

CULTURAL IMPLICATIONS OF CORPORATE COMPLIANCE MANAGEMENT SYSTEMS - DOES AN EMPLOYEE'S ETHICAL CHOICE DIFFER IN EUROPE AND CHINA?

Barbara SCHARRER
University of Latvia, Latvia

Abstract

The purpose of this study is to gain a better understanding of the cultural implications of Corporate Compliance Management Systems. Is there any difference in the motivation and intention of employees to accept and follow a local Code of Conduct. Ethical choice and ethical decision making is in the focus of this research, which is conducted in a cross-cultural setting (PR China, Germany, Austria) by taking certain Chinese situational factors (Guanxi Orientation, Supervisor-Subordinate Guanxi) as well individual factors (Moral Disengagement) into account. This research follows a quantitative approach through surveying employees in three countries. All theoretical constructs were operationalised using validated items from prior researches. The value of this research is to test this newly developed model for the first time in a cross-cultural setting, also in connection with the influence of gender. In addition, testing the research model in a corporate environment surveying professionals also adds interesting results to academic research. From a practical perspective the results may help to find new concepts regarding the transferability of Codes of Conducts as well as Corporate Compliance Management Systems to China.

Keywords: *Ethical decision making, Code of Conduct research, China, Guanxi, Moral Disengagement*

Introduction

When is a decision morally and ethically right or wrong? A question more or less as old as humanity itself. From the very early centuries on ancient Greek (e.g. Socrates, Plato, Aristoteles), Roman (e.g. Cicero, Tacitus) as well as Chinese (e.g. Confucius, Laotse) philosophers and writers tried to address this question from various angles. This question moves every human being until today, depending on different circumstances and on a daily basis – not (only) in private life, even in the workplace. Today, not only companies go global, also business risks go global and companies face not only interesting business opportunities abroad, but also risks and challenges relating to corruption, bribery and fraudulent behavior of their employees.¹ More stringent anti-corruption laws throughout the world as well as the current political anti-corruption-campaign in China force multinational companies to implement Code of Conducts at their subsidiaries worldwide – thus also in China.

According to the 2014 Global Corruption Index of Transparency International the PR China is ranked 100 out of 175 countries, whereas Germany is ranked 12 out of 175 countries (Transparency International, 2015), scores ranging from 1 (not corrupt) to 175 (very corrupt).²

To address these increased global risks companies draft and implement internal rules and regulations like Code of Conducts as well as detailed Corporate Compliance Management Systems at their headquarters, but also at their subsidiaries in China. As a result, employees quite often face a dilemma and are confused how to make decisions taking the internal Code of Conduct on the one hand and the business reality on the other hand into account. “In many cases employees found themselves caught between contradictory demands”³

¹ Venkatesan Ravi, *Confronting Corruption*, *McKinsey Quarterly Issue 4*, 2014, 92-101, 6

² <http://www.transparency.org/country#CHN> [Accessed 06 March 2015].

³ Wedeman Andrew, *The Dark Side of Business with Chinese Characteristics*, *Social Research*, Vol. 80, No.4, 2013, 1213-1236, 1230

Main Part

1. Overview - Code of Conduct Research

A Code of Conduct - or also called Code of Ethics – is usually a part of an ethics programme in organizations on the basis of voluntary commitments of the company. According to Trevino et al. (2014) ethics codes typically identify the organization's conduct standards, the types of ethical and legal issues employees usually face in their organization, and the organizations' main and core values.⁴ From various national and international business associations, through the European Commission to the United Nations – many institutions have published ideal examples of Code of Conducts which cover more or less all areas of economy and society as recommendations for enterprises and organizations.

Also due to national and international more stringent legal requirements nearly every internationally operating company has a Code of Conduct or Code of Ethics together with further Corporate Compliance regulations in place – at the headquarters, but also at their subsidiaries abroad. In recent years lots of research have been conducted which supports the role of Codes of Conducts for improving ethical perceptions and standards in organizations (e.g. Weaver and Ferrell, 1977; Brenner and Molander, 1977, Hegarty and Sims, 1979; Chonko and Hunt, 1985, Laczniak and Inderrieden, 1987; Ferrell and Skinner, 1988; Weller, 1988; Weeks and Nantel, 1992; Murphy et al., 1992). McDonald and Nijhof (1999) found, these research clearly points out that some kind of normative structure in form of codes does appear to impact ethical attitudes and possibly behaviour.⁵ But, on the other hand, some existing research also greatly encourages points of criticism regarding the likelihood of improving ethical behaviour in organizations through the use of Codes of Conducts (e.g. Cressey and Moore, 1983; Hunt et al., 1984; Akaah and Riordan, 1989; Buchanan, 1987; Hyman et al. 1990, Bavaria, 1991).

In summary, research on the impact of code existence has produced mixed results (Trevino et al. 2014).⁶ Despite of intensive academic research in the past no significant independent effect of Code existence on ethical choice could be found.

A recently conducted meta-analysis by Kish-Gephart et al. (2010) found no significant independent effect of code existence on unethical choice. The meta-analysis analyzed that when perceived code enforcement and other organizational variables (e.g. ethical culture, ethical climate) are taken into account simultaneously, code existence only has a small positive effect on unethical behaviour (Trevino et al., 2014, Kish-Gephart et al., 2010).

2. The Theoretical Background of this Research – The Theory of planned Behaviour (Ajzen/Fishbein, 1991) and the Personal-Situational Interactivist Model (Trevino, 1986)

The Theory of planned Behaviour (TpB) (Ajzen 1991)

The TpB by Ajzen (1991) offers a comprehensive theory of the antecedents to behaviour.⁷ Ajzen (1991) models behavioural intention as depending on three factors: (1) attitude towards the behaviour, (2) subjective norms and (3) perceived behavioural control (PBC). See graph attached for a graphic depiction (p.6).

Each of these three determinants of behavioural intention is itself a function of an individual's salient beliefs. Ajzen (1991) defines attitude as an individuals' evaluation of the favorableness or unfavorableness of an attitude object; subjective norms are described as influence of referent others, namely family members and friends. According to Ajzen (1991) the PBC construct refers to the degree of control an individual perceives he has to engage in a particular behaviour.

⁴ Trevino Klebe Linda, den Nieuwenboer Niki, Kish-Gephart Jennifer J., (Un)Ethical Behaviour in Organizations, *Annual Review of Psychology* 65, 2014, 635-60, 638

⁵ McDonald, G., Nijhof A., Beyond codes of ethics: an integrated framework for stimulating morally responsible behaviour in organisations, *Leadership and Organization Development Journal*, Vol. 20, No.3, 1999, 133-146, 145

⁶ Trevino Klebe Linda, den Nieuwenboer Niki, Kish-Gephart Jennifer J., (Un)Ethical Behaviour in Organizations, *Annual Review of Psychology* 65, 2014, 635-60, 638

⁷ Ajzen I., *The Theory of Planned Behavior, Organized Behavior and Human Decision Process*, 50(2), 1991, 170-211

The TpB is an extension of the Theory of Reasoned Action (TRA) (Ajzen and Fishbein, 1980) by adding the PBC construct. The TRA, as defined by Ajzen and Fishbein (1980) has received substantial support across a number of behavioural domains (Ajzen 1991, Sheppard et al., 1988, Carpenter and Reimers, 2005).

Chang (1998) tested TpB against TRA and found TpB dominating in predicting unethical behaviour in creating unauthorized software copies.

Until today the TpB has been widely tested in economic and social science research time and time again, also in the field of ethical decision-making (Carpenter and Reimers, 2005; Cohen et al., 2010).

Various research studies, based on TpB or extended models of TpB showed the robust structure of the TpB model to predict behaviour. The author of this dissertation uses the TpB and combines it with ethical decision-making research to define a substantial theory model.

Models of Ethical Decision Making

Although this topic is centuries-old, only about 40 years ago substantial academic research in social and economic science started to address the subject of ethical decision-making by modelling several theories and conducting empirical research. “Starting in the 1980s, the systematic study of (un)ethical behaviour on organizations – often referred to as behavioral ethics in organizations or as organizational ethics (Trevino et al., 2006) – began to take shape”⁸.

As one of the first researchers Ferrel and Gresham (1985) introduced a model on ethical decision-making in marketing by stating that individual factors as well as situational factors influence ethical decision-making.⁹ Rest (1986) presented his model of moral action as an ethical decision-making model by identifying four stages and hypothesizing that psychological components underlay every moral act (Narvaez and Rest, 1995; Rest et al. 1986, 1999). Stage One deals with moral awareness as the ability to interpret cause-effect relationships in situations where a decision affects the welfare of others. According to Rest (1986) Stage Two focus on moral judgment or moral evaluation as an ability to make a decision based on a moral ideal; Stage Three focus on moral motivation also referred to as moral intention as an ability to prioritize moral concerns over competing issues. The fourth component (Stage Four) deals with moral character as the ability to transform intentions into actual behaviour. These four components influences each other via feed-forward and feedback loops with cognition, affect and behaviour all playing a role (Moores and Chang, 2006).

All four components of Rests (1986) rational and deliberative model for individual ethical decision-making – moral awareness, moral judgment, moral intention and moral character – “are not personal traits but internal processes that must be set on motion for external moral behaviour to occur”¹⁰.

Researches have since developed and tested a wide variety of constructs that influence Rest’s four-components model. Also in 1986, Trevino proposed a Person-Situation Interactionist Model (P-S IM) by factoring in individual and situational differences that can influence moral evaluation and moral judgment (Rajeev, 2011). The P-S IM Model distinguishes between individual, situational/environmental as well as organizational factors that influence each the evaluation and resolution of ethical issues. Trevino (1986) uses the stages of cognitive moral development as described by Kohlberg (1969) interacting with individual and situational moderators to influence ethical behaviour. Trevino (1986) was the first to combine individual and situational variables and to recognize the role of both.

Jones (1991) developed an Issue-Contingent Model by integrating existing theoretical models of individual decision-making. As Rajeev (2011) points out Jones` Issue-Contingent Model introduces the notion of moral intensity of the issue to specify a set of measurable characteristics that influence various steps of the ethical decision-making process. Each issue includes six dimensions.

⁸ Trevino et al. 2014, p. 636

⁹ Ferrell, O. C., Gresham, L. G., A contingency framework for understanding ethical decision-making marketing. *Journal of Marketing*, 49(3), 1985, 87–96

¹⁰ Rajeev, 2011, p. 57

After highlighting the three ‘old masters’ of individual decision-making models (Rest,1986, Trevino, 1986 Jones, 1991), developed in the first phase of intensive research on the topic, over the years a vast amount of research studies as well as extended theory models were conducted. As a result to the growing interest of researchers, several literature reviews have appeared in recent years. These literature reviews include qualitative reviews (O’Fallon and Butterfield 2005, Tenbrunsel and Smith-Crowe 2008, Trevino et al. 2006), a meta-analysis of research on the sources of unethical choice in organizations (Kish-Gephart et al. 2010), a meta-analysis of the ethical climate literature (Martin and Cullen 2006), a meta-analysis of the whistle-blowing literature (Mesmer-Magnus and Viswesvaran 2005) as well as a meta-analysis of (Un)Ethical Behaviour in Organizations (Trevino et al. 2014).

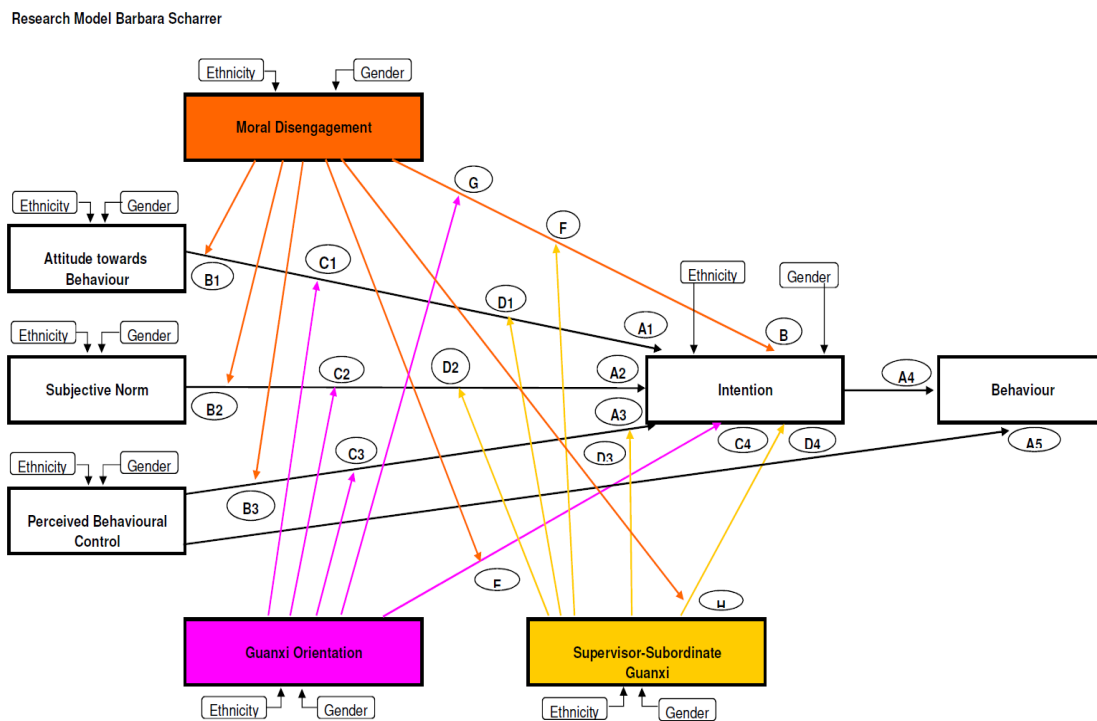
Especially the various meta-analyses show that enough research has been conducted by the investigators to undertake such statistical reviews (Trevino et al. 2014).

TRA, TpB and P-S IM separately provide theoretical frameworks for systematically investigating factors which influence behaviour. Furthermore, TRA, TpB, and P-S IM Model allow for integration (Spitzmüller and Stanton, 2006), and for incorporation of additional variables, provided that these variables make a significant contribution to the explanation of behaviour (Ajzen, 1991).

3. The Research Model, develop by the Author

Please find attached the research model, developed by the author and based on the Theory of planned Behaviour (Ajzen/Fishbein, 1991) and the Personal-Situational Interactivist Model (Trevino, 1986):

Graph: next page



4. Potential Predictors of non-compliant Behaviour

The afore-mentioned details show that just having a Code of Conduct and further Corporate Compliance Management regulations in place, may not protect a company for certain. Over the years, several researchers identified a number of certain important additional drivers of unethical behaviour such as ethical leadership (Brown & Trevino, 2006) or ethical climate (Mayer, Kuenzi & Greenbaum, 2009).

To successfully prevent non-compliant behaviour one may also take situational factors like interpersonal influences on the employees and their behaviour into account. Furthermore, also individual differences may influence the behavior of employees.

4.1. Moral Disengagement

One potential predictor and additional driver of non-compliant behaviour may be the concept of Moral Disengagement as a concept of individual difference, which belongs to the cognitive processes. The concept of Moral Disengagement is “an individuals` propensity to morally disengage – that is, an individual difference in a way that people cognitively process decisions and behaviour with ethical import that allows those inclined to morally disengage to behave unethically without feeling distress (Bandura, 1990a, 1990b, 1999, 2002).¹¹ Bandura (1986) developed the basic concept, the social cognitive theory, by explaining that individuals internalize behavioural standards via socialization. While an individual person is acting in one way or the other, his moral standards are activated and certain self-regulatory mechanisms like guilt or self-censure prevent the person from doing something wrong, e.g. any unethical behaviour.

Moore et al. (2012) developed and tested a new 8-item measure of the construct Moral Disengagement and demonstrated its predictive validity in multiple studies.

The author of this paper uses this new 8-item scale in her empirical research.

The author of this paper will focus on a corporate set-up by conducting research on moral disengagement, asking employees in companies in Germany, Austria and the PR China.

According to Rajeev (2011) not many studies assessed the impact of Moral Disengagement especially in organizational context up to now.

4.2. Guanxi Orientation

According to Trevino (1986) not only organizational factors (e.g. Codes of Conducts, ethical climate) or individual factors (e.g. moral awareness), but also situational (also called interpersonal) factors impact ethical decision-making of individual persons.

In general, interpersonal influences are influences by others, especially peers and leaders on this individual person. As also clearly stated by several other researchers, peers, like co-workers, represent a potentially powerful influence on (un)ethical behaviour (Bandura, 1986, Kohlberg 1969, Robinson and O`Leary-Kelly, 1998). According to Moore and Gino (2013) peers “help to establish a standard for ethical behaviour through their actions or inactions... by blurring the boundaries between the self and others, psychological closeness can lead individuals to mimic close others behavior, which can have detrimental ethical consequences” (Moore and Gino, 2013, 15).¹²

As this research in the end focus on a cross-cultural setting, testing two samples (German/Austrian employees versus Chinese employees) the author chooses a typical Chinese construct as a variable for testing interpersonal social influence – the Guanxi Orientation construct. Guanxi, meaning business and personal network connections between individual persons, - but also between groups of individuals like families, classmates, teammates, neighbours and so on -, is said to be an important aspect of many kinds of interpersonal relationships in Chinese cultures (Smith et al. 2011). Chen and Chen (2004, p.306) describe the Chinese phenomenon Guanxi as “an indigenous Chinese construct . . . defined as an informal particularistic personal connection between two individuals who are bounded by an implicit psychological contract to follow the norm of Guanxi, such as maintaining a long-term relationship, mutual commitment, loyalty and obligation”.¹³

¹¹ Moore C., Detert J.R., Trevino L.K., Baker V.L., Mayer D.M., Why employees do bad things: Moral Disengagement and Unethical Organizational Behavior, *Personnel Psychology* 65, 2012, 1-48, 2

¹² Moore C., Gino F., Ethically adrift: how others pull our moral compass from true north and how we can fix it, *Res. Organizational Behaviour* 33: 2013, in press, 15

¹³ Chen, X. P., Chen, C. C., On the intricacies of the Chinese guanxi: A process model of guanxi development, *Asia Pacific Journal of Management* 21, 2004,305-324, 306

Also Ho and Redfern (2010, 207) hypothesized and found that "...harsher ethical evaluations of guanxi-related behaviours were positively correlated with the stage of moral reasoning."¹⁴

The author tests this specific Chinese construct of interpersonal social (peer/in-group) influence as a situational factor in the research model on potential impacts on ethical decision-making.

4.3. Supervisor-Subordinate Guanxi

There are a few recent studies using the construct Supervisor-Subordinate Guanxi in the field of the author's research topic. By following the general construct Guanxi orientation as mentioned above, the construct supervisor-subordinate Guanxi relations focus especially on the social and interpersonal influence of a leader, the so called supervisor, on the employees, the so called subordinates, with respect to their individual ethical decision making.

According to Trevino et al. (2014) lots of recent organizational ethics research has focused on systematically studying the role of leadership on (un)ethical behaviour, showing that leadership is an especially important topic because leaders play a key role as authority figures and role models and they influence their subordinates' attitudes and behaviours. The construct of ethical leadership was also successfully tested in Mainland China by Walumbwa et al. (2011). Many recent ethical leadership studies conducted in several countries concentrate mainly on the (ethical) leadership construct itself - tested in connection with various variables such as leaders' moral identity (Mayer et al. 2012), employees' job satisfaction, affective commitment, work engagement and reduced turnover intentions (Brown et al, 2005; Kim and Brymer, 2011; Neubert et al, 2009; Ruiz et al. 2011; Tanner et al., 2010). Based on the findings of Trevino et al. (2014) and Mayer's et al. (2013) findings on supervisor-subordinate relations further research is needed to test how ethical leadership as an influential factor to ethical decision-making fits within a broader context of peers, leaders and other potential social influences.

Here is a starting point for the authors' research to test if and how the specific Chinese Supervisor-Subordinate Guanxi construct as a specific Chinese leadership construct influences employees' ethical decision-making behaviour.

As Wei et al. (2010) pointed out, "the supervisor-subordinate Guanxi relationship in Chinese organizations is very important due to the high power distance typical of China's hierarchical culture."¹⁵ According to Zhang et al. (2013) Supervisor-Subordinate Guanxi has proven "to be the key antecedent to various work attitudes and behaviours of both employees and their supervisors."¹⁶

Conclusion

This research aims to explore the role of certain predictors of non-compliant behaviour in a cross-cultural setting by comparing empirical results collected in German-speaking countries (Germany, Austria) and the PR China. Based on intensive theoretical research regarding the topic of this study the author developed a research model and an empirical questionnaire in German, English and Chinese language.

After a pilot testing was completed, minor modifications were made.

The empirical online survey for this research is still in progress.

¹⁴ Ho C., Redfern K.A., Consideration of the Role of Guanxi in the Ethical Judgements of Chinese Managers, *Journal of Business Ethics* 96, 2010, 207-221, 206

¹⁵ Wei L.Q., Liu J., Chen Y. Y., Wu L.Z., Political skills, supervisor-subordinate guanxi and career prospects in Chinese firms, *Journal of Management Studies* 47, 3, 2010, 437-454, 439

¹⁶ Zhang L., Deng Y., Wang Q., An exploratory study of Chinese motives for building supervisor-subordinate guanxi, *Journal of Business Ethics*, 2013, doi:10.1007/s10551-10013-11899-10554, 2

The novelty of research is established through four main points:

- Cross-cultural setting in connection with the influence of gender
- Research population: employees in Germany, Austria and China, not students
- Testing the relatively new construct Moral Disengagement regarding its effects on the Basic TpB constructs (no former research found)
- Testing the relationships between Moral Disengagement, Guanxi Orientation and Supervisor-Subordinate Guanxi as additional variables (no former research found)

Brief Biography of the Author

Barbara Scharrer is a PhD. Student at the University of Latvia, Riga. As an Attorney-of-Law, admitted to the German Bar since 1997, she has specialized in Chinese Investment Laws and Strategy Consulting since 18 years advising Chinese Inbound- and Outbound Businesses in various sectors of industries and services. Barbara is a lecturer on internationalization strategies in China and India at several German universities. Furthermore, Barbara acts as a member of the supervisory boards of German companies and their Chinese subsidiaries. She has worked and lived in Asia for more than 13 years.

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