. Under the economic criterion, there are 4 sub-criteria (2nd-tier) such as corporate governance, risks and crisis management, compliance/bribery and industry-specific criteria. Under the environmental criterion, there are 3
sub-criteria (2nd-tier), namely, environmental performance, environmental reporting and industry-specific criteria. Likewise, the sub-criteria for the social responsibility are human resource development, corporate citizenship/philanthropy, social responsibility reporting, employment performance and industry-specific criteria. And there are a number of 3rd-tier criteria under the second level.

**FTSE4Good Index**
The FTSE4Good Index was initiated by the London Stock Exchange and Financial Time in 2001 to promote ethical investment, covering 100 enterprises across England, Europe, and America (FTSE Index Company, 2006). According to its definition, a socially responsible business should accept responsibility for sustainable environmental development, and positive stakeholder relations; it should support and protect human rights, favorable supply chain and employment standards and implement anti-bribery measures, all of which serve as the 1st-tier criteria of the index. Each criterion is further developed into 3rd-tier criteria (core and objective), which are categorized into policy, management and reporting.

**JSE-SRI Index**
The JSE-SRI index was created by Johannesburg Stock Exchange in 2004 to assist businesses in integrating the principles of TBL and favorable governing structure into the daily operation and management (Johannesburg Stock Exchange, 2007). Quite similar with the structure of FTSE4Good index, The JSE-SRI index selects economic, environment and social responsibility as its 1st-tier criteria, which then divides into more detailed and comprehensive 3rd-tier criteria categorized into policy, management and reporting.

**China Top 100 CSR Development Index**
China Top 100 CSR Development Index was originated by the Chinese Academy of Social Science in 2008. Based on the stakeholder and TBL theory, the index accepts 4 criteria as major social responsibilities for businesses, namely responsible management, market responsibility, social responsibility and environmental responsibility. These top criteria are then divided into 13 2nd-tier criteria: responsible governance, responsibility promotion, communication, shareholder responsibility, customer responsibility, environmental management, and so on, with over 100 sub-criteria (3rd-tier).

The TBL theory is used widely. However, implementing TBL can be very complicated since conflict of interests arises among respective stakeholders (John, 2009). These assessment systems and indices failed to provide businesses with specific and comprehensive answers as to whom (stakeholder) they bear such social responsibilities, without which a feasible action plan is relatively impossible, which makes the conflicts hard to settle if the analysis only rests on the ethical performance of businesses on TBL.

For decades, CSR has been a subject of intense debate among scholars and practitioners. At the practical level, there appears to remain much confusion with respect to how to build or integrate CSR into the overall strategy of the firm. Typical approaches to CSR include developing a corporate Code of Conduct, preparing TBL reports and launching public relations campaigns that highlight a given socially responsible behavior and actions. A business’ social responsibility is quite often evaluated against principles, performances, and social issues. However, they are usually too far removed from the company strategy and management (Jeremy, 2008). The principles of CSR and conventional social issue management are usually too broad and complicated, whereas the interests and concerns of stakeholders are integrated into the daily operations and management of the company, hence the analysis of the
stakeholders and their demands makes more sense in providing business with feasible and comprehensive answers to be socially responsible. Companies interact with other parties, or stakeholders, and this interface makes the analysis of the relationship between business and its stakeholders more prominent than the traditional rights-based approach. As Freeman puts it:

“...stakeholders are about the business, and the business is about the stakeholders.” (Freeman, 2004)

Therefore, the stakeholder approach is clearer and more powerful in translating and integrating the ethics and CSR into the corporate strategy and management (Fassin, 2009). In this article, the principles of TBL are not rejected completely; rather we will borrow ideas and principles of CSR from this theory to integrate into our model, serving as a reference in categorizing the laws and regulations in China.

**Legal and Moral Responsibilities**

Firms, in whatever industry they specialize in, have to abide by laws if they want to survive, so firms should fulfill their legal obligations first. As Carroll (1991) argued, it is important that a successful firm be defined as one that is consistently profitable and it is also important to perform in a manner consistent with expectations of the government and the law. Legal responsibility is the basic responsibility that firms should take, but if they want to have a sustainable development in the long term, they need also take the moral responsibility and develop a good relationship with their stakeholders. From the laws and legal regulations in China, we can identify what legal responsibilities firms should undertake and in international rules or standards, we can select what moral responsibilities firms should fulfill. On the basis of summarizing the laws, rules or standards, the authors build the framework of the CSR conceptual model. (See Table 3)

The criteria for selecting laws, rules or standards are that it has to be in accordance with one of the following principles: first, it is related to one of the stakeholders, e.g. China Labor Law contains some stipulations on the stakeholder of employees. Second, it relates to the economical, social, and environmental responsibilities stated in TBL. For example, Environmental Protection Law is related with the firm’s environmental responsibilities. Third, it relates to FIEs in China, such as the Law on Foreign-Capital Enterprises. All the laws the authors chose are exhibited in Table 3 and are divided into three groups according to the TBL theory. The economical laws are related with economical responsibility, the labor laws and intellectual property laws are related to social responsibility, and the environmental laws are relative with environmental responsibility. The international rules are a separate, undivided group because there are fewer rules compared with domestic laws. All the Chinese-version laws are from the website of the Central People’s Government of the People’s Republic of China. The international rules are from the official websites of their publishing institutions.
Table 3. CSR Conceptual Model

<table>
<thead>
<tr>
<th>Chinese laws/regulations relevant to the economic dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. China company law 公司法 2005.10.27</td>
</tr>
<tr>
<td>2. China Product Quality Law 产品质量法 1993.2.22</td>
</tr>
<tr>
<td>3. China Anti-monopoly 反垄断法 2007.8.30</td>
</tr>
<tr>
<td>4. Regulation on the Prohibition of Pyramid selling 禁止传销条例 2005.8.10</td>
</tr>
<tr>
<td>5. China Foreign Joint Venture Law 中外合资企业法 2001.3.15</td>
</tr>
<tr>
<td>6. Law on Foreign-Capital Enterprises 外资企业法 2000.10.30</td>
</tr>
<tr>
<td>7. China Law on Consumer Rights 消费者权益法 1993.10.31</td>
</tr>
<tr>
<td>8. China Advertising Law 广告法 1994.10.27</td>
</tr>
<tr>
<td>9. China Anti Unfair Competition 反不正当竞争法 1993.09.02</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Chinese laws/regulations relevant to the social dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor Laws</td>
</tr>
<tr>
<td>1. China Labor Law 劳动法 1994.07.05</td>
</tr>
<tr>
<td>2. Labor Union Law 工会法 1992.04.03</td>
</tr>
<tr>
<td>3. Enterprise Income Tax Law 企业所得税法 2007.3.16</td>
</tr>
<tr>
<td>4. Announcement of the State Council on the Regulations of Paid Annual Leave of Employees 企业职工带薪年休假条例 2008.7.17</td>
</tr>
<tr>
<td>5. Law Of The People's Republic Of China On Employment Contracts 劳动合同法 2007.6.29</td>
</tr>
<tr>
<td>7. Law on Protection of Women's rights 妇女权益保障法 1992.04.03</td>
</tr>
<tr>
<td>8. Law of the People's Republic of China on Work Safety 安全生产法 2002.06.29</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chinese laws/regulations relevant to the environmental dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Environmental Protection Law 环境保护法 1989.12.26</td>
</tr>
<tr>
<td>2. China Law on the Promotion of Cleaner Production 清洁生产促进法 2002.06.29</td>
</tr>
<tr>
<td>3. China Water Law 水法 2002.08.29</td>
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<table>
<thead>
<tr>
<th>International Rules/principles /Guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. SA8000</td>
</tr>
<tr>
<td>2. Global Reporting Initiative's (GRI)- Sustainability Reporting Guidelines</td>
</tr>
<tr>
<td>3. OECD（Organization For Economic Co-operation and Development） Guidelines for Multinational Enterprises</td>
</tr>
<tr>
<td>5. The Good Corporation Standard</td>
</tr>
<tr>
<td>6. Global Compact</td>
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<tr>
<td>7. The Global Sullivan Principles</td>
</tr>
</tbody>
</table>

Responsibility to Shareholders

Shareholders are the investors of one company and are the core factors for its development. Carroll (1991) also suggested a company should perform in a manner consistent with maximizing earnings per share. According to the stipulation of company law and China Foreign Joint Venture Law, the authors have concluded that there are two aspects of responsibility that the company should ensure. First, the company should try best to protect shareholders’ rights, e.g. ensuring shareholders’ right to view the rules of the company, the minutes of shareholders meetings, resolutions of board of directors and board of supervisors.
and the financial and accounting reports and the company should disclose on regular basis the remuneration of its directors, supervisors and senior managers. Second, in order to protect shareholders’ rights the company should also implement effective and active risk control and management, e.g. taking measures to guard against insider trading and misappropriation of information, making process to review corporate governance to assess compliance with relevant local codes and the principles. In conclusion, the company’s responsibility for its shareholders is mainly an economical responsibility according to the triple bottom line theory.

Responsibility to Employees

Employees are important to any company. Sybille (2006) suggested that firms should provide employees with a fair and safe working environment. On the basis of the protection against employees in labor law and Law on Employment Contracts, the authors conclude that there are five kinds of responsibilities related to employees.

First, on employment contract and salary, the conclusion and modification of a labor contract shall follow the principles of equality, voluntariness and the wages of an employee on probation may not be less than the lowest wage level for the same job or less than 80 percent of the wage agreed upon in the employment contract, and may not be less than the minimum wage rate in the place where the employer is located. Second, on part-time labor, the company should not stipulate a probation period for part-time labor. The hourly compensation rate for part-time labor may not be lower than the minimum hourly wage rate prescribed by the local government of the place where the employer is located and the labor compensation settlement and payment cycle for part-time labor may not exceed 15 days. Third, on employees’ development, Sybille (2006) suggested the companies encourage and help employees to develop skills that further their personal and professional development throughout their working lives, so the company should provide laborers with vocational training in a long and planned way. Fourth, on employees’ rights, the company shall not recruit minors under the age of 16, and laborers, regardless of their ethnic group, race, sex, or religious belief, shall not be discriminated against in employment. At the same time, women shall enjoy the equal right with men to employment. Fifth, on health and safety, the company should set up and improve the responsibility system for work safety in their own units and make arrangements for the formulation and implementation of their own units’ rescue plans in the event of accidents. According to the above discussion and TBL, the responsibility to employees covers mainly economical and social responsibilities.

Responsibility to Competitors

According to the rules of Anti Unfair Competition Law, the responsibilities to competitors are mainly economical responsibilities and divided into two parts. First, on fair competition, the company shall not damage other competitors through unfair methods, not infringe upon other business secrecy and not sell commodity at the price lower than the commodity’s cost in order to push competitors out of the industry. Second, on anti-monopoly, companies should voluntary ally and expand the scope of operation, not fabricate and spread false facts to damage the business reputation or commodity fame of competitors.

Responsibility to Suppliers

The responsibilities to suppliers mainly are economical and social responsibilities and are discussed in three aspects. First, the company should build good relationship with suppliers, e.g. making clear and
transparent processes for selecting suppliers; terms of business with suppliers are clear and respected; where business terms are changed, the impact on suppliers and contractors is considered before implementation. Second, on protect suppliers’ rights, e.g. intellectual property, such as copyrights, trademarks, patents, belonging to suppliers or contractors is used only with their explicit permission and the company should make a process for acknowledging and responding to supplier and contractor complaints and comments against a defined timescale and ensure that all suppliers are routinely paid in accordance to agreed terms and ensure that there are no forms of bribery or corruption in relation to suppliers. Third, the company should prioritize partners with good CSR records and Encourage up- and down-stream enterprises to improve CSR standards, etc.

Responsibility to Distributors
Companies bear upon themselves the responsibility to distributors in providing precise product information, regular training and full, timely payment.

Responsibility to Creditors
According to the stipulations of China Company Law, the enterprise should, to the best of its ability, protect the interests and benefit of creditors, such as inform in time during a company merger, decrease of registered capital and liquidation.

Responsibility to Customers
According to Law on Consumer Rights and Advertising Law, the responsibilities for customers are divided into three kinds. First, on product’s quality, the quality of a product shall undergo inspection until it proves to be up to the standards and the company shall not manufacture and sell products that do not conform to the standards and requirements for ensuring human health, personal safety and safety of property and marks on the products or on the packages thereof shall be authentic. Second, on advertisement: an advertisement shall not contain any false information, and shall not cheat or mislead consumers and not impair the physical and mental health of minors or disabled people. Third, on customer’s rights and privacy: protecting the rights and interests of consumers may suggest that the department concerned disposes the product’s quality problems as reported by consumers. Consumers shall enjoy the right to obtain true information of the goods they purchase and use or the services they receive; the company should protect customer privacy and customer data and respect their human dignity, national customs and habits.

Responsibility to Local Communities
Good companies are expected to build good relationships with local communities. When making plans and activities, the company should take into account its impacts on communities. There should be a process in place to deal with enquiries and complaints from members of local or national communities within a defined timescale. There is a program of support for community projects and activities that is appropriate to the organization and the needs of the community. There is a process to ensure that risks to public safety resulting from the organization’s products and operations are minimized. The company should engage in culture, education and healthcare community projects.
Responsibility to the General Public
The responsibility to the general public is mainly in the dimensions of social responsibilities. The company should observe social morals and business ethics, conduct business in good faith and subject itself to the supervision of the public. Meanwhile businesses should support and respect the protection of internationally proclaimed human rights and make sure that they are not complicit in human rights abuses.

Responsibility to the Government
Responsibility to the government is also mainly in the dimension of social responsibilities. The company should abide by laws and administrative rules and regulations and subject itself to the supervision of the government and must submit fiscal reports and statements as required and accept supervision by financial and tax authorities. At the same, actions should be taken in response to incidents of corruption.

Responsibility to the Environment
Many companies provide limited, qualitative, non-financial information mainly through an annual report, but some large companies, particularly those operating in environmentally sensitive industrial sectors have started disclosing significant quantitative and qualitative information on the issue (see, for example, KPMG, 2002) According to laws on Environmental Protection and Promotion of Cleaner Production, responsibilities to the environment are divided into three parts. First, on protecting the environment: the company shall incorporate environmental protection practices into their plans and establish a responsibility system for environmental protection and adopt effective measures to prevent and control pollution and the harms caused to the environment. Second, on clean production: the companies shall comprehensively use or recycle materials such as waste products, wastewater and heat generated from production procedures. The use of toxic or hazardous wastes as fertilizer or as fill to build up fields is prohibited. Third, on saving energy: the firms should formulate and implement plans and technical measures for energy conservation, carrying out education in energy saving and train their employees in energy saving on a regular basis.

The companies are expected to make efforts in environment protection and energy saving, because only in this way could they make responsible actions for future generations. Government regulation is an important factor in determining the amount of effort businesses put into environmental concerns. Legal requirements have an obvious influence on the prevention of pollution. Where the legal system does not regulate a business’s emissions, this pressure often comes from NGOs, which help to monitor and regulate an industry’s carbon footprint.

The Conceptual Model
The article builds the CSR conceptual model for FIEs on the basis of moral and legal responsibilities that firms should take (See Table 4). Freeman (2003) included eleven internal and external stakeholders in his refined model (See Figure 1). The stakeholder model illustrates visually, by adopting a graphical framework, the relationship among the various parties in and around the company.
In this article, the stakeholder model, referencing Freeman’s refined model, is reconstructed according to the Chinese context (See Figure 2). The financiers are replaced by shareholders, to whom one company bears substantial responsibility, since the company is, by its definition, an economic and for-profit entity and should make profit and provide benefit to its investors (here means shareholders). Besides the shareholders, we add creditors into the stakeholder list of a company, since the company should bear upon itself certain economic, legal and social responsibility to creditors, especially when the financial status of the company is under change. Competitors also serve as an important stakeholder in the model, since they play a significant role in ensuring a fair and anti-monopoly market environment. The distributors in the business environment also deserve the company’s concern and responsibility for their essential role in the sustainable success of the company. In the model, we divide the communities in Freeman’s framework (Freeman, 2003) into local communities and general public to better represent the distinct demands and related responsibilities. All these stakeholders make the 1st-tier indicators (including shareholders, employees, competitors, suppliers, distributors, creditors, customers, community, general public, government and environment).

The 2nd-tier indicators show what kinds of responsibilities the company should take and the 3rd-tier indicators are the detailed responsibilities referencing the stipulations of Chinese laws and international regulations (only a part are exhibited).
Table 4. Example Indices for the Conceptual Model

<table>
<thead>
<tr>
<th>First-Tier</th>
<th>Second-Tier</th>
<th>Third-Tier (Example Indices )</th>
</tr>
</thead>
</table>
| Shareholders | Protection of shareholders’ rights | • Disclose on regular basis the remuneration of its directors, supervisors and senior officers  
• Deliver the share certificates to shareholders according to law  
• Have the right to view and copy companies’ documents (articles of association, minutes of shareholders meetings, resolutions of board of directors and board of supervisors and the financial and accounting reports)….
|
| Risk control and management | | • Guard against insider trading and misappropriation of information.  
• Corporate governance complying with relevant local codes.  
• Principles and practices of corporate governance are clearly communicated to shareholders and variances from relevant codes are explained...
|
| Employees | Employment contract and salary | • Conclusion and modification of a labor contract shall follow the principles of equality, voluntariness and agreement through consultation.  
• Wages during trial employment period should consistent with law on Employment Contract.  
• Compensation shall not be below the local minimum wage rate....
|
| | Part-time labor | • Not stipulate a probation period.  
• The hourly compensation rate not lower than the minimum hourly wage rate where the employer is located.  
• Compensation settlement and payment cycle not exceed 15 days....
|
| | Employee development | • Provide laborers with vocational training  
• Organize a trade union to protect the lawful rights and interests of the staff  
• Provide the organizations of the Communist Party of China with conditions necessary for their activities.
|
| | Employee’s rights | • Not recruit minors under the age of 16  
• No discrimination (ethnic group, race, sex, or religious belief  
• Women shall enjoy the equal right with men....
|
| | Health and safety | • Setting up and improving the responsibility system for work safety  
• Making arrangements for formulating rules and operating regulations for work safety.  
• Guaranteeing an effective input into work safety ....
|
| Competitors | Fair competition | • Not damage competitors through unfair methods  
• Not infringe upon other business secrecy  
• Not sell commodity at the price lower than the commodity's cost to put competitors out of the competition.
|
| Anti-monopoly | | • Voluntarily ally and expand the scope of operation.  
• Not abuse dominant position.  
• No monopolistic agreement among competitors...
|
| Suppliers | Construction of good relation with suppliers | • Clear and transparent processes for selecting suppliers.  
• Terms of business with suppliers are clear and respected.  
• Considering the impact on suppliers where business terms are changed
|
| | Protection of supplier’s rights | • Intellectual property of suppliers is used only with their explicit permission.  
• Acknowledging and responding to supplier complaints and comments on time  
• Taking suppliers’ feedback is into account in managing supplier relationships....
|
| | Suppliers selection | • Ensure that suppliers have responsible health and safety practices.  
• Prioritize partners with good CSR records.  
• Encourage up- and down-stream enterprises to improve CSR standards....

Table 4. Example Indices for the Conceptual Model (continued…)

<table>
<thead>
<tr>
<th></th>
<th>Information disclose</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributor</td>
<td>☐ Provide timely and precise product information…</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Regular distributor training…</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Timely and full payment…</td>
<td></td>
</tr>
<tr>
<td>Creditor</td>
<td>☐ Inform creditors in time when companies combine with others</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Inform creditors in time if the companies reduce registered capital</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Inform creditors in time when companies carry out liquidation…</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ The quality of product shall be inspected to be eligible.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Not manufacture and sell products harmful for human health, personal and property</td>
<td></td>
</tr>
<tr>
<td></td>
<td>safety</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Marks on the products shall be authentic…</td>
<td></td>
</tr>
<tr>
<td>Customer</td>
<td>☐ Advertisement shall be true to facts and consistent with the Advertisement Law.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Not contain any false information, and not cheat or mislead consumers.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Advertisements should not impair the physical and mental health of minors or disabled</td>
<td></td>
</tr>
<tr>
<td></td>
<td>persons…</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Having the right to check product quality problems with producers and sellers.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Protect the right of the inviolability of their personal and property safety.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Convey true information of the commodities consumers purchase and use or the services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>they receive…</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Protect customer privacy and customer data.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Respect consumers’ human dignity, national customs and habits…</td>
<td></td>
</tr>
<tr>
<td>Local Community</td>
<td>☐ The organization’s plans and activities take account of its impacts on communities.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Support for community projects and activities that is appropriate to the organization</td>
<td></td>
</tr>
<tr>
<td></td>
<td>and the needs of the community.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Develop ties and participate in co-operative research projects with local universities,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>public research institutions.</td>
<td></td>
</tr>
<tr>
<td>General Public</td>
<td>☐ Observe social morals and business ethics, conduct businesses in good faith</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Subject to the supervision of the public…</td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>☐ Abide by laws and administrative rules and regulations.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Subject itself to the supervision of the government…</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Protect the ecological environment while natural resources are being developed or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>utilized.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Incorporate the work of environmental protection into their plans and establish a</td>
<td></td>
</tr>
<tr>
<td></td>
<td>responsibility system.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Not importing any technology or facility that fails to meet the requirements specified</td>
<td></td>
</tr>
<tr>
<td></td>
<td>in the regulations of our country concerning environmental protection.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Recycling of wasted materials from production procedures…</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Formulate and implement plans and technical measures for energy conservation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Establish a responsibility system for achieving energy conservation goals</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☐ Carry out education in energy saving and train employees in energy saving at their</td>
<td></td>
</tr>
<tr>
<td></td>
<td>posts</td>
<td></td>
</tr>
</tbody>
</table>

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Conclusion

The conceptual model proposed in this article is to facilitate FIEs and their stakeholders with insights and methodology in analyzing its CSR engagement in China. Meanwhile, it also serves as the core framework of an assessment system for FIEs and other stakeholders to monitor the ethical performance of companies. The adoption of stakeholder approach enables FIEs with useful and relatively simpler tools to identify the interests and concerns of their priority stakeholders, and tries to specify the responsibilities FIEs bear upon themselves to their respective stakeholders, which helps in designing programs and policies to respond to stakeholders’ demands. This model focuses on the implementation of CSR rather than the philosophical and theoretical thinking of CSR. In applying this model to the strategic planning and management of the CSR, the managers of the FIEs are well advised to be aware of the industry specifics and context which are important influential factors affecting the effect and impact of their CSR strategies. This is also one of the areas that needs further research. There is no doubt more empirical studies are needed to understand the expectations and concerns of the stakeholders, which are crucial for FIEs in China to achieve sustainability.

Acknowledgement

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References


NGOs: THE DUAL “VOICE” AND INSTITUTIONAL KNOWLEDGE TRANSFER

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Abstract: Non-governmental organizations (NGOs), which are informal communities of participation, have become a promising avenue for research on international management and economic development (Buckley, 2002). We propose that NGOs, through their local knowledge and participation, have the potential to link foreign institutions to their local counterparts. We also introduce the emerging role of NGOs as major actors in the global business environment with their dual voices: a voice at an economic level and a voice at a more social or institutional level. Prior research in international management and international political economy has focused on the bargaining relationship between NGOs, MNCs, and governments. The present paper examines the bridging role of NGOs in institutional knowledge transfer and their “dual voice.”

Keywords: NGO, dual voice, informality, social bond, subnetwork

Introduction

The present paper examines non-governmental organizations (NGO) by following the approach outlined in Hirschman’s seminal work, Exit, Voice and Loyalty. Hirschman (1970) suggested that members of an organization, whether a business, a nation or any other form of human grouping, have essentially two possible responses when they perceive that the organization is demonstrating a decrease in quality or benefit to the member: they can exit (withdraw from the relationship); or, they can voice (attempt to repair or improve the relationship through communication of the complaint, grievance or proposal for change). We believe that globalization and the development of the Internet and communication technologies have transformed NGOs into a global “voice” in today’s highly international business environment. Buckley (1999) provided an initial analysis showing how Hirschman’s seminal work could be applied to entrepreneurship, international business, and knowledge management research. In the present paper, we provide the conceptual integration and synthesis of NGOs by reflecting on the foundations of Hirschman’s concept of “voice” (1970) in the business systems (Whitley, 1992a, 1992b) perspective.

The concept of “informality” is crucial to our analysis and to the determination of how certain business systems can be more informal than others. North (1986, 1994) and Langlois (1992, 2003) provided crucial distinctions between institutions and organizations and showed how they could determine the success of a business system. Our analysis distinguishes between informal and formal business systems. This informality in turn provides the institutional foundations for the emergence of NGOs as a global voice in today’s international business environment. The importance of informality
drives our conceptual framework. NGOs have a dual role in international business: the market and institutional identity roles. This duality best represents the public and private roles of NGOs in the international business environment.

**NGOs and Institutional Knowledge Transfer**

In this paper, we develop a conceptual framework for understanding how institutional knowledge practices are transferred among countries or national business systems. Rather than focusing on the well-researched transfer of technologies or product innovations (Grant & Spender, 1996; Kogut & Singh, 1989; Kogut & Zander, 1993), we focus on institutional knowledge for strategy and how fundamental it is for the economic and business success of a national business system. We present three key drivers of institutional knowledge transfer in today’s international business environment, such as NGOs (non-governmental organization), MNCs (multinational corporation) and government. First, we analyze the critical role of NGOs (Buckley, 2002), particularly their complementary role with respect to MNCs and governments in international business. The emergence of NGOs and the important role they play in global governance confirm Ostrom’s (1999, 2000) analysis suggesting the importance of the public and private sectors’ involvement in global governance (Ostrom, 2000; McGinnis, 1999).

The Economist estimates that the number of international non-governmental organizations rose from 6,000 in 1990 to 26,000 in 1996. Many of NGO budgets have reached millions of U.S. dollars, almost all of which comes from private donors. These organizations have effectively networked and mobilized their members to reshape world politics. This point was graphically illustrated by the significant NGO presence at the 1992 Earth Summit in Rio, where 17,000 NGO representatives staged an alternative forum to the UN-sponsored meeting, while 1,400 were involved in the official proceedings.

The growth of NGOs has, in large part, been fueled by the perceived inability of both domestic and international institutions to respond to the social, economic, and political consequences of rapid advances in science and technology, growing economic interdependence, and political fragmentation. In addition, a growing number of transnational threats (pandemics, global warming, and the proliferation of WMDs) that require a coordinated response have created a need for new partners and approaches to solving global issues. We focus on NGOs role with their private sector (firm) and public sector (government or state) within the international business.

The economics of globalization and the importance of the non-market environment and social issues have resulted in a convergence of relationships among NGOs, states, and MNCs (Prakash, 2002; O’Riain, 2000). The worsening economic reality has resulted in cutbacks in NGO funding (Ottaway, 2001). In this sense, their only potential survival strategy is the blurring of their public and private roles in the international business environment and the creation of new types of strategic alliances and collaborations with MNCs and other sectors of society. Literally, NGOs have to enter the global membership of MNCs. However, based solely on economic or market criteria, MNCs do not have sufficient criteria for entering into such global partnerships with NGOs. However, the possibility of such partnerships can be enhanced if MNCs can take into account the non-market advantages of partnering with NGOs, such as the social capital and institutional linkages of NGOs.
MNCs have started to engage such partnerships, such as Ford Motor Company in South Africa to proactively address HIV/AIDS and Bank of America’s partnership with Natural Step, a Swedish environmental organization (Bartunek, Bies, Fort & Zald, 2003). The present paper provides a conceptual and analytical framework that justifies the increased number of such partnerships between MNCs and NGOs across the global business environment. Buckley (2002), in a recent review of international business research, identified the past three stages of international business topics. He identified the topic of NGOs as a potentially fruitful area of future international business research. In the present paper, we analyze NGOs in terms of their potential partnership with MNCs and governments and examine why such partnerships may accelerate in future. We propose that future research on comparative business systems (Whitley, 1992a, 1992b; Lazonick & O’Sullivan, 2000; North, 1986, 1994; Nelson, 2002) should take into account the role of NGOs in the international business environment. NGOs have a dual identity in the global business environment: a role in the private sector and markets and that in the public sector and institutions.

**Formal Versus Informal Institution in Business System**

Current research in social sciences on economic growth and developing economies shows a growing consensus on the fundamental role institutions play in the success of economic development (Rodrik, 2003; Acemoglu et al., 2001). International business research has shown that MNCs accelerate the transfer of institutions among countries. Rugman’s (2000) seminal thesis proposes that MNCs are focused primarily on the developed triad economies, not on developing economies. This raises an important question: what factors facilitate the transfer of institutions?

North (1990) made an important distinction between organizations and institutions within a business system. Formal institutions are close to laws and legal systems, whereas informal institutions are close to social norms and conventions (North 1986, 1994). Despite the importance of legal systems, recent research on comparative business systems in international business (Foss, 1999; Casson & Lundan, 1999; Chui, 2002; Andreff, 2002) has not analyzed the effects of different legal systems on national business systems. The legal systems in most of the world’s developed economies are based on one of two systems: common law, which is prevalent in Anglo-Saxon countries such as the U.S., the U.K., Canada, Australia and many of the former British colonies, and civil law, which is prevalent in continental Europe, South America, and most of Asia. A major difference between these two major legal systems is that common law depends heavily on courts for decision-making, whereas civil law tends to depend more on the legislature and the role of the state. Or, according to Dawson (1968), civil law exists in the world of scholars, whereas common law in the world of judges. Research summarizing the differences between the two systems include: Mattei (1994a, 1994b), Ajani (1995), Ewald (1995), Schlesinger (1995), and Posner (1996), among others.

Globalization has accelerated the integration of these two major legal systems (common law and civil law). The phenomena of legal “transplants” and the adaptation of ideas and frameworks from one system by another have been increasing. Much of the research focusing on Anglo-Saxon countries, which follow the common law tradition, has tended to analyze the borrowing and transplanting of laws and formal institutions for economic and market efficiency reasons (Borocz, 2000; Andreff, 2002; Mattei, 1994a; Agostini, 1988). However, recent research has shown that the borrowing of frameworks from one
system by another is driven as much by social, historical, and political reasons as it is by economic ones (Borocz, 2000; Mattei 1994c). Earlier this century, civil law ideas from continental Europe were exported to common law Anglo-Saxon countries such as the U.K. and the U.S., and in more recent years, the export of common law ideas and frameworks has been on the rise, particularly to emerging regions such as Eastern Europe (Mattei 1994c; Olson, 1982, 1992).

In terms of formal institutions (e.g., the two types of laws) and informal institutions (e.g., norms and conventions) (North 1990), there has been a general belief that the modernization of societies would lead to a greater use of formal institutions (Posner, 1996). This is certainly true in Anglo-Saxon countries, which have been increasingly linking laws to economic efficiency, as evidenced by the tremendous growth in the disciplines of law and economics in these countries; however, these disciplines have not experienced similar growth in civil law countries in continental Europe and Japan (Mattei, 1994a; Olson, 1965, 1982, 1992; Ostrom, 1990; Etzioni, 1988). The increasing influence of economic and market efficiency and the role of corporations has increased the need for formal institutions such as laws, particularly those determined by courts and judges, not those by scholars or the state, suggesting the apparent superiority of common law over civil law. Table 1 compares the two formal legal institutions and the informal institution (norms).

Table 1. Typology of Institutions in Business Systems

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Main characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Courts (market)</strong></td>
<td>Common law system prevalent in Anglo-Saxon countries such as the United States, United Kingdom, Australia, Canada. These court systems rely heavily on “market” reasoning and economic efficiency logic, which is why the disciplines of law and economics is thriving in these countries. This institution is seen as superior to the other two.</td>
</tr>
<tr>
<td><strong>Legislature (state)</strong></td>
<td>The government is much more involved in civil law countries. Here, the state and legislature as well as academic scholars have a great influence on the institutions. Civil law countries include all of the world, except the Anglo-Saxon countries and former British colonies. The linkage between law and economic or market efficiency is much weaker in this system.</td>
</tr>
<tr>
<td><strong>Norms (communities)</strong></td>
<td>These informal institutions are based on the conventions, norms, and customs of a particular community or society. Trust, and personal relations, kinship relations are crucial in these systems. In most countries, norms, which are informal institutions, are combined with the formal institutions of either courts, common law or the legislature and state, civil law.</td>
</tr>
</tbody>
</table>

Informality in Business Systems

Recent comparative research on business systems (Foss, 1999; Danis, 2002; Andreff, 2002; Choi, et al., 1999; O’Sullivan, 2000; Putnam, 1996; Chui, 2002) has taken into account the importance of the national institutional context in various aspects of national business systems, particularly in innovation and technology areas. Such studies have advanced the traditional continental European social science-based research on institutions (Crozier, 1964; Levi-Strauss, 1964). However, such studies have tended to consider countries independently or together in terms of their income, GNP, or other criteria (e.g., considering developed economies as a group). The “informality” factor in a business system is a crucial element in the emergence of NGOs.
We follow the idea that international business research should differentiate between shareholder and stakeholder business systems (Albert, 1991; Freeman, 1984; Andreff, 2002; O’Sullivan, 2000; Chui, 2002). The growing academic debate about shareholder research has focused comparative corporate governance research. Recent studies (Pedersen & Thomsen, 1999; Lazonick & O’Sullivan, 2000; Roe, 1994) have compared the legalistic, stock market-driven approaches of Anglo-Saxon countries (e.g., the U.S. and the U.K.) with the more informal cross-share holding system in Japan and Germany. Legal contracts with ultimate redress to courts are fundamental to the effective operation of the Anglo-Saxon business culture (Roe, 1994; Barzel, 1997). By contrast, in countries such as Japan and Germany and in most of continental Europe, major banks and insurance companies act as external shareholders by holding major shares in firms, exercising governance and control over internal management through a more informal relationship-based exchange.

As discussed by Simon (1991), the shareholder-based system of free-market exchange assumes that the exchange occurs with very little information on the exchange partner, indicating a “formality” of relations as well as the possibility of legal actions (Roe, 1994; O’Riain, 2000; Andreff, 2002). In reality, exchange needs to take into account such identification and shared values. Thus, stakeholder systems (Albert 1991; Freeman 1984; Donaldson & Preston, 1995) have a far greater overlap in organizations and institutions, particularly in organizations such as banks and governments. Exchange across organizations (banks and governments) is similar to the close exchange of inter departments within an organization reflecting a shareholder-based and market-driven business system (North 1994; Simon, 1991; Olson, 1992; Chui, 2002). The acceptance of this diversity in relations among organizations and institutions (North, 1994; Simon, 1991) and between shareholders and stakeholders has recently been analyzed closely (Foss, 1999; Casson & Lundan, 1999).

**Social Conventions and Customs**

The economic or market factor makes informal institutions such as norms, conventions, customs seem even more inferior. Norms are informal rules that govern collective behavior and are determined collectively and enforced non-legally. Norms may be fuzzy, historical, and difficult to enforce; they may also be ineffective in a rapidly changing environment, particularly when the change is based on technology development. By contrast, the importance of converging on a particular norm, which would allow for the effective coordination and exchange, originates from Schelling’s (1960) idea of “focal points.” Schelling defined focal points as the areas of salience that different actors can converge and agree upon to make mutually beneficial decisions (Young 1996; Sugden, 1989; Kolm, 1984; Langlois, 1992).

In terms of developing countries, which have been undergoing rapid economic change, Ostrom (1990) demonstrated that the continuation of informal institutions such as norms and conventions are crucial to the foundations of social capital and other coordination mechanisms. Olson (1992) made similar points regarding the transition in Eastern European countries. He stated that the transitional status of the economies in question made difficult the determination of which new formal institutions such as laws and which existing informal institutions such as norms can be effectively combined for national economic and business success.

More recently, Ellickson (1991) demonstrated that effective cooperation was achieved between farmers and ranchers in the U.S. through normative contracts, not through legal contracts and enforcement. To address these imperfections, better alternatives to legal enforcement have been identified.
One is the social alternative, which uses behavioral norms backed by social sanctions as an enforcing mechanism (Hayek, 1945). This alternative even provides socially backed insurance if the effort fails. This limits the opportunistic defection on agreements and contracts. In closed societies such as primitive villages, there can be severe punishment and sanctions for not following social norms or not following through on commitments made to others. In extreme cases, the village may accept the liabilities of an outlier to preserve its standing with the external world.

Conventions develop in socio-economic systems. These are social interpretations, norms, rules, and legitimation processes that constrain action and create typical behavior patterns. In fact, “it would scarcely be an exaggeration to say that almost all economic and social institutions are governed to some extent by convention” (Young, 1998, p.105). In this context, conventions do not work as teleological mechanisms but as co-evolving mechanisms that create order out of the uncertainty and randomness of socio-economic system behavior. How do conventions arise? A typical setting in which conventions become crucial is a situation in which two cars approach each other from opposite directions in a two-way road and there is no law specifying which side each should take. In game theory terminology, this is a game with more than one Nash equilibrium, and there is nothing intrinsic to the game itself that would allow rational actors to deduce what side they should take (Schelling, 1960; Sugden, 1989). This is where conventions come into play. A convention is defined as an established pattern of behavior “that is … expected and self-enforcing,” or using systems terminology, a convention is “an equilibrium that everyone expects in interactions that have more than one equilibrium” (Young, 1996, p.105).

Following Young (1996), conventions are distinguished between ”formal“ and ”informal.” Formal conventions are defined as being designed and dictated from the top. Expanding on Young’s argument, we suppose that there are two ways in which formal conventions become internalized by the public pressure: sheer enforcement and positive predisposition. People follow formal conventions because of the enormous power that the notion of authority has over the human mind (Simon, 1991). Sheer authoritative power can internalize convention, as demonstrated by the case of the French Academy of Arts in Renaissance: As soon as a painter was accepted into the ranks of the Academy and the painter’s work was accepted at the co-called Salons exhibitions, the artist was immediately recognized as excellent, and only then the painter could have a successful career and reap rewards in terms of resources. In this case, there was no need for the people involved to have certain shared values or experience; they only needed to accept the central authority imposing the convention and the social practices that followed from the central authority’s decisions.

As discussed above, the identification of certain socio-economic system outcomes can be deterministic (formal conventions through sheer enforcement), semi-emergent (formal conventions through positive predisposition), or purely emergent (informal conventions). However, in the age of the Internet, informal conventions are increasingly dominating formal ones because of the increasingly pluralistic nature of society. For instance, in the 19th century, the Impressionists managed to substitute the institutional role (the central authority creating conventions by decree) that the Academy used to enjoy in French arts with a more pluralist institutional environment made up of a network of art critics, museums, and dealers. This example demonstrates that with time, societies move to more pluralistic states.
NGOs & Sub-Group Networks: Institutional Linkages

The earlier sections analyzed the role of institutional knowledge exchange and property rights in using knowledge as a resource. Societies with strong collective ideologies and cultures tend to place greater emphasis on informal rules and norms than on formal, or explicit rules (Ostrom, 2000; Sugden, 1982; Schelling, 1960; Olson, 1965, 1982; Westney, 1999). However, a number of previous studies of collective ownership and interests have demonstrated that groups or communities driven by social bonds and reciprocity based exchange can be limited in size (Ostrom, 1990, 2000; Hardin, 1982; Olson, 1965). Thus, an economy, to use knowledge as a resource, may need to have an overall central combination of formal and informal rules and have individual groups in its society that have their own unique norms. Thus, subnetworks of limited size within the economy should allow for the existence of social bonds and reciprocal exchange mechanisms. Actors in such subgroups or subnetworks are linked indirectly to all other actors in the network system. This in turn develops a collective value system and social bonding toward the total network system (Levi-Strauss, 1969), not just toward the subnetworks. NGOs provide the grassroots and institutional linkages through subnetwork linkages.

**PROPOSITION 1:** The success of subgroups or subnetworks creating and exchanging knowledge requires social bonding and collective action at grassroots levels. NGOs provide such institutional linkages in today’s global business environment.

International business today is increasingly about collective ownership among MNCs, states, and NGOs (Prakash, 2002; O’Riain, 2000). Such global collective ownership requires the cooperation between actors in either formal or informal settings in which the actions of the actors are interdependent (Ostrom, 2000; Olson, 1965; Hardin, 1982). Any type of global strategic network, if it is to remain successful over time, faces the complex issues of collective ownership and social bonding (Ostrom, 1990). This is particularly the case when the members of the network have heterogeneous backgrounds and value systems. In today’s global business environment, successful strategic networks require actors from different countries, regions, and professional backgrounds and incorporate such heterogeneity or diversity into the network. The traditional definition of markets in neo-classical economics assumes that an individual actor’s rationality can lead to a collective rational outcome through the forces of the famous “invisible hand.” However, research in other social sciences such as law, economics, social anthropology, and political science has demonstrated that such collective outcomes of groups or strategic networks are not assured. This is particularly the case when the size of any group, network, or community is large (Ostrom, 1990, 2000; Olson, 1965; Hardin, 1982). Thus, a successful strategic network may literally be a holding company for subnetworks that in turn have their own social bonding, reciprocity, and norms.

For a global strategic network to be successful, it requires collective interest and sharing among the network members, and at the same time, it requires mechanisms to “exclude” non-members from the benefits and knowledge of the strategic network (Hardin, 1982). This is similar to the concept of club goods in law and economics, in which members of a strategic network pay a type of club fee for membership and collectively share the benefits while excluding non-members from free riding (Olson, 1965; Ostrom, 1990, 2000) on the resources and assets of the strategic network. This difficulty can be reduced if the actors in the strategic network are from diverse, heterogeneous backgrounds and value
systems. The definition of strategic networks developed in the present paper requires the existence of subnetworks with their own norms and aspects of social bonding. Figure 1 shows the crucial linkage NGOs provide between institutions and the global business environment.

![Diagram of subnetworks and social bonds](image)

**Figure 1. NGOs and Grassroots Subnetworks - Institutional linkages**

**NGOs and the Dual Voice” Market and Institutional Value**

Researchers in international relations and international political economy, such as Keohane (1988) and Putnam (1988), have analyzed the importance of two-level games in terms of following a dual and integrated approach on domestic and international interactions, institutions, and values in international negotiations and cooperation. Putnam’s (1988) and Keohane’s (1988) studies show that negotiations are neither purely domestic nor purely international and need to take into account dual causes and constraints such as domestic welfare concerns and international economic laws. Similarly, we propose that NGOs have such a dual voice in today’s international business environment.

As defined by Burt (1992), actors in the market and within social structures are the product of two networks:

“...the foundation is a network of constraint generating relationships - some mixture of kinship, authority, and intimacy relations. Built on top of the foundation is a network of real and imagined embedding relationships.”

[Burt 1992, pp. 268]
At one level, NGOs have market value in terms of their knowledge of economic and business issues as well as their collaboration with MNCs. NGOs also have value at others level, that is, at the social, political, and institutional levels, particularly in terms of their relationships with grassroots movements as well as with states in their public sector collaborations. Such institutional value can include social capital, knowledge of local grassroots customs, and local knowledge networks, which are difficult to obtain by MNCs or states. In this sense, analogous to international negotiation and cooperation that occurs in two-level games (Putnam, 1988; Walton & McKersie, 1965; Rosenau, 1969), NGOs have both types of voices (Hirschman, 1970): a voice at an economic level and a voice at a more social or institutional level (Figure 2).

Figure 2. NGOs and Dual Voice - Market and Institutional Value

Conclusions and Further Research

Research in social sciences on the economic growth in developing economies has reached a consensus on the crucial role played by “institutions” (North, 1990; Olson, 1982; Ostrom, 1990) in economic growth. In terms of newly emerging topics in international business requiring such interdisciplinary analysis, Buckley (2002) demonstrated the importance of analyzing new actors such as NGOs in the international business environment. In their recent book, Toyné and Nigh (1998) called on international business researchers to look more directly at the behavioral and social sciences such as psychology and sociology and less at mainstream Anglo Saxon economies, which tend to separate business processes from society (Toyné & Nigh, 1997, 1998; O’Riain, 2000). NGO is a good example of a growing institution that combines business, organization, and society.

The transplanting of foreign institutions or the adjustment of local institutions requires the involvement of local knowledge and local participation. We believe that Non-Governmental Organizations (NGOs) can play this bridging role between the transfer of foreign institutions and their integration with local institutions.
The present paper introduces the emerging role of NGOs as major actors (along with MNCs and states) in the global business environment and provides a conceptual framework for showing the dual roles -- or a dual global voice (Hirschman, 1970) -- of NGOs. NGOs have a dual identity in today’s global business environment: a role in the private sector and markets, and the other role in the public sector and institutions.

Two areas warrant further research. First, in-depth case studies of NGOs and their growing relationship with MNCs and economies across different regions are warranted. Second, the role of NGOs in mature, developed economies should be compared with that in emerging economies or economies in transition.

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TAKING YOUR CODE TO CHINA

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Abstract: The proliferation of codes of conduct and ethical standards among American and European companies has been dramatic over the past twenty years. It is rare today to find a large publicly held company in the West that does not have some type of code and is not involved in the growing dialogue over global standards of conduct. But one of the most difficult challenges facing these companies is how to apply these codes and ethical standards to the companies’ operations in developing countries, particularly in Africa, the Middle East and Asia. Perhaps the most urgent challenge is for each company to decide how to adapt and apply its code in China. Companies such as Rio Tinto, Google, and Honda are recent case studies in ethical conflicts arising from doing business in China. With pressures for human rights, environmental sensitivity, and the fight against corruption rising in their domestic homes and in global commerce, nothing is more critical to these companies’ reputations and success than learning how “to take their codes to China.” This article presents the learning of the two authors and the companies they have consulted and worked with over the last ten years in China. Our experience is that Western companies have generally progressed little in applying their codes to their operations in China. This article summarizes why it is so difficult to do so, and what the most successful companies are doing to make it work.

Keywords: ethical codes, ethical conflicts, adaptation, China

Introduction

The proliferation of codes of conduct and ethical standards among American and European companies has been dramatic over the past twenty years. It is rare today to find a large publicly held company in the West that does not have some type of ethics code and is not involved in the growing dialogue over global standards of conduct. But one of the most difficult challenges facing these companies is how to apply these codes and these ethical standards to the companies’ operations in developing countries, particularly in Africa, the Middle East and Asia. Among these cases, perhaps the most urgent challenge is for each company to decide how to adapt and apply its code to operations in China. Companies such as Rio Tinto, Google, and Foxconn are recent case studies in ethical conflicts arising from doing business in China. With pressures for human rights, environmental sensitivity, and fighting corruption rising in their domestic homelands and in global commerce, nothing is more critical to these companies’ reputation and success than learning how to “take their code to China.”
This article presents the learning of the two authors and companies they have consulted and worked with over the last ten years in China. Our experience is that Western companies have generally progressed very slowly in applying their codes to their operations in China. This article summarizes why it is so difficult to do so, and what the most successful companies are doing to make it work.

**Pressures for a Global Standard of Company Behavior**

The fundamental problem any company faces in creating a global commitment to ethical behavior in its own organization is that cultural, competitive, economic and political conditions vary significantly from country to country. It is often said that ethical values themselves differ significantly between countries. From our experience, however, we believe values do not differ as much as common practice – or how companies typically behave. Actual behavior, of course, depends on historical patterns, government regulation and enforcement, social pressures and acceptance, and the moral resolve of the actors.

Western companies really have little choice whether to “take their code to China” and to the other countries they operate in. They are facing four key developments which make “taking their codes” to wherever they operate more important and often more difficult. The first is that global companies are under increasingly insistent demands, both legal and from key constituencies in their home countries to adopt and implement standards of behavior abroad that match those at home. The United States’ Foreign Corrupt Practices Act (FCPA), which was passed in 1977, makes some forms of corruption abroad crimes in the USA; in 1999 almost all OECD countries signed similar laws.

Because home country constituencies will not tolerate different (i.e. lower) ethical standards abroad, most large Western companies adopt and implement “global codes of conduct” which are expected to guide company behavior to be the same across all countries in which the firm operates. Many companies have commented that, from a purely practical point of view, adherence to a single global standard of behavior reduces the incidence of rogue local behavior, and rationalizations that the firm’s conduct must be “adapted” to local conditions.

The second development is a growing global movement, reflected in an increasing number of developing countries, to deal seriously with bribery and corruption. Thirty-eight countries have now signed up to the OECD’s 1997 anti-corruption convention, leading to a spatter of cross-border prosecutions. Local constituencies in host countries then pressure companies from developed Western countries to join the reform coalitions to counter corruption. Local affiliates of Transparency International are most significant in this development.
The third development is a growing global dialogue on “global standards” for business behavior. The United Nations Global Compact is an initiative launched in 1999 at the World Economic Forum in Davos by former Secretary General Kofi Anan but enthusiastically continued under his successor Ban Kee Moon. Companies and NGOs in over 80 countries have pledged to follow the ten principles of the Global Compact in the crucial areas of human rights, labor conditions, environmental protection and anti-corruption. Similar efforts are being pursued in specific industries and in specific dimensions of corporate behavior such as employment policies and environmental behavior. Efforts such as these to promote a global standard of behavior are making it more difficult to operate under different practices in different countries. Such pressure requires companies to commit publicly to various global standards, which are then reinforced in their own company codes.

Finally, the explosive growth of the global media in all its forms has led to an increasing scrutiny of corporate behavior, even in the most distant and remote areas of the developing world. It has become difficult for a company to behave differently abroad without it coming to the attention of its home and host country constituencies. Corporate sweatshops, or environmental practices, can be documented by amateur reporters with cellphone cameras, even in the most restricted societies. Such disclosure dramatically increases pressures on Western companies to behave by a single global standard.

The Realities of Operating in Developing Countries

In each country where a company operates, it must confront a set of unique realities in applying its code of corporate behavior. Among the most important are the following:

Cultural expectations and standards – Each country has a set of cultural standards, or more informal expectations, that may conflict with the ethical standards the company operates by elsewhere. While some cultural expectations are benign – modes of greeting and signs of respect – others can be more problematic. In some societies, vendors are often selected primarily because they are a “related company” or are operated by a local employee’s family or by a relative of a government official. In other societies, it is expected that potential business partners will develop a deep and reciprocal relationship before a contract is signed. In discussing China, the cultural tradition of gift giving to support such relationships can be a particularly problematic issue to manage.

Social and business community pressure to conform – Foreign companies operating in any society can be very disruptive, whether it is their pay scales or their insistence on arms-length contracting practices. When the foreign company operates by standards that challenge or constitute implied criticisms of local practices, there will be significant pressure on the foreign firm to conform to local practices, lest their presence create greater costs for indigenous firms, or create dissatisfaction in the local firm’s workforce. The Western firm may find itself frozen out of business opportunities or subjected to selective regulatory enforcement if it is considered to be “disruptive.”

Local management’s comfort and loyalty to local standards – Foreign companies seek to hire local managers as quickly as possible and for as many positions as possible. Often local managers, particularly more senior managers already experienced in local companies, have adopted the local values and ways of doing things. Changing these managers’ ways of operating can be particularly difficult.
Priorities of economic and political development – The national and local governments of host countries have many priorities and needs, and often choose to focus on issues unimportant to foreign firms while ignoring issues central to these newcomers. Chinese government decisions about how to deal with copyright violations, liberty issues such as access to the internet, and expressions of dissent may create significant difficulties for Western firms.

Western companies as targets of opportunity. Finally, any firm entering a developing country is a target for opportunistic individuals who seek to take advantage of the firm, particularly the substantial investment capital it plans to commit. They may negotiate deals overly favorable to the local partner, and may enmesh the firm in ethically questionable activities before it knows the local situation well enough to avoid such entanglements. Any firm must exercise particular caution until it develops an understanding of the local culture and acquires trusted business partners.

Special Reasons Why Operating in China is Harder

China, as the “Middle Kingdom,” is acutely proud of its long and complex history and culture. There is a widespread conviction that everything which comes from outside China needs a profound process of adaptation and inculturation in order to become accepted and relevant in the Chinese context. Companies seeking to implement “global standards” are sometimes met with distrust and disdain.

A second consideration is that there is a respect for local hierarchies that appears to be all-pervasive in Chinese society. There is a perceived need to give face to influential officials and individuals, which reflects the history of Chinese dynasties and has become distinctly different than the democratic traditions of other countries. A number of behavior patterns reflect this Imperial style. There are rituals and cultural patterns designed primarily to maintain social stability through these hierarchical relationships. On the level of companies and institutions this means that company leaders tend to be given the status of benevolent dictators who are accountable to no one. The way up to the top positions in many organizations may be paved more by one’s ability to flatter a senior person at the right moment than by one’s competency.

A third consideration, drawn from the long and revered Confucian tradition is the focus of the morally refined person, a “qunzi”, who is expected to inspire much more moral behavior than the mere observance of the law. It is felt that the law cannot quite be trusted to ensure that the rights of every individual to be safeguarded. In its place, family bonds remain the strongest social reference, as also reflected strongly in the Confucian tradition. Thus, doing business with family members is often preferred to conducting arms-length transactions.

Finally, it is also true that the recent history of foreign aggression toward China, such as during the Opium wars or the Japanese invasion and massacres in the 1930s and 1940s, are featured frequently in the media and emerge frequently in the memory of the Chinese. These concerns erupt periodically, and affect attitudes toward all Western companies, not just those from the United Kingdom or Japan. There is a particular sensitivity to the perceived aggression of US support for Taiwan, for example. Eruptions of such feelings can delay or derail deal making and normal operations at unexpected moments.
The Chinese Context in 2010

After the end of the so-called “Cultural Revolution” from 1966 until 1976 and the turmoil of the “Gang of Four”, China has witnessed the strongest economic growth in history due to the policies the paramount leader Deng Xiaoping introduced in 1978. Special economic zones have been opened in Shenzhen and other cities in China and foreign companies from the United States and Europe now have substantial investments, as well as substantial manufacturing and outsourcing operations to China.

Not surprisingly, the prospect of getting their teeth into a new huge market created the illusion for many foreign firms that enormous and immediate profits would be theirs for the taking. This has been almost always proven to be an illusion from the very beginning. It has been an extremely difficult challenge to be able to compete in China where the web of relationships – “guanxi” in Chinese – especially with government officials – seems to be crucial for one’s success. It took the Swiss Multinational firm Nestle, which settled into Mainland China in 1983, twenty years in order to reach profitability. Many joint ventures – such as Pepsi Cola with its partner in Sichuan, Danone with Wahaha – were arranged in haste and have experienced a long and dreadful divorce and seemingly endless litigation. The Chinese companies involved, mostly state owned enterprises, seemed able to appeal to some government body or appeal publicly to nationalistic pride and xenophobic resentment in order to justify an opportunistic escape from their foreign partnership obligations. Despite a still wide spread “Gold Rush Mentality” to make the big deal quickly, a large majority of foreign business ventures have ended in failure or only limited success.

A major element of discomfort of Western companies in 2010 stems from the ambiguous role of the Chinese government dealing with the phenomenon of wide spread corruption which seems to be deeply engrained in the society. On one side, there have been serious attempts from the Central Government since the 1990s to curb corruption with various anti-corruption campaigns. This has been more than lip service. Several actions have shown how steps have been taken. After the appointment of Zhu Rongji as Prime Minister in 1998 a whole empire of corruption, smuggling and prostitution collapsed in the Eastern province of Fujian as bold action were taken. The year 2006 sticks out as a year when a number of prominent multinationals such as Whirlpool, McKinsey, and ABB were punished by the Chinese government due to their kickback payments to the local government in Shanghai. In the same year the mayor, Mr. Cheng Liangyu, was sacked. During the last National Parliament Congress, blunt statements denouncing wide spread corruption stunned the public.

However, the same government – especially on lower levels – seems to represent a culture of deeply engrained patterns of soliciting favors and the rampant abuse of power. According to a survey among prominent business schools in China, including Hong Kong and Macau, a record number of 49% of the respondents thought that interacting with lower level government officials would most likely bring them into conflict with their personal value system.

There is a noticeable rise of public concern in China regarding business and government misbehavior. A number of recent incidents have had a significant impact on the Chinese public. When news broke out in 2007 that more than a thousand people, including children and disabled people, were being abused in kiln mines in the Shanxi province, it became surprising news coverage and a national tragedy. The link between the most brutal abuse of human beings and corrupt officials (and also local media) who have been paid to keep their mouth shut became obvious to everyone. An indigenous consumer movement,
already strong in Hong Kong and Macau, has grown stronger in the wake of the lead paint scandals in the
toy industry, the tainted milk scandals in Anhui Province (2001) and Hebei Province (2008), and the gas
explosion in Northern China on the Songhua River in November 2005. This explosion stands out as the
most devastating ecological disaster in recent history. The clean up will take at least ten more years under
the best circumstances.

It is said the Chinese citizen is also awakening to personal responsibility. The earthquake, which
occurred in Wenchuan in the Sichuan province on May 12, 2009, provoked such a surprising outpouring
of help and mutual assistance that even critical newspapers were hailing the birth of a civil society in
China. Public philanthropy and public scrutiny of powerful companies and government officials are both
evidence of a growing civil society.

While stories in the West emphasize limitations on the media in China, and there is the tight control
from government censorship, it also seems that the so called “New Media” – a term for aggressive
investigative journalism – with newspapers like Southern Weekly, Caijing, China Newsweek – has had a
significant impact in featuring stories of the abuse of power by some local officials. This new media has
presented stories about both exemplary and shoddy behavior by Western companies operating in China.

There is even an emerging study of ethics and responsibility for the next generation of Chinese
leaders. The Central Party School has not only been engaged in integrating Business Ethics and Corporate
Social Responsibilities program within their curriculum, but also invited law professors and other experts
from other countries to their school in order to engage in a serious debate about the rule of law and how
civil society may be implemented in China. And according to a survey conducted by Jiaotong University,
Shanghai, 39% of the business schools in China do actually include CSR and business ethics in their
program.

**Background Issues in Implementing a Code in China**

There is much debate in China on several major issues which influence how a code is implemented. The
first is the question whether the values of a company’s Chinese employees are similar to those of their
Western counterparts. Some Party ideologues are strongly arguing that Chinese values are divergent from
the rest of the world. If there were no common ground, it would indeed be hard to implement in China the
same code used in the West. By contrast, when China joined the World Trade Organization (WTO), in
July 2001 it was presumed that the internationally accepted standards of the WTO could be implemented
in China, that there were enough common values.

Another debate has been developed regarding the term of “Dignity,” a term commonly used in recent
Chinese government statements. What in Western terminology might be termed as “human rights”
appears quite similar to the Chinese term of “Dignity” (“zuiyan”). Some suggest this represents a
commitment to common values and may provide a language to address concerns important to Western
companies.

Many Western executives operating in China have come to believe the goal to achieve in
implementing a code must be far more than the formal agreement and legal compliance sought in the
West. We believe implementing global standards in China will only work if they are formally agreed to
AND take into account several aspects of the exceeding complex Chinese organizational culture.
For example, it is a good rule in China to assume that at the beginning of a project or implementation that “Nothing Is Clear.” A common source of irritation is that partnerships and projects are formally agreed to, but too hastily arranged. Western companies assume all important details have been taken care of, when they have not. Often, a kind of very brief honeymoon is celebrated, followed by a long and painful divorce due to neglect of informal relationships and agreements, which must also be developed. Countless case studies document this pattern. In the most notorious cases, such as the breakdown of the joint venture between the French company, Danone, with its Chinese partner Wahaha, the relationship deteriorated so badly that the respective governments felt compelled to step in and impose a truce. It is, therefore, wise to understand that any successful cooperation with Chinese partners, or even one’s own employees, takes much more time. It is frequently a necessary strategy to adopt stronger methods of control if common agreements are to be properly understood and honored. It is unfortunately common that a Western company’s first partnership ends up in failure.

When a misunderstanding arises, one should adopt the Confucian self-critical attitude in figuring out the reasons for such a failure rather than putting the blame on the Chinese side. Most often, it will be the neglect of informal agreements and relationships. Only in a deeper relationship and through much more informal and formal communication can the true meaning of agreements in China be clarified.

Another area of general concern in implementing codes is that Western companies often do not appreciate the strong divide between the city and the countryside in China. Implementing agreements and employee and partner standards can be harder in some rural conditions. Roughly two-thirds of the Chinese still live in the countryside where carefully orchestrated rituals are even more important to the successful implementation of agreements. For example, in some circumstances a host may insist on offering hospitality with excessive drinking. While in the cities the foreign guest may be able to politely refuse at some point to continue with the drinking games, in the countryside it may be considered rude to stop the dynamics of getting drunk together. Clearly, a company must find ways of limiting participation in the most objectionable practices. Besides excessive drinking games, there are some banquets and karaoke sessions where women are hired to act as prostitutes. Such objectionable practices can create significant legal exposure for a company as well.

Codes must be written and implemented with an understanding of extensive new legislation in China addressing labor conditions, corruption, whistle-blowing, sexual harassment, consumer and environmental issues. Despite the difficulties of introducing a global ethics code in China, there are opportunities for Western companies to contribute significantly to the implementation and success of these new laws, all of which will make the companies’ task easier in the future. There is an interest in growing segments of the government and the Chinese business community to see these laws made effective.

Finally, Western companies must keep abreast of developments in a growing commitment to the rule of law. In many ways, Hong Kong represents a model of the implementation of the Rule of Law in the Chinese context. Hong Kong, which reveres to China in 1997, continues its role as a beacon of clean government. Forty years ago rampant cases of corruption were common in Hong Kong. However, due to the establishment of the Independent Commission against Corruption (ICAC), significant headway has been made in diminishing corruption so that now Hong Kong ranks besides Singapore as the cleanest country in Asia. This has encouraged greater transparency concerning corruption in other parts of China.
The conclusion of the recent publication of the Anti-Corruption report of Mr. Xiao Yang (2009) who served as Supreme Judge in the PRC has been very clear. He argued that corruption on Mainland China has strongly increased in the last fifteen years and has involved more and more Ministries. He argued for the implementation of an institution modeled on ICAC designed to investigate and prosecute cases of abuse cases of public.

**Shaping Your Code to Fit China**

The first choice every company faces is whether to operate by global standards or to adjust and adapt to local norms. Our experience suggests there is always some adherence to local norms, though not always by changing the actual words in the code, and hopefully, this adherence is within the framework of global standards a company claims to follow wherever it operates. However, in some settings, more adjustments and more recognition of the ethical traditions of the host country may be necessary. We think this is true of China.

We have observed the most successful Western firms in China following these steps to “take their codes to China”:

**Inculturate Your Code.**

The term “inculturation” represents a compromise between unchanging global standards and complete local accommodation. “Inculturation” in China has a long history. The Roman Catholic Church has sought, since the time of Matteo Ricci, a Jesuit priest who came to China in 1583, of “inculturating” the Christian message to Chinese conditions. For Ricci and even for Catholics today, religious “inculturation” indicates the dynamic process when key values enshrined in the Gospel such as truth, honesty, and charity are not just imposed from outside, but get truly integrated within a given culture. This process makes possible global consistency with local sensitivity. This is most important in countries like China that have a history of foreign domination and a sensitivity to imperialistic behavior.

For the company choosing to operate in China, inculturation means adhering to global principles that have specific local meanings and therefore, local rules. The most obvious example is gift giving. In a gift giving culture like China, a company would find it hard to adhere to an absolute “no gift” policy as some companies adopt elsewhere in the world. An inculturated gift policy would permit gift giving, albeit tightly limited, but also scaled so that larger gifts, again within a firmly established upper limit, would be permitted to higher executives or officials. An inculturated Chinese policy would also even permit small but scaled gifts to government officials, as this is in China a show of respect. A top value of $75 or $100 for the highest corporate or government official visited is viable and allows the Western company to respect and adhere to local cultural gift-giving practice, but not to engage in bribery. The company also must make it absolutely clear that gifts of any greater value are forbidden.

Inculturation would also recognize the cultural tradition of relationship building and the necessary entertainment to that purpose. However, a Western company should very explicitly and clearly communicate the limits on the value and frequency of such entertainment. Inculturation in China should also recognize the particular context of ethics hotlines and of whistle blowing. With particular adjustments, even this Western concept can be made to work in China, as noted below.
Make the Company Code Consistent with Chinese Laws

China is proud of the progress made in recent years in promulgating and adopting regulatory standards and laws that protect the interests of employees, consumers, and shareholders. It is a necessary step in taking one’s code to China to assess the alignment of these local laws (many very recently adopted) and the company’s code of conduct. This process must, of course, be an ongoing one, making future adjustments to the company’s code as new laws are adopted in China.

Align Your Code with Chinese Concepts and Slogans of Key Government Officials

In addition to the laws adopted by the National Congress and Communist Party rules adopted by the every five year Central Party Congress, Chinese party and government leaders introduce key phrases or slogans which are meant to organize and direct the path of Chinese economic and social development.

Under Jiang Zemin the former President of the PRC, there was considerable attention to the “Three Represents,” a doctrine by which the all-powerful Communist Party of China represented the masses of people, the productive forces of society, and the culture. The key message was the preeminence of the Party, but the detailed message gave room to cast corporate codes and decisions as advocating the masses, the development of productive capacity, and even the proper cultural development of China. Under the first 5-year term of Hu Jintao, the current President of China, the concept of “Harmonious Society” was adopted as a preeminent national goal. Later, Hu promoted the concept of “a Scientific Society” wherein, among other things, empirical data and facts should drive decisions more than bias or entrenched interests.

Tying corporate norms and standards of conduct to that objective can strengthen corporate efforts, both because employees understand the alignment of corporate objectives, but also because the company could occasionally secure government help in enforcing its code that it would not otherwise receive.

Incorporate References to Global Standards Embraced by the Chinese

Over the past ten years, the Chinese government has participated in the formulation of, and conferences on, many international codes and standards. The United Nations Global Compact has 195 signatories in China. The WTO code was widely publicized to Chinese industries in 2001 when China officially joined the WTO. References to these documents and standards strengthen acceptance of a company’s global code.

Publish the Code in Bilingual Format

A company code should be published in both English and in Chinese language versions, perhaps side by side. Any Chinese company and every Western company operating in China will have English speakers, and they or other employees will be eager to compare the actual English words with the Chinese characters chosen as direct translations. And of course, any company will have Chinese speakers who do not read English. Translation into Chinese demonstrates a seriousness of purpose and a commitment to enforce the code, which must be addressed in the published document.

Introduce the Code in the Chinese Way

Too often, ethics codes are introduced in the United States and in Western Europe by email or by distribution of a printed booklet, perhaps with a card to return acknowledging receipt of the code. This approach will simply not work in China.
Chinese employees will expect that any code or standard they are actually expected to follow will be introduced with considerable time available for discussion, objection and clarification, and in a workshop conducted in their own dialect. At minimum, they will expect to be able to argue about adaptations to the Chinese context, and the particular Chinese characters used to translate the English or European language concepts. Rather than interpret this as dissent and obfuscation, those introducing the code should consider it a productive opportunity to explain the code and get good feedback on the application of the code to the Chinese context.

Other aspects of the introduction should proceed much as they do in the West. The code must be introduced by line officers of the company with a seriousness that convinces employees that these are actually to be the desired standards. Training must address the most common dilemmas employees will face to give clear and understandable signals about the type of behavior expected. Specific examples are more important in the Chinese context because employees will have generally experienced the rollout of multiple initiatives that have had little impact and less staying power.

Education regarding the code must be given to all new hires. Education in the code must be tailored to the several hierarchical levels within the firm, including senior executives, middle managers, and hourly employees.

**Do Whistle-blowing the Chinese Way**

Without giving up the principle of reporting violations, a Chinese hotline can be positioned and promoted as a “Help line” designed to advise employees on how a particular action should be taken. This approach has been used by many companies in the West. Further, because of the sensitivity to reporting on a senior, there must be greater opportunity for an employee to have his or her complaint treated as genuinely confidential and anonymous. There is a greater sensitivity to cases where the complaint, by its very nature, might be traced back to an individual employee. A Chinese help line will require more promotion and explanation, and may be more effective if it is structured to have complaints dealt with by the highest authority in a company – for example, by the board of directors. Because of deference to hierarchy, only the board can effectively address wrongdoing by senior level officials.

**Extending the Code to Business Partners**

There is a growing understanding among Chinese businesses that American and European companies must extend their standards and codes to their business partners, and have a right to expect their partners to adhere to the same standards. In the past, too many Western companies have thrown up their hands and despaired of actually influencing the behavior of business partners, accepting signed assurances of compliance but not really expecting adherence. Today, more Western companies are vetting their partners for their capacity and willingness to conform to codes, and then are monitoring and assessing compliance over time.

The first step in the process must be the selection of partners who have the basic capacity to be in alignment with the values and code of the Western firm. This requires due diligence, either by the company’s own managers, or by a firm hired explicitly to evaluate potential partners. Such due diligence is usually hard to accomplish, and virtually every firm reports one or more disasters trying to integrate business partners into the business’s activities. Nonetheless, Chinese firms, particularly those with experience operating in an international business environment, and firms with experience in previous
partnerships with Western companies, can be effective and ethical local partners. In China, there has developed a language often used to describe projects and companies capable of operating by such standards. This is known as operating by “international standards” as opposed to Chinese or local standards. Projects are said to be built to or operating by international standards. Chinese businesses are said to be “international standards companies.” Such firms are more likely to be effective partners.

**Preparing Local Leadership to Enforce Your Code in China**

As in virtually all settings where a company seeks to infuse a code and its standards into actual behavior, local leadership will exercise the strongest influence in China. Chinese executives and managers will be anxious to adopt the latest developments in leadership. It is important to position the code as a key part of cutting edge and modern management.

An extended dialogue with the chief local official regarding the code before it is introduced is essential. Only a local executive can identify the unavoidable points of stress in the implementation of a code. A local executive will expect to be consulted on the “inculturation” process, and may be the best source of ideas for doing this successfully without abandoning the firm’s global standards. And only a local executive can highlight where enforcement must be emphasized.

Much has been made regarding the wisdom of having a Chinese national or a foreign passport holder as a Western company’s top officer in China. Both have risks for the implementation of a corporate code of conduct. The foreign executive enforcing the code may make the code seem more foreign and less practical in the local context. On the other hand, some Chinese executives may not believe in the code as fully, or may go through the motions without truly requiring adherence within the organization. A Chinese executive who genuinely believes in the code may be more effective in getting compliance from the organization, or recognizing lip service when it is being given.

Company leaders, both at the Western headquarters and in China, need to create a system of accountability – of monitoring and auditing compliance with the code. This is even more important in China than it is in the West. There are so many initiatives and slogans thrown at Chinese managers, that they are looking for signals that this one is not merely lip service. Too often they conclude that ethics codes are not serious because they are introduced in ineffective ways and without the accountability and follow-up.

It is absolutely essential to the success of any code that the offending employee or manager must be subject to firing, and that occasionally an employee does get fired for violating the code. Even more so than in the West, it is critical all understand that the behavior of senior managers and executives be subject to the code, and risk dismissal if they violate the code. There is a predisposition to believe the code is both lip service and/or applied selectively on lower level employees, and not to those higher in the hierarchy.

In summary, we believe Western companies following the preceding principles can and are making genuine progress “taking their codes to China” and establishing a truly global standard of behavior in their firms.
Notes
1. Obviously, such games may seriously harm the health of those who are unable to put a timely end to this ritual. Recently there have again been reports of death of government officials due to excessive drinking.

References
UNIVERSAL VALUES AND CHINESE TRADITIONAL ETHICS

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Abstract: There has been debate in China whether China should accept Western values such as democracy, liberty, human rights, and equality. Critics of universal values argue that there are no such things as universal values and “absolutely applicable” ethics, but this essay argues that universal values belong to the whole mankind, and democracy includes universal values in its basic political theory. The two basic principles of universal values proposed by the Declaration towards a Global Ethics of Humanity and Reciprocity are the starting point of a just society and fair business in economic fields. In China’s traditional culture, some ideas proposed by Confucius, Mencius, MoTzu and other philosophers convey the humanity-oriented thought of the Chinese traditional ethics, such as “universal love” and “benevolence”, which will contribute to the common spiritual wealth of the whole mankind based on universal values in the context of market competition.

Keywords: universal values, democracy, China’s traditional culture

Introduction
Convened in Chicago in 1993, the Second Parliament of the World’s Religions was attended by 6,500 delegates from all around the world that approved a Declaration towards a Global Ethics drafted by Hans Küng. Two fundamental principles are determined by the Declaration: Everyone should be treated humanely and “Do not do to others as you would not have them do to you”. Based on these two principles, four irrevocable directives were determined, too, in the Declaration: 1) commitment to a culture of non-violence and respect for life; 2) commitment to a culture of solidarity and a just economic order; 3) commitment to a culture of tolerance and a life of truthfulness; 4) commitment to a culture of equal rights and partnership between men and women. In 1999, the UNESCO issued a draft of “Common Framework of the 21st Century Ethics” for discussion, which concerned such issues as the relationship between human beings and nature, the complete fulfillment of a person, individuals and community, peace and justice. A number of other organizations and individuals dedicated to world’s sustainable growth and peace and justice of human beings have also made their unremitting efforts to seek universal values and global ethics.

Universal Values and Democracy
With the rapid development of modern technology and economy, along with a fast growth in international trade and cross-culture communications, globalization has become an irreversible trend. Globalization brings benefits to people of all countries, but it also brings confrontations and conflicts. How to avoid confrontations and conflicts, or at least to minimize them, is a serious issue facing every Chinese that longs for the peaceful rise of the country. Efforts made in documents such as the “Declaration Towards a
Global Ethics and Common Framework of the 21st Century Ethics” show that people are evidently seeking the recognition of universally common values, so as to find a platform for dialogue and to share global ethics and universal values in order to form a solid foundation for lasting peace and sustainable development of the world.

It is quite significant that a number of articles criticizing universal values appeared in some newspapers and magazines in China in 2008, saying that advocating universal values is equal to imposing the Western values on China. In those articles, the so-called “universal values” referred rather to the author’s narrow understandings of the so-called universal values than to a thorough understanding of the complete concept of that term. What is under massive attack in those articles is the Western democratic system, which is considered to be a Western value being imposed on the Chinese in the name of universal value.

The word “democracy” originated from the West, but this does not mean that the Western democratic system would be the only true embodiment of the concept of democracy, and that it would embody a perfect system without the need for constant improvements. Moreover, it is not right to use the term “Western” here because it is too general in meaning. The West includes many countries and regions where a diversity of cultures exists, including a most unbalanced development of civilization. We cannot deny all Western democratic systems and further deny the whole idea of democracy just because, for example, the American one is not so perfect. Just as John Dewey says, “It is also true, as well as even more important (because it is a factor in causing this rigidity) that our institutions, democratic in form, tend to favor in substance a privileged plutocracy. Nevertheless, it is sheer defeatism to assume in advance of actual trial that democratic political institutions are incapable either of further development or of constructive social application.”

There are comparatively better democratic systems other than the United States, established on the idea of democracy, like that in Sweden. Democracy by definition is not divided into an Eastern one and a Western one; it could be rather defined as a practice or a principle of social equality, and “a system of government by the whole population or all the eligible members of a state, typically through elected representatives” when it is referred to as a political system. Of course, though “the whole population” is mentioned here, it can only be represented by those people elected as representatives with a principle of “the minority subordinating to the majority”, according to which the minority have to accept the majority’s choice, but they still have the right to express their dissent and opinions. It is the majority’s duty to listen to these dissent and opinions. In fact, the principle of “the minority subordinating to the majority” is not enough to realize true social equality. The equality of democratic politics, however, is achieved through equality of rights and equality of opportunities, so that everyone has the right to elect, as well as to be elected and has the opportunity to be among the majority to elect the administrators that he prefers, or he could also be among the minority and has to accept the majority’s choice, but still maintains the right to speak. Whether he belongs to the majority or the minority, he maintains the right to watch over or even impeach the administrators, from which we can see that what the idea of democracy emphasizes is the equal rights and equal opportunities that everyone enjoys, and it is based on what Hans Küng has summarized: humanity and the principle of reciprocity. That is, “Everyone should be treated humanely,” and “What you do not wish done to yourself, do not do to others.”
Hans Küng holds that these two principles are common among Christianity, Buddhism, Judaism, Islam and Confucianism. Representatives of different religions all over the world signed the declaration. Maybe the fact that the renowned theologian Hans Küng himself drafted the declaration for the parliament of the world’s religions might cause some suspicion and challenge among the non-religious people who may disagree with him out of their instinct to suspect the religious values. After a careful reflection, however, both religious people and non-religious people would find the two principles acceptable, and modern people holding different political views may also find them acceptable. Basically, Marxists should have no difficulty in accepting them neither given the fact that the starting point of Marxism is the focus on the emancipation of the whole mankind. Of course, no principle could be identified with everyone, but if we look in our hearts we would admit that no one would like to be treated inhumanely. If this is the case, then we should have no doubt to treat others humanely, because others are human beings as we are. This idea is a common ideal and pursuit shared by people of different times, cultures and nationalities.

The disadvantaged need this universal value even more urgently since they are more likely to be subjected to inhumane treatment. Especially in some countries, political power is highly concentrated in the hand of one party or a ruling group, hence, also their power over discourse. In such countries, the advantaged groups are protected by political power and power of discourse, yet they are also afraid of being treated inhumanely once they lose their political power and power of discourse. They would do anything to defend and even impose inhumane treatment on others to maintain, terrorize people’s mind so that they do not dare to resist. But those advantaged people are all the same afraid of being treated the same way some day, too. This is the way in which the totalitarians tend to think. They treat people inhumanely by abusing their power. Nevertheless, even those totalitarians committing anti-human crimes would try their best to cover the truth, basically because they are worried that revealed truth may arouse people’s anger, so that they may lose the masses’ support, which is gained through cheating.

With the end of the Cold War, the awareness of human rights is further aroused, and totalitarianism, as a political form, is increasingly under massive attack and is cast aside by people, and is retreating rapidly from the scene of history, which in turn provides a favorable environment for the proposition of universal values. The proposition of universal values can at least help to constrain the abuse of power and supervise the inhumane treatment covered by power of discourse. The significance of universal values is more evident in promoting justice for the disadvantaged in the society as well as for the minor nationalities and the third world countries in international relations.

A critic of universal values cites Engels’ Anti-Dühring as a powerful weapon. Indeed, Engels’ idea that ethics has no “absolute application” is an insightful statement. The above-mentioned critic of universal values argues that, according to Engels, ethics carries the imprint of the class, so there is no such thing as a set of “absolutely applicable” ethics that transcends classes. However, Engels’ expression of “absolute applicability” is very clear here, doubtlessly suggesting that there is, of course, “relatively applicable” ethics. This critic has to admit that Engels has also made analyses on some common features in ethics of different classes, and common ethic commandments in different social forms, and that due to “common historical background” the ethics of different classes share something in common. This is enough, at least, for acknowledging that some principles could gain universal consent. The two fundamental principles proposed by Hans Küng in the “Declaration toward a Global Ethic” are two of
these common things. The reason why the two principles are proposed is that there is no “absolutely applicable” ethics, so we need to find universal values that are generally accepted by human beings and establish a platform for global dialogue in peace on the basis of ethics’ “relative applicability” and to seek common ground while reserving differences.

However, according to this critic, universal values and universal ethics are only possible when the Communist society is realized. Obviously, he has identified the few principles and ethics that are generally accepted with a certain specific value system. This confusion has also made relativity absolute. Through denying universal values, it denies the possibility of seeking common ground, while reserving differences in ethics in the context of globalization, and therefore, it denies the possibility of establishing a dialog platform in ethics. This is a dangerous and harmful tendency. In today’s world of globalization, if the dialog between different countries, different groups, and different individuals is only concerned with interests, then the trend of globalization would be negative to the development of developing countries like China, as well as to the disadvantaged groups and individuals. The peaceful rise of China requires a basis of universal values to be realized in the world which steps from conflicts to dialogs.

Of course, to achieve a reasonably just, modern society, it’s not enough only to have democracy in mind and practice. If we only had democracy, on the one hand, while monopoly, unfair competition, opaqueness of management, inequality of employment and pay between men and women, etc, and discrimination on the basis of race, sex, age, national origin, religion and physical state, and threats to the safety of workplace, products, environments, etc, and corruption, cheating and fraud, etc, are without control. On the other hand, our great ideals and practices of democracy, equality, freedom and universal love will become only a lip service. There will be more unemployment in developed countries, because more enterprises will be moving to the developing countries where the labor force is much cheaper. Monopoly and unfair competition may further increase instead of being reduced. Monopoly and unfair competition may continue to be used by a certain group of entrepreneurs in order to maximize their profits, while others lose their equal opportunities and equal rights to compete with them.

The alternative would be to consider creating conditions with the help of universal values as a basis for a healthy competition. In our terminology, equality is not an equality of wealth among all people, or that of an equal position among all people. This is just impossible, and numerous historical facts have proved it as an unrealistic way. By equality we mean the equality of opportunity and rights based on humanity and the principle of reciprocity. Then, how can we realize such equality? We should have universal values in mind, trying our best to treat every single person equally and require the same done to us by others. So, in the public sector and in the management of a company that has to do with the public, not only within, but also without the company, transparency is definitely necessary so that the administration and management can be watched over by as many people as possible. Then, if everyone has been given equal opportunities and rights or not will be more easily discovered, and further recognized and confirmed through dialogs and exchange of opinions. As long as our equal rights for the transparency of administration and management are realized, and we are granted the equal rights of discourse, the dark things such as monopoly, corruption, unfair competition, and all kinds of discriminations, inequality, and threats to the safety will be brought to the light.
Based on universal values, international business ethics is based on the principles of morality designed to brighten up these dark spots in the modern society, especially in the economic field, which plays such an important role in the modern society. It can help us on the way to a win-win situation based on the universal values through the hardships and difficulties. In general, development typically provoked in modern society by commercial wars and materialistic pursuits, the winner of which almost always benefits from unequal opportunities and rights for different people. Therefore, international business ethics helps to establish a new conception of business and humanity in the fields of business, based on universal values, which is emphasized especially in the fields of business where market is still considered “an invisible hand” and is sensitive for the government’s interference, and where democracy can only rely on the generally-accepted universal values to carry out its principles of equality and justice.

But to emphasize universal values does not mean that we talk about all of us being born equal. We just can do nothing about the inequality in the society with huge gaps between the rich and the poor, the advantaged and the disadvantaged. When we say all human beings are born equal, we only mean all human beings are born equal with man’s natural rights. As Robert Nozick says, “The particular rights over things fill the space of rights, leaving no room for general rights to be in a certain material condition.” So, how to ensure every person’s natural rights is most important for a democratic government to put in the first place in its agenda. But we have to recognize that by “to ensure” does not mean all man’s natural rights are ready for every person to enjoy. They need everyone to strive for in the name of equality, or as Confucius says, in the rectified name. “Human rights” just means they are rights for every human being. But for everyone to enjoy these rights in the real life, great efforts have to be made. Especially when democracy is something mainly in the political area, the economic field may still be characterized by the law of the jungle and the mafia, the crazy rush for profit-making and even despotism. Edward Mason feels that the modern large corporations have “management is in the hand of a few thousand men. Who selected these men, if not to rule over us, at least to exercise vast authority, and to whom are they responsible?” To wake up the sense of universal values and human rights in everyone’s mind, in every stakeholder’s mind, when they deal with business and make decisions, rediscovering Chinese traditional ethics may be most inspiring.

Universal Values and the Humanity-Oriented Thought of the Chinese Traditional Ethics

China’s traditional culture has cultivated a unique ethical system. The excellent part of it can actually be universally acknowledged, for example, the thought of “humanity-orientation”, which first appeared in Kuan Tzu, a book attributed to Kuan Chung (? – 645 B.C.), an illustrious prime minister who served under Duke Huan of the state of Ch’i in ancient China. On the basis of humanity, Confucius’ disciple Mencius developed his thoughts of “the people-orientation” and “the people as the most important/the sovereign as the lightest” represent the basic trend of thought of the Chinese intellectuals in terms of the importance of humanity other than that of a ruling position. These thoughts helped to raise the normal people’s status in rulers’ mind and to impose some self-discipline on the part of the rulers themselves. As Confucianism gradually became the orthodox philosophy in the following dynasties in China, Mencius’ thoughts of “the people-orientation” and “the people as the most important/the sovereign as the lightest” have been generally accepted. By “the people”, Mencius means the normal people especially when considered in relation to those who govern them, almost the same as the explanation of the word in
English dictionaries. This has left the space for the thought of “bureaucracy-orientation”, which has always existed in China’s tradition, to directly contradict the thought of “the people-orientation”. People of different status and position in China have shown different attitudes towards the contradiction; while virtuous people advocated the thought of “the normal-people-orientation,” many bureaucrats and some of their despicable followers who wanted to gain favor from them have insisted on the thought of “bureaucracy-orientation” in their minds. Nevertheless, the thought of “the people-orientation” has been agreed on, at least at the surface, among the bureaucrats due to the authority of Confucianism in the scholar-bureaucrat circle.

Profound changes have been taking place in bureaucracy-people relations in China’s society since China inaugurated the public servant system in 1993. Neither the “bureaucracy-orientated” thought, nor the “the people-oriented” thought fits in the modern public servant system because a real public servant system would, at least theoretically, no longer have the contradiction between bureaucrats and the people, thus beginning to form a realistic foundation for “humanity-orientation” in the real and modern sense of the term to be put into practice. Those who are public servants, and those who are not, are all human beings, so they are equal on the basis of “humanity-orientation”; they are only different in their spheres whether they are of the public or of the private. In the public sphere, the public servants should work for the benefits of normal people; while as normal people themselves, they are served by other public servants as well. The private sphere requires the privacy of every single person not to be infringed upon, by demanding more constraint on public power, while claiming increasingly better service from the government, which will strengthen its power in some sense to improve the service.

To strengthen the governmental power may imply to risk weakening the supervision over the public power. Without the possible participation of every person in the supervision, the public servants will have the liability to say that they are serving the people, when actually they are abusing the public power. Maybe, it can be said that they really have the people in mind, but you will never be able to say that they have humanity in mind. Because it would be easier for them to accept the concept of the people in the traditional sense, that is, the normal people in relation to those who govern them, so they would refuse to include every person in their concept of the people. They would either separate themselves from the people as the governing elites from the governed masses, or separate these people from those people. No matter whom they are serving, they would be serving the people, because without the possible participation of every person in the supervision, either these or those people (even only a few) could be passed off as the people. It would be very difficult to submit a valid evidence to show that there is some problem in the public servants’ service to the people, when they say they are serving the people. But the people’s great expectations have been aroused. When they found out at last that the slogan “serving the people” might just simply be a lip service, or they found out that the government did not really serve them, which means that they were not included among the people that the government always declares to serve, they might get angry, and take drastic actions. According to the Annual Report on China’s Rule of Law No. 8 (2010) edited by the law institute of the CASS, last year saw a huge rise in the occurrence of mass disturbances throughout the country, behind which was evidently people’s suspicion over the credibility of the local governments. There is almost definitely some connection between the suspicion and the privileges enjoyed by the public servants, for example, the housing issues. The above mentioned annual report No. 7 (2009) points out that the particularly serious problems in housing: “After the ‘housing
reform’ in 1998, though the state stopped the welfare-oriented public housing distribution, yet during the following 8 years, the Party and government offices throughout the country never stopped the so-called ‘house-building based on fund-raising’ and ‘building affordable houses by the work unit itself’.” Even three ministries including the Ministry of Construction demanded clearly to stop these projects in 2006, but to no effect.

So, on the one hand, public servants enjoy the privilege of low price for housing, only 20% or even 10% of the market price; on the other hand, normal people have to be victims of the skyrocketing price for housing, or of being forced to have their own houses pulled down. Governments in some poor areas even appropriate special purpose funds to buy cars and build houses. The striking example of the issue of housing can show that if the concept of the people does not really involve every person the people will always be separated into these people and those people, or into different interest groups and lobbies. Then more consideration will be given to the privileged people, and the rights and opportunities of the normal people will be neglected, so that there will be no equality, no fairness and no justice even in a very limited sense. Therefore, even if there is a functioning public servant system in place, it will not be as it should be in the right sense, if it is not humanity-oriented with the possible participation of every single person in the supervision over it. Since a public servant system is a sign of modernity, the concept of the people should become identical with that of humanity in a modern sense.

In general, the Chinese understanding of the concept of “the people” since recent sixty years, when it has been used very widespread with emphasis in media, official documents and the textbooks of ideological education, has also developed with time, moving from a historical stage of distinguishing “internal contradictions among the people” and “contradictions between ourselves and the enemy” in Mao’s time, which is obviously contrary to humanity-orientation and is typically an embodiment of Mao’s politics-orientation or his “politics in command”, to a new phase that puts accent on “humanity-orientation” and the construction of democracy and law. Therefore, the understanding of “the people” in China is increasingly identified with the concept of “humanity”. Now the commonness of all humanity is more emphasized, and even a criminal still maintains the dignity as a human being, has the right of man or of a woman, and should not be subjected to insults and abuse, though all these would not affect the penalty and punishment he should receive as a criminal in accordance with law. That is to say, on the basis of the commonness of humanity, all people, whether rich or poor, public servants or not, senior intellectuals or common laborers, should enjoy the same rights endowed by law, and their dignity should be respected and protected by law in the same way, and are all subjected to punishment of law if they commit crimes. Of course, anyone who fails to make a correct use of the part of rights endowed by law will be deprived of that part of rights, say personal freedom, or it may cause violation of other people’s rights. However, the other rights of him or her as a human being should still be respected, which is a true demonstration of the principle of “all are equal before the law”, the basis of which is the commonness of humanity, which should be the true meaning of “humanity” in what we call “humanity-orientation.” This implies an overall concern and respect for everyone without any exception, because only when the commonness of all human beings is acknowledged, can they enjoy the rights and the duties they shoulder, so as to enable all people to give full play to their characters and personalities according to their own conditions when practicing rights and duties. This is to seek common ground while reserving differences in the issue of humanity.
It can be said that if we do not regard the commonness of humanity as the basis, then a safeguard cannot be established to protect people’s opportunities to give full play to their characters and to make law a deterrent to warn everyone off wrongdoing and bad behavior. From here we can clearly see the two principles that Hans Küng has emphasized: humanity and the principle of reciprocity, which are the universal values recognized by the whole mankind and on the basis of which different nations and cultures have developed their own value systems. These systems only differ from each other on some specific issues of their own, and sometimes may even contradict each other. The contradictions happen even in the same value system simply because people look at things from different perspectives or stand for different developing stages of civilization. Nevertheless, people can still avoid conflicts and contradictions and seek a peaceful way to solve the problems by finding something common through dialog and communication based on universal values.

Many great thoughts in China’s traditional ethics are conducive to the identity of the Chinese with universal values, such as “universal love” proposed by Mo Tzu, and “benevolence” advocated by Confucians. Mo Tzu’s thought of “universal love” stresses that relationships among people transcend confrontations and constraints of worldly interests. He proposed that human beings should “follow Heaven”, because Heaven produces everything and makes lives flourish and continue, and Heaven holds the same attitude towards everyone without any special favor or prejudice, so “Heaven likes to see people love and help each other and dislikes to see them hate and harm each other.” “Universal love” is realized through “following Heaven”, so as to promote life and humanity, which includes a sense of non-violence.

The high value that Taoism and Buddhism place on life is a good demonstration of the non-violence and the respect of life in China’s tradition. The Confucian ethic code “do not do to others what you do not want done to yourself,” coincides with the latter principle proposed by Hans Küng, namely the “Golden Rule” of the West. The Confucian thought of “benevolence” emphasizes a good management of relationship between oneself and others of different identities and statuses. According to Confucius, the relationship between oneself and others is an interactive one, which is a form of inter-subjectivity, as expressed by him in “wishing to be established oneself, one seeks also to establish others, wishing to be enlarged oneself, one seeks also to enlarge others,” and win-win is achieved through inter-subjective interaction. Confucius made a special emphasis on the point that in the relationship between two people, the stronger one should take the initiative to shoulder responsibility and treat the weaker one with benevolence in a good demonstration of ethics, so as to win respect from the weaker one and achieve harmonious coexistence. These thoughts of Confucius are especially illuminating in the highly competitive modern commercial society, and could help modern business step out of the dog-eat-dog commercial wars, “thinking of righteousness in the view of gain” and to achieve win-win.

Confucianism’s accent on the principle of “forbearance” has cultivated the spirit of tolerance in the Chinese culture. Confucius once told Zi Gong, his student, that the word forbearance is an idea that one can abide by all his life. The principle of “forbearance” means, “Do not do to others what you do not want done to yourself,” and means benevolence and tolerance. Confucianism, Buddhism, and Taoism, the three major beliefs in China, have their respective interpretations of truthfulness, which have all coincided with the three irrevocable directives based on the two fundamental principles proposed in “Declaration towards a Global Ethics”.

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The fourth directive concerns the equality of men and women. With the progress of society, women’s status has gradually improved through their fights for equal rights all around the world. Confucius did make one statement about women, which is often denounced, that “Of all people, girls and servants are the most difficult to behave to”, but nothing more. From what has been achieved in the Chinese women’s equal rights in the last century, though the idea that “males are better than females” is still influential in China’s traditional culture, we can see that the rapid change in women’s status demonstrates that China’s traditional thoughts of “benevolence” and “universal love” have the great potential to overcome the wrong idea of “males are better than females.”

Universal values behind the humanity-oriented thought of the Chinese traditional ethics are especially helpful to promote business ethics in the context of fierce market competition, where the factors of humanity are often neglected. If the humanity-oriented thought could have influenced the decision making in the Ford Pinto case about 40 years ago, then the cost-benefit analysis would not have led the decision makers to have only profits in their mind while making decisions, neglecting the value of lives of their customers. And the lessons that can be drawn from the Sanlu milk scandal will also show that the management of the company has seriously neglected the value of lives of so many children, while the local government put the target of economic development above its target of supervision, striving for the former but neglecting the latter, which means the lives and the health of the victims of the scandal.

Though the humanity-oriented thought of the Chinese traditional ethics is deeply rooted in Chinese culture, disasters caused by the negligence of the value of life, of humanity, still happened quite often in China’s history. Why? Because the temptation of great interests and political power is so strong that people with real power in hand simply throw away the universal values behind the humanity-oriented thought of the Chinese traditional ethics. They behave on the principle of interests and politics, and never bother to reflect if their behavior be harmful or not to the benefits of humanity. They do not keep the benevolence and righteousness in mind, which are the core of Confucianism, and are considered by Confucianism as something transcendent, much more important than the worldly gain. According to Confucius, wealth should be gained in a right way, that is, through the way of fairness and justice. Of course, the way of fairness and justice is in the first place the rule of law. But at the same time, law should be legislated and enforced by man. But if man has no cultivation, especially self-cultivation, then he would not reach the height of transcending the self-interests to insist on the fairness and justice in legislation of law and its enforcement. So the Confucian emphasis on the initiative taken by people in higher position is helpful for those who take charge either in administration or in management to behave well in the first place so that those who are in lower position will support and cooperate with them wholeheartedly and harmoniously.

**Conclusion**

To conclude, today when globalization has become a reality, if we are still entangled with the misleading debates whether “The East wind prevails over the West wind” or “The West wind prevails the East wind,” or stuck in the dogmatic models and cannot find a way out, then it amounts to that we fail to do justice to the great cultural heritage passed down thousands of years, that we fail to share the great heritage with the whole world, and that we automatically give up our rights of discourse on universal values. The humanity-oriented thought of the Chinese traditional ethics belongs to the common wealth of the whole
mankind. We cannot enough value when people of different nations and cultures are contributing to this wealth from different perspectives based on universal values, the basic principles of which are humanity and reciprocity.

Notes
7. *Mozi* (Mo Tzu), Chapter 4 On the Necessity of Standards.
8. *Analects of Confucius*, Yong Ye.

References
BOOK REVIEW

“How China’s Leaders Think”
by Lawrence R. Kuhn

“Mind the Gap”

An insightful view of how China’s leaders apply different perspectives and different approaches to solving problems that are common to people everywhere.

As the train trundles to a stop on the London subway, the recorded voice warns passengers getting out, “Mind the gap!” She was, of course, warning passengers not to be tripped up in the gap between the train and the station platform. It struck me as I emerged to brilliant April sunshine at Bank, the station that serves London’s financial community, clutching my Amazon Kindle from which I had just been reading Kuhn’s “How China’s Leaders Think”, that her warning could apply just as well on a grander scale to three “gaps” that plague the world of the 21st century:

The first gap – and the one that’s most prominent in the public consciousness because of the financial crisis – is that between the rich and poor (within and between countries). The second is the secular-religious divide. While this blew up on 9/11 as a clash between militant Islamists and the secular West, it has since morphed to include the problems of the Catholic hierarchy against its lay followers over the charges of pedophilia committed by priests.

Yet, it is the third gap that has the most potential for delivering the most progress for the world or blow it up in a mushroom cloud – that between the West and China.

This is the gap that Lawrence Kuhn tries to bridge in his book. A veteran of over 20 years in China, Kuhn is both an investment banker and a confidante to many of China’s leaders. This book attempts to explain China to the West through looking into the minds of its leaders. His research for this massive tome included interviews with, according to the acknowledgement, a total of 227 Chinese policymakers and intellectuals, all the way up the hierarchy to the number three potentate, Vice-President Xi Jinping. From these interviews, he was able to construct a view of how China’s policymakers see the modern world and conclude that they are as concerned as their Western counterparts to achieve peace and prosperity, but prefer to find their own way to this objective.

Regrettably, Kuhn’s message is falling on deaf ears. A Google search will turn up few reviews in the Western press. One, in the business magazine Forbes, by Gordon Chang, the author of the anti-Chinese book, The Coming Collapse of China, said he gave up trying to review the book after 100 of its over 300 pages, because it was too full of Communist propaganda.

I must admit that while the overall tone and tenor of Kuhn’s book is not at all subservient, there are some turns of phrase that border on fawning the powers-that-be. For example, in the title of two essays, one on Jiang Zemin and the other on Hu Jintao, did he really have to entitle it The Hidden Power of Jiang Zemin’s “Three Represents”; and The Driving Relevance of Hu Jintao’s “Scientific Perspective on Development” (italics mine)? His description of how these ideas slowly emerged into the consciousness of the leaders as they tackled real world problems, are vivid enough to drive home the message that China’s policy pronouncements are not the haphazard products of an unwary and uncaring apparatchik, but those of empathetic leaders who have the welfare of both their people and their country at heart.
If one could get past the indulgent prose, the centerpiece of Kuhn’s thesis shines through: he has set his book in the historical context of China’s transformation from a weak and bullied nation to that of an emerging giant that is determined to claim its rightful place as a leader among the nations of the world.

Publication of the book was targeted for Oct. 1, 2009, marking the 60th anniversary of the founding of the People’s Republic. This anniversary provided him an “organizing framework for understanding How China’s Leaders Think with three periods of (roughly) 30 years each”.

“The first, from the founding of the People’s Republic in 1949 to the death of Mao Zedong in 1976, embedding the early idealism followed by two decades of political extremism, mass movements and ideological oppression that continued in the decade-long Cultural Revolution (1966-1976).


“The third, beginning in 2009, after all the struggles and accomplishments and with all the problems and challenges, going out into the middle decades of the 21st century.”

Kuhn says, quite sensibly, that we should read each period as a consequence of its predecessor. Only by doing this will we, as outsiders, be able to appreciate why China has evolved in the way that it has. For example, while the world continues to be perplexed by the overwhelming Chinese people’s admiration for the achievements of Mao Zedong, they would be less puzzled if they understood that he had restored to them their national pride by ridding them of the abject humiliation that they had suffered from foreign domination.

Understanding the historical context is important to comprehend the significance of the initiatives associated with Jiang Zemin and Hu Jintao. As Kuhn says in respect of Jiang’s initiative, “In English, the Three Represents sounds syntactically strange – apparently just another dense thicket of Communist rhetoric. Yet the Chinese phrase, san ge daibiao, has coherence and subtlety. Jiang’s point was that, although Communism, in its industrial age formulation, might not be viable as a contemporary economic system, the Communist Party, by “representing” these three powerful principles, would be modernizing Marxism.” The three “principles” are advanced productive forces, advanced culture and fundamental interests of the people. In layman’s language, the first principle accepts the market mechanism for its productive capability, the second calls for the revival of Chinese culture and the third, a plea that people must not be left behind by economic progress.

Despite Jiang’s Three Represents, as the Chinese economic juggernaut charged ahead in the new millennium, there has been an inevitable widening of the gap between rich and poor, the metropolitan East and the rural West, and a prosperous economy and an environmentally-devastated countryside.

Hu Jintao’s Scientific Perspective on Development is crafted to address these problems. Its themes are Putting People First and the application of advanced science for development (by which he means how to use scientific methods to minimize damage to the environment) as well as, and most important of all, doing this through the principle of Harmony. In fact, Hu’s injunctions aren’t purely rhetorical. He has put teeth into his policy by insisting that targets for environmental improvements should be included in the “balance scorecard” that governors and mayors are judged by for their annual bonuses.
Striking the theme of harmony resonates with the 5000 years of Chinese history because it is an ancient message that rolls all the way back to Confucius and beyond, to the Yin-Yang concept that is at the heart of Chinese civilization.

One way for foreigners to understand China and appreciate its giddy pace of change is to view Kuhn’s three 30-year periods in terms of Europe’s own history. If we take the Mao Zedong’s period as China’s Dark Ages, the Deng-Jiang-Hu regimes as China’s Renaissance, then we are now entering into the period of China’s Enlightenment. For the West, it took centuries to arrive at its Enlightenment. China has condensed this into a mere 60 years. It can do with some help from the more experienced West. But for the help to be welcome, the West needs to understand how its leaders think.

And this brings me back full circle to my concern as I got out of the London Underground. For East and West to work together to solve common global problems, each has to “mind the gap” that separates their different approaches and strive instead for “harmony”. The Chinese are conscious of this. Every year, they send thousands of their best and brightest to attend colleges in the West to learn. The least that Western leaders need to do is read this book. Get past the indulgent prose to understand that China’s leaders are no less concerned with the state of the world than they themselves.
Partner Organizations

Founded in 1986, the Caux Round Table advocates comprehensive global ethical principles for businesses, governments, non-profits and those who own wealth. CRT management approaches bring ethics and social responsibility into focus as praxis and not just moral theory.

China Credit Research Center, Peking University (CCRC)
The China Credit Research Center was founded in October 2002 to assess public policy towards credit markets in China and provide independent support for policymakers in the development of a China’s credit system.

Globethics.net is a global network of persons and institutions interested in various fields of applied ethics. It offers access to a large number of resources on ethics, especially through its leading global digital ethics library. In addition, it facilitates collaborative web-based research, conferences, online publishing and active sharing of information. Globethics.net aims especially at increasing access to ethics perspectives from Africa, Latin America and Asia. It strengthens global common values and respect of ethical contextual diversity.

The W. Paul Stillman School of Business at Seton Hall University provides professional education geared toward the complex, practical needs of business leaders. The mission of the School is to enrich the life of each student through a nationally recognized educational experience that is inspired by innovative teaching, supported by applied research, and guided by a values-centric curriculum.

The Stillman School collaborates with the Center for International Business Ethics to produce JIBE, together forming JIBE's joint editorial board, and awards scholarship to the winners of the annual CSR Essay Competition hosted by the Center for International Business Ethics.
Future City Design Competition

The “Future City Design” competition, with the support of Bentley Systems, Inc., aims to support the search for solutions to the challenges emerging from urbanization, inspire the imagination of China’s young people, increase their awareness of the sustainable urban design, and sustainable development generally. The competition aims to provide students a platform to show off their creative talents and interest in this increasingly relevant field.

College students majoring in architecture, engineering and public planning are encouraged to participate. They should show their abilities, such as problem-solving, teamwork skills, creativity, research, presentation skills, applied math and science and computer skills. Winners will have the internship opportunities in Bentley headquarter in the US.

The competition will begin this summer.

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