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Does East Meet West in Business Ethics: An Introduction to the Special Issue

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ABSTRACT. This article introduces and summarizes selected papers from the first World Business Ethics Forum held in Hong Kong and Macau in November 2006, co-hosted by the Hong Kong Baptist University and by the University of Macau. Business Ethics in the East remain distinct from those in the West, but the distinctions are becoming less pronounced and the ethical traffic flows both ways.

KEY WORDS: asian values, bribery, business ethics, China, corruption, CSR, ethical frameworks

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With the passing of the Sarbanes Oxley Act in 2002, business ethics was in the headlines once again. The strong winds of governance and ethical reform blowing from the U.S.A. threatened to become a hurricane affecting the whole world. Cross cultural issues already suffused discussions of business ethics, associated with the parallel development of global business activity and the emergence of China as a major economic power. Wherever the West does business with the East, the rains coming from the post Sarbanes Oxley West now meet the winds blowing from the reawakened dragon that is the economy of China. The authors of this article accordingly chose the 'East meets West' theme for the November 2006 World Business Ethics Forum. Also in 2006, both the Hong Kong Baptist University and the University of Macau were celebrating milestone anniversaries of their foundation, and both of their business faculties had senior people with a strong interest in business ethics.

Several ethical frameworks contend for dominance of modern ethical scholarship. Within business ethics itself there is the more recent contestation between contractualism and universalism, mirroring the older tension between the late Milton Friedman's stockholder perspective and the newer, wider, stakeholder-anchored CSR one. The paper by the keynote speaker of the Forum – this journal's editor in chief, Michalos, describes the origins in classical Greece of much of the content of our present ethical frameworks.

The next paper, by Radoilska, is the most purely theoretical one in this issue, as befits a Cambridge philosopher. She considers that truthfulness has value in business because of its intrinsic ethical quality. Any instrumental usefulness it may have derives from the intrinsic value, not the other way round. She criticizes the common analogy between games and business, saying that it is as futile to try and capture the different nature of business types, by stating that they are all for-profit, as it is to try to teach chess to a footballer, by pointing out that chess, like footballs, is about winning. She proceeds to paint a picture of business authenticity that sees producing and selling the firm's core products and services as its authentic character, with the pursuit of profit as only secondary. She cites with approval Duska (2000) who has the view that "in order to be successful, a business has to be profitable by remaining within the limits of a declared type and striving to achieve its standards of excellence". With such a view, a firm can resolve conflicts such as those facing the global pharmaceutical groups in deciding how to respond to pressure not to enforce their patents against third world country providers of such drugs as retrovirals used to control the AIDS epidemic.

Next, Woodbine's paper considers the role of stakeholders in accountants' reporting practices in a way that takes forward Weber's (1926) distinction between the ethics of conviction and the ethics of responsibility. His research supports the notion that psychological type affects moral choice. Members of the psychologically egoist group were significantly less likely to advise management of the existence of unethical workplace activities than members who exhibited a concern for various stakeholder interests. These respondents placed concerns about reputation, careers, and self-concern before stakeholder issues. Members of the 'strongly disguized self-interest group' positively identified with social consensus factors, which included a belief in the gravity of the unethical activity (insider trading) together with a concern that their failure to disclose the activity could bring shame and dishonor to them and their families. In other words, some types of accountants would systematically place responsibility (to family, self, and dependents) higher than more abstract convictions, but others would not.

Leung's paper on organizational citizenship behavior is a significant new insight into the phenomenon. Organizational citizenship behavior (OCB) represents behaviors carried out by individuals at work that are discretionary in nature, and are not formally rewarded or sanctioned by the organization (Organ, 1988). Recent empirical and conceptual work in this area suggests that employees are more inclined to perform OCB when they view it as a role obligation rather than as discretionary behavior (Coyle-Shapiro et al., 2004). She uses social exchange theory (Blau, 1964) to explain why employees perform OCB. Social exchange theory suggests that citizenship behavior can be expected when an employee experiences positive effects (and affects) from an organization and is motivated to reciprocate these positive feelings toward the organization.

Leung's study also identifies an interesting relationship between caring and behavioral outcome. A caring climate promotes identification with the company, mediated by normative commitment. Normative commitment arises both from interaction with the organization, and from an individual's experiences as a result of cultural and familial socialization processes (Wiener, 1982). If the organization is facing a problem of employees' lacking identification with the company, the organization should emphasize human development as an organizational imperative, independent of concern for profit or competitive advantage. When employees have been led to believe, via various organizational practices, that the organization cares for them, they are more likely to impose normative pressure on themselves in relation to their behaviors (Wasti, 2003).

The next three papers address aspects of business behavior in China that are at odds with western conventions. China deserves special attention because it is the largest emerging market in the world, but also because ethically problematic business practices in China persist and practitioners are eager to understand changing Chinese perceptions (Chan, Denton, Tsang, 2003). In China, market reforms have been accompanied by increasingly pervasive and large-scale corruption (Gordon, 1996). Many scholars observed that the growth of markets, along with the change in the ideology of Chinese managers, had contributed to the surge of corruption in China (e.g., Johnston and Hao, 1995; Lu, 2000).

In China, corruption has three faces *tanwu*, *shouhui,* and *tequan* (Johnston and Hao, 1995). Tanwu (malpractice) cases are the misappropriation of public or corporate property by embezzlement or swindling. Shouhui (bribery) refers to the extortion or acceptance of bribes. Tequan (privileges) includes widespread illegitimate privilege-seeking activities by senior officials and managers. There are different modes of corruption, which include kickbacks, gratuities, rebates, sweeteners, pay-offs, grease money, protection or security money, under-the-table fees, gifts, and various forms of favoritism (Andvig, 1995; Gong, 1997). Finally, corruption covers most ways in which people may be using their position and status for strictly personal gain (Johnston and Hao, 1995).

Prolonged existence of corruption is sustained by normalization. Anand et al. (2004) identified three mutually reinforcing processes that enable the normalization of corrupt practices: institutionalization, rationalization, and socialization. These processes provide explanations of why morally upright individuals engage in corruption. Institutionalization is the process by which an initial corrupt act becomes embedded in the normal processes of an organization. Rationalizations are self-serving attempts to provide justification for corrupt acts. Socialization explains why individual members of an organization become involved in corrupt practices through the social influence of their colleagues (Anand et al., 2004).

Provis looks at guanxi and conflicts of interest. The fact that guanxi revolves around continuing relationships between individuals can make some other ethical concerns such as nepotism of importance (Yeung and Tung, 1996: 57). Kipnis (2002) observes that obligation is more fundamental to guanxi than the element of emotional attachment. Dunfee and Warren (2001: 199) give an account of guanxi that argues the relevance of context to guanxi's moral value, in that it can ''facilitate efficient exchange'', but in other cases it reduces societal wealth, benefits a few at the expense of the many, or results in ''the violation of important fiduciary duties'' (op cit: 200–201).

Provis maintains that one approach to conflicts of interest arising from guanxi is to articulate clear, detailed rules about how to deal with them, if only it were clear what rules would be acceptable in concept and in enforcement. That may be symptomatic of a deep-seated incoherence in the institutions that give rise to the roles, interests, and obligations that are in conflict

Hung looks at the phenomenon of small slush funds in large firms which they characterize as 'normalized collective corruption' under a widely understood euphemism as 'Chinese Enterprise's Small Treasures'(CESTs). His analysis indicates that while the practice can help organizations deal with immediate financial problems, it negatively impacts organizational performance in relation to the moral hazard of manager and the allocation of organizational resources.

''Small treasuries'' (xiaojinku) are off-book accounts set up for the purpose of financing private or even illegitimate expenditure of work units (danwei) (Wedeman, 2000). Such CESTs are an open secret in China (Gong, 1997).

Hung analyzes how CESTs are normalized not just through the internal processes but also through an external process of legitimization. He adduces the concept of organizational involution (Lu, 2000), which describes the phenomenon of Chinese managers who keep on carrying out old traditional practices when faced with the new challenges of economic reforms (Geertz, 1970; Lu, 2000). The involutionary behavior of Chinese managers nourishes the establishment of CESTs.

The establishment of CESTs serves to develop two types of guanxi: favor-seeking guanxi, which is culturally rooted, and rent-seeking guanxi, which is institutionally defined (Su and Littlefield, 2001). Favor-seeking guanxi is built upon friendship or intimacy oriented toward continued exchange of favors (Pye, 1992). Rent-seeking guanxi describes the situation when an official or a manager has the power to allocate a certain valuable resource and the actual allocation will be based on the guanxi developed during previous encounters (Tullock, 1996).

Tsang looks at gray marketing in China. Gray marketing in the paper focuses on such not quite illegal practices as parallel importing (Chen, 2002; Cross et al., 1990; Duhan, 1988). The research leads to three conclusions. First, gray marketing is deeply ingrained in Chinese culture. Chinese people believe reciprocal courtesy is very important. They pay particular attention to goodwill and customs. Therefore, gray marketing in China is pervasive, so perhaps firms should learn to adapt to it. Second, gray marketing is a sales technique where a seller sells products to a buyer by giving benefits to the buyer's agents. Organizational and policy factors might have more effect on the inclination to use gray marketing than personal ethical assessments do. Therefore, more should be done in the area of a firm's policies such as increasing the punishment for buyer's agents who use gray marketing behavior, if it is seriously intended to curb gray marketing in future. Third, however, the benefits of gray marketing are shared between sellers and their sales agents, so unless a firm realizes that some particular gray marketing behaviors will, in the long term, harm it, it can hardly be expected to restrict its sales agents from using gray marketing. Therefore, pressure to persuade selling firms to restrict gray marketing must come from society, for example, laws and industry self-discipline. Due to the ''gray'' nature of gray marketing, it is difficult to frame effective laws. Therefore, strengthening the industry's self-discipline may be a better way to address the problem.

While the previous three papers shed light on some unique features of corruption in China that are related to Chinese culture and the special socio-economic environment of the transitional economy of China, many features of corruption are common to other countries. In fact, many ethical issues involve parties from more than one country, and the complexity of the corruption problem is compounded by globalization as in the case of international bribery (Moran, 2006; Sanyal,2005). To explain ethical behaviors, conceptual models have been developed in the last two decades that incorporate individual, organizational, and environmental factors (Ajzen, 1991; Bagozzi, 1992; Bommer et al., 1987; Trevino, 1986), and can thus be applied to explain unethical behaviors in both the East and the West.

McKinney and Moore contribute to our understanding of ethical attitudes by analyzing the attitudes of United States business professionals toward the issue of international bribery, and in particular, whether or not having a written code of ethics has an effect on these attitudes, and also whether actual involvement in international operations (or lack thereof) has an influence on the attitudes of respondents toward international bribery. The authors find it remarkable that, almost 30 years after the Foreign Corrupt Practices Act criminalized the bribing of foreign government officials, 46.9% of the 1,210 respondents find this kind of bribery acceptable to one degree or another. Code of ethics seems to be effective as indicated by the finding that respondents from firms that have a written code of ethics are significantly less likely to find international bribery acceptable. At the same time, firms that generate revenues from international operations are significantly more likely to have a written code of ethics than are firms, which do not generate revenues from international operations.

Krueger's paper on the ethics of global supply chains in China also concludes that enforcing corporate codes of conduct and their compliance systems can definitely strengthen the position of Chinese workers in the absence of effectively enforced Chinese government regulations, government protection of human rights, or cultural patterns that encourage such types of power relationships. However, the author is rather pessimistic about the current ethical climate there since global firms face severe constraints in their capacity to enhance the dignity and character of workplace conditions in China.

While there is a well established tradition of researching differences in culture and ethical values between nationalities (Christie et al., 2003; Hofstede, 2001; Nyaw and Ng, 1994), Chung, Eichenseher and Taniguchi further contribute to the literature by demonstrating that national differences within a common cultural (e.g., East Asian or Confucian) area can be as great as differences across cultural (East vs. West) areas and that practitioners of global business must fine-tune their expectations as to acceptable business and personal actions to accommodate specific national historical experiences to be effective. This phenomenon of within national group variances exceeding those between such groups is indicative of a possible effect of globalization. It shows the East is meeting West, ethically, and suggests the possibility that West may also be meeting East. The adaptation is not necessarily all on the part of the East.

The remaining papers in this special issue of the Journal address the Oriental impact of Western ideas of good corporate governance and proper corporate social responsibility (CSR). Taiwan features large in these papers as it has been directly exposed to Western, or at least to U.S., influences longer and deeper than much of the rest of Asia but has remained a conservative Chinese society in many key ways, psychologically, sociologically, and in terms of its industrial ecology.

In the U.S. and U.K., ownership structures are diverse and boards of directors already comprise a significant proportion of independent directors. In contrast, East Asian companies have concentrated ownership, and a low proportion of independent directors. This means adherence to the new recommendations will involve significant board-related changes for most companies. Moreover, in contrast to the Sarbanes–Oxley Act in the U.S., the comparable codes in East Asia are voluntary, with companies at most having to provide explanation for any deviance from best practice guidelines.

Nowland's paper investigates the extent of adoption of major board-related based corporate governance recommendations by large non-financial companies in four East Asian economies, and whether improvement in these board governance mechanisms have been associated with increased firm performance or value. Surveys conducted by McKinsey & Co. indicate that institutional investors are willing to pay an average premium of 20 percent for companies with good corporate governance (Coombes and Watson, 2000).

Nowland's findings for East Asia are as follows. First, the splitting of the positions of Chairman and CEO has no immediate impact on performance or value but is associated with improved operating performance and increased firm value the following year. Second, audit committees are created during a year of poor operating performance and poor sales growth. The company then exhibits strong growth in market value the following year. Third, remuneration committees are created during years of strong growth and positive share price performance. Fourth, the independence of audit committees is improved during a period when poor stock market performance, is followed by a year of lower sales growth. Finally, overall board governance is more likely to be improved during a period of poor stock market performance, and such improvement is followed by a year of improved operating performance.

Yeh, Lee & Shu's paper links Taiwanese controlling shareholders' ethical choices to their actions and firm value. Unlike the U.S. and the U.K., most of Asian countries including Taiwan are characterized by relatively high ownership concentration, low institutional ownership, predominance of family control, prevalent pyramidal groups and cross-holdings, and inactive markets for corporate control. Their empirical investigation of 345 Taiwanese non-financial listed firms shows that firms' equity investments (measured by industry-adjusted equity investment ratio, the number of investment opportunities, and the capitalization of investment companies) are negatively correlated with controlling shareholders' cash flow rights and firm value but are positively correlated with the divergence of control rights from cash flow rights. The positive incentive hypothesis and the negative entrenchment hypothesis (Claessens et al., 2000; La Porta et al., 2002) concern controlling shareholder's motives and ethical value. Specifically, controlling shareholders with high cash flow rights will have the firm run properly and engage in fewer equity investments. In contrast, when the controlling shareholder's control rights far exceeding his cash flow rights, a negative entrenchment effect (Bebchuk et al., 2000; Claessens et al., 2002; Grossman and Hart, 1988) emerges. A deviating cash-control structure or a higher level of control over the boards is therefore positively associated with the level of equity investment. As an unethical choice, equity investment is acting as a leeway for the controlling shareholder to divert firm's resources towards his/her benefits rather than outside investors. The authors recommend that market regulators and policy makers should put constraints on firms' levels of equity investment.

Corporate social responsibility (CSR) is easily linked to good corporate governance in advanced economies in the West. However, the concept of CSR is relatively new in Asia. Ip's paper asserts that it has to reckon with the pre-existence there of a culture of cronyism. The patron–client relationship embedded in the cronyism has three important features – personalized, hierarchical, and long-term (MacIntyre, 2006; Scott, 1977). The personalism of the relationship allows only those who have personal relationships for preferential treatment or special favors. The relationship is a long-term one that built on family ties, friendships, or working relationships. Furthermore, such a relationship is hierarchical, with the political patron at the top, while business clients are at the bottom of the hierarchy. The latter group always shows a certain kind of feudalistic submissive dependence while often eager to curry favor by regularly bribing the political patrons.

Confucian familism (Ip, 1996) is the dominant culture in Taiwan society, and it places the interests and values of the family at the apex of the value pyramid. The moral universe of Confucian familism is one in which the values and interests of the family and its members reigns supreme, among communities of moral agents. Confucian familism has a natural affinity to cronyism. Ip's reported survey found, however, that while the numbers of corporate scandals and corruption have significantly increased over the past six years, CSR activities have also become more popular. Ip believes that whether CSR will finally take root and flourish in Taiwan and other East-Asian economies depend very much on how far cronyism and Confucian familism are controlled and transformed.

Earnings management is the altering of the reported economic performance of a firm by insiders to either ''mislead some stakeholders'' or ''influence contractual outcomes'' (Healy and Wahlen, 1999; Schipper, 1989). When there is extensive earnings management, financial reports conceal a firm's true performance, and, consequently, this weakens outsiders' ability to govern that firm (Leuz et al., 2003). Bhattacharya, Daouk and Welker (2003) identify three commonly used methods that contribute to earnings opacity: earnings aggressiveness, loss avoidance, and earnings smoothing

As Jensen and Meckling (1976) first modeled, insiders have the incentive to use a firm's resources in a way that benefits them rather than outsiders. If outsiders detect these diversions, there is a risk that they will take legal or other disciplinary actions against insiders. Consequently, insiders have the motives to extensively manage earnings so to hide a firm's true economic performance and weaken outsiders' ability to govern the firm (Leuz et al., 2003).

Chih, Shen and Kang's paper examines whether CSR mitigates or increases the extent of earnings management (earning smoothing, earnings aggressiveness, earning losses). Using a sample of 1,635 firms in 46 countries, they found that a greater commitment to CSR would lead to a lower extent of earnings smoothing, and earning losses & decreases avoidance, but earnings aggressiveness is also increased. This indicates a CSR-firm tends not to smooth earnings but rather aggressively to shift earnings distribution to the right. It, however, displays less interest in avoiding earnings losses and decreases.

In the view of institutional theory, organizations compete not just for resources and customers, but also for political power and institutional legitimacy (DiMaggio and Powell, 1983). Some have argued that foreign direct investment provides conflicting predictions for the environmental performance of foreign versus indigenous firms (King and Shaver, 2001). Several researches have shown that customers would like to choose products, which are not harmful to the environment (Chase, 1991; Huang, 2005, Weber, 1990). Green consumers are increasing, and if enterprises do not emphasize the eco-friendly ingredients of their products, these consumers may reject them (Greeno and Robinson, 1992; Peattie, 1992).

Peng and Lin's paper explores how local response stress and subsidiary's resources influence green activities adoption by overseas subsidiaries, and whether there is any relationship between the level of green activities and subsidiary's performance. A sample of 101 large Taiwanese manufacturing firms with investment in mainland China were studied, they found significant evidence of both relationship. In particular they demonstrated that a subsidiary with greater autonomy, superior supplier network, and more support from headquarters will enhance its capability to perform green activities.

Concluding remarks

The impression from these papers, as from the conference in which they were presented, is that East West convergence is a continuing but unfinished phenomenon. The issues that used to divide them: nepotism, bribery and corruption, disclosure of key information in annual reports, employees' conditions and rights, attitudes to patents and copyrights, the impenetrability of guanxi networks, the ethically harmful effects of variations in power distance, attitudes to service, and even CSR itself; these once sharply distinguished Western business culture from Eastern. The sustained message of the papers in this special issue is that the distinctions between East and West in business practices are not as great as they used to be. Perhaps however the immense trade surplus the East has with the West still contrasts sharply with the more moderate ideas surplus that the West has with the East.

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