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Chinese Business Ethics and Regional Differences: Evidence from Micro-data in Six Major Cities^{*}

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Abstract

Foreigners who wish to invest in China require a wide range of information about the business climate, including the nature of Chinese business ethics. This research examines regional differences in business ethics in terms of four traits: manner, commitment, punctuality, and reciprocity. A total of 644 subjects were interviewed in six widely dispersed major cities: Beijing, Chengdu, Guangzhou, Shanghai, Shenyang, and Wuhan. The results show that there are regional differences in business ethics in China.

Key words: foreign direct investment, one-child policy, emerging market, labor quality, chinese economy

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Introduction

Because of the rapid increase in Foreign Direct Investment (FDI) in China, investors are concerned about frequent reports of unethical business practices, including bribery, mistreatment of employees, accounting fraud, unsafe products, and misconduct by government officials. These problems have generated many studies of the cultural and social forces that shape business ethics in China, such as Confucianism, *guanxi*, and communism. However, few of these studies have examined how China's significant regional differences impact business ethics. Given that China's 56 ethnic groups co-exist in a nation of great income disparity (a 0.61 Gini Coefficient), there is a need for better understanding of how such diversity influences business ethics. Moreover, in contrast to the focus of recent studies on business ethics among managers in China, this study focuses on the ethics of workers, an important factor in the decision-making process of foreign investors.

Literature Review

In recent decades, business ethics has become a major concern in academic, business, government, and public discourse. With globalization and the enormous growth of information have come greater opportunities both for doing business transnationally and for ethical abuses. In the 1990s, for example, scandals around the world involving financial mismanagement, sexual harassment, discrimination, and excessive executive pay resulted in demands from governments and citizens for improved ethical standards (Ferrell & Ferrell, 2009, pp. 14-15). Clearly, the rapid growth of business both geographically and electronically requires change and adaptation if business ethics is to remain relevant (DeGeorge, 2005).

International business ethics is complicated by an array of difficult challenges, such as the diversity of customs and traditions underlying ethical values and the absence of an international consensus about what constitutes ethical behavior. What might be called "ethical ethnocentrism" also works against the development of an international consensus. Khera (2001), for example, has noted that too often the West creates stereotypes about corrupt government and business practices in the developing world while ignoring the corruption at home. In particular, China has become the focus of a great number of business ethics studies. This focus is due in part to its rapid economic growth and huge increase in Foreign Direct Investment, or FDI. Organisation for Economic Co-operation and Development figures for 2012 show that China received the largest share of total

FDI inflows (18%) at USD\$253 billion (OECD, 2013). Investors are therefore understandably concerned about reports in the international press of scandals and unethical actions in China, such as bribery, the infiltration of the Communist party by gangsters, and mistreatment of employees, all of these evils exacerbated by fear among Party leaders that any effective effort to reduce corruption might endanger the regime itself (MacFarquhar, 2013; Runnels and Burton, 2012; Krueger, 2009; Barboza, 2009; Moore, 2009; Santoro, 2009; Fox, Donohue, & Wu, 2005). Some commentators (e.g., Chen & Chen, 2005; Barboza, 2005) have found the source of unethical behavior in weak legal, accounting, and risk management systems or in mistrust between owners and non-family managers. Moreover, despite hundreds of regulations and rules prohibiting corruption, the government seems unable or unwilling to enforce them even as some government officials devise ever more creative methods to cheat and steal (Barboza, 2009). Ip (2009a) describes a massive and systematic failure of business in China that has adversely impacted the environment, labor rights, and product safety in a free-for-all culture of profit where private gain trumps service to the nation. In the years 2004 to 2007, for example, there were a number of notorious product, food, and drug safety scandals in China, including the recall of millions of toxic toys, exports of contaminated toothpaste and pet food, and the sale of sub-standard antibiotics that killed 11 people (p. 213).

The response to unethical business practices in China has been an outpouring of studies by both Chinese and foreign researchers. Some researchers call for a more nuanced view of business ethics in China (and in the East generally), one that does not generalize from incidents of corruption (serious and widespread as they may be) to the entire nation (Chan, Ip, & Lam, 2009; Khera, 2001). Many recent studies (e.g., Lu & Enderle, 2006) focus on the impact -- for good or ill -- of the cultural characteristics and ethical resources available to China, such as Confucianism, Buddhism, socialist ethics, and foreign businesses and cultures. Feldman (2013), has argued that the emphasis on *guanxi* (reciprocal relationships, mutual dependence) leads the Chinese to “focus on the social whole” and therefore to “feel fewer moral obligations outside their primary groups” (pp. 14, 15). This Chinese focus on the welfare of the collective is often misinterpreted by Westerners, with their

philosophical grounding in individual rights, as unethical. Feldman also noted that the inseparability of politics and culture in China creates huge problems and costs for foreign business people, who face not only daunting cultural differences but also “a political situation in which it is unclear who is in charge, the line between business and politics is murky at best, and the reasons behind actions and changes are often not the reasons given” (p. 5). This “labyrinth of political intrigue,” as Feldman put it, requires foreign businesses to rely on middlemen, familiar figures in Chinese history, who perform a wide variety of routine tasks, such as translation, interpretation, and negotiating with other businesses and officials. But the essential function of middlemen has been paying bribes (pp. 8, 20).

Like Feldman, Enderle (2006), found that *guanzi* in government-business dealings undermines transparency and increases public distrust of government, but Enderle has also claimed that Confucian ethics advocating virtue and socialist ethics supporting social stability should be seen as assets rather than liabilities. Provis (2004 and 2008) likewise argued that tensions exist between Western emphasis on competition and the marketplace on one hand and the reciprocal, trust-based relationships of *guanzi* on the other, but he argues further that these tensions require a recognition that both traditions have moral weight. Irwin (2012, p.19) recognized that such cultural characteristics as *guanzi* and *mianzi* (face, pride, or self-respect) are often seen by foreigners as sources of unethical behavior, but he points out that these traditional values can contribute in a positive way to business through appropriate guidance and training programs. Likewise, according to Irwin, the reluctance of Chinese to report unethical behavior, a legacy of the Cultural Revolution with its public self-criticism regimen, can be refashioned for employees to be understood in a way that complements Confucian values of care for one’s family or fellow employees (p. 16). Ralston, Yu, Wang, Terpstra, and He (1996) have pointed out that Western managers’ ideas about ethical behavior may conflict with such Chinese cultural preferences as loyalty to family or group. The belief that one should put the welfare of such groups first can lead to hiring decisions based on group loyalty rather than ability. Rarick (2009) found a solid grounding for modern Chinese

business ethics not only in the Confucian emphasis on relationships and social propriety but also in such significant historical antecedents as Mencius, who linked virtue and power, and Laozi, who identified harmony and balance as the source of good relationships among people. Ip (2009b), on the other hand, has argued that recent emphasis on the “Confucian firm” glosses over the disharmonies between the norm of human rights and the paternalism, collectivism, and hierarchism of Confucianism.

The rich and varied outpouring of research in recent years on business ethics in China has mostly focused on major scandals, large transnational corporations, and the tensions or parallels between Western and Chinese ideas about business ethics. Few studies have taken into account the enormous diversity of China, where more than fifty ethnic minorities inhabit a nation dominated by the Han majority, a majority that itself includes eight different languages. Moreover, multi-regional studies of business ethics in China have typically focused mainly on managers, whereas this research deals with workers generally. For example, using Individualism, Openness-to-Change, Self-Enhancement, and Confucianism as dependent variables, Ralston *et al.* (1996) surveyed 704 managers from state-run enterprises in the six regions of China to assess how compatible managers’ work values were with Western values. Perhaps unsurprisingly the researchers found that “cosmopolitan” Chinese managers (defined as managers from large, coastal cities) tended to be more individualistic, more tolerant of ambiguity, more globally oriented, and open to Western ways than their inland peers. The study arrives at no conclusions about the state of business ethics in China. Similarly, Wright, Szeto, and Lee (2003) provided a business ethics survey to Chinese professionals (n = 403) enrolled in a management development program in mainland China. The researchers concluded that the best hope for improved business ethics in China lies with smaller companies, which have more to lose from corruption. Overall, however, their results showed a high level of moral confusion and “a lack of core values” (pp. 185, 186). Again, however, the subjects are managers and represent a very narrow segment of the business community in China

More broadly, Redfern and Crawford (2010) also chose as subjects native managers

(n = 211) in China from 21 different provinces, autonomous regions, and municipalities. A 13-item questionnaire measured subjects' "general level of exposure to, and adoption of, aspects of a more 'Westernised' lifestyle," such as English-language skills and the level of subjects' interest in Western movies, television, fashion, food, and travel outside China. Subjects were also asked about the number of their Western acquaintances (p. 223). In addition, subjects read a set of "vignettes" and evaluated each in terms right and wrong. Vignettes included issues such as bribery, nepotism, environmental pollution, and whistleblowing in businesses. Outcomes showed that modernization and Western lifestyle among Chinese managers resulted in values and behaviors that "converge toward those consistent with the more modernised and advanced Western economies" (231). One could argue, however, that involvement in material aspects of a Westernized lifestyle can be quite superficial while the number of Chinese who have any significant contact with Westerners is extremely low, even at the managerial level. In contrast, this study focuses on the business ethics of a more diverse group in China -- workers -- and does not require any extraneous measure of Western influence. Instead, and in order to better understand attitudes among workers about business ethics in different regions of China, this paper analyzes responses to questions about ethics from a face-to-face survey in six major cities across China.

Methods

To investigate business-ethics differences among major Chinese cities, the study utilized data from Osaka University's Preference and Parameter Study for 2011/2012. The study conducted face-to-face interviews with individuals and households in six major cities - Beijing, Shanghai, Guangzhou, Chengdu, Wuhan, and Shenyang - from December 23, 2011 to January 21, 2012. The target respondents were adults aged 19 to 70 years old. Employing a multistage sampling and allocation method, the study set the predicted numbers of responses based on the target population in each district as defined in the Statistical Yearbook. Then, the study randomly selected an area in each district. Finally, using the Kish Grid method, the study chose the interviewees from the

families. From the data set, this study selected the 644 subjects who had jobs and no missing answers.

The key statements (i.e., dependent variables) about basic business requirements used to measure business ethics are indicated in Table 1: manner (*cut-in*), commitment, punctuality, and reciprocity. The respondents were asked to pick one response on a scale from one to five. The original questionnaire set the answers from 1, “particularly true for me,” to 5, “doesn’t hold true at all for me.” However, the current research reversed the scale, making it easier to comprehend ethics levels.

Table 1: Variable Definitions

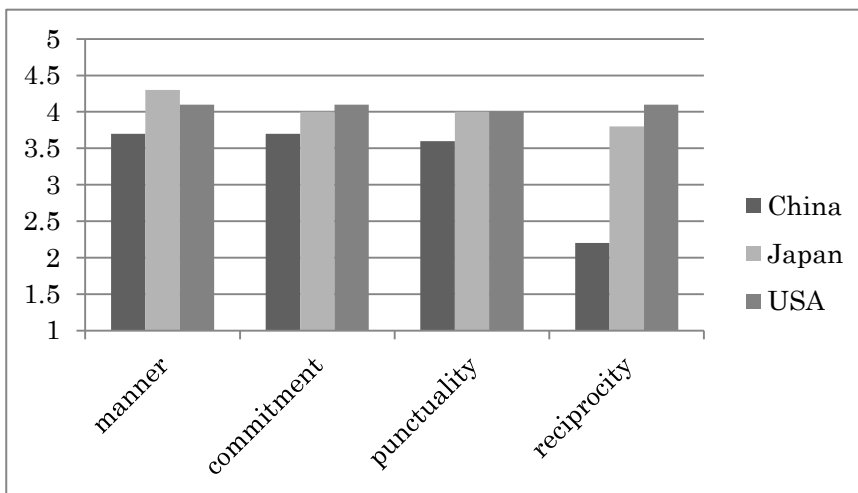
Variable	Description
(Dependent)	
(1) manner	I never cut into a line of people (1 =Doesn’t hold true at all for me, 2, 3, 4, 5 = Particularly true for me)
(2) commitment	I always keep my promise (1 =Doesn’t hold true at all for me, 2, 3, 4, 5 = Particularly true for me)
(3) punctuality	I am never late for appointments/deadlines (1 =Doesn’t hold true at all for me, 2, 3, 4, 5 = Particularly true for me)
(4) reciprocity	If someone does me a favor, I am prepared to return it (1 =Doesn’t hold true at all for me, 2, 3, 4, 5 = Particularly true for me)
(Independent)	
male	1= male, 0 = female
age	Age
spouse	1=married, 0=otherwise
educ	Years of Education
company	Employee of private company
self	Self-employed
family	Employed by family business
official (base)	Public official
pubcompany	Employee of public company
farmfishmining	1= Primary sector of the economy, 0=otherwise
manufac	1 = Secondary sector of the economy, 0=otherwise
service (base)	1 = Tertiary sector of the economy, 0=otherwise
e300above	1= more than 300 employees, 0=otherwise
msalary	Monthly salary
beijing (base)	1=Beijing, 0=otherwise
shanghai	1=Shanghai, 0=otherwise
guangzhou	1=Guangzhou, 0=otherwise
chengdu	1=Chengdu, 0=otherwise
wuhan	1=Wuhan, 0=otherwise
shenyang	1=Shenyang, 0=otherwise

Results

The subjects’ responses provide answers to two important questions in this study. First, is

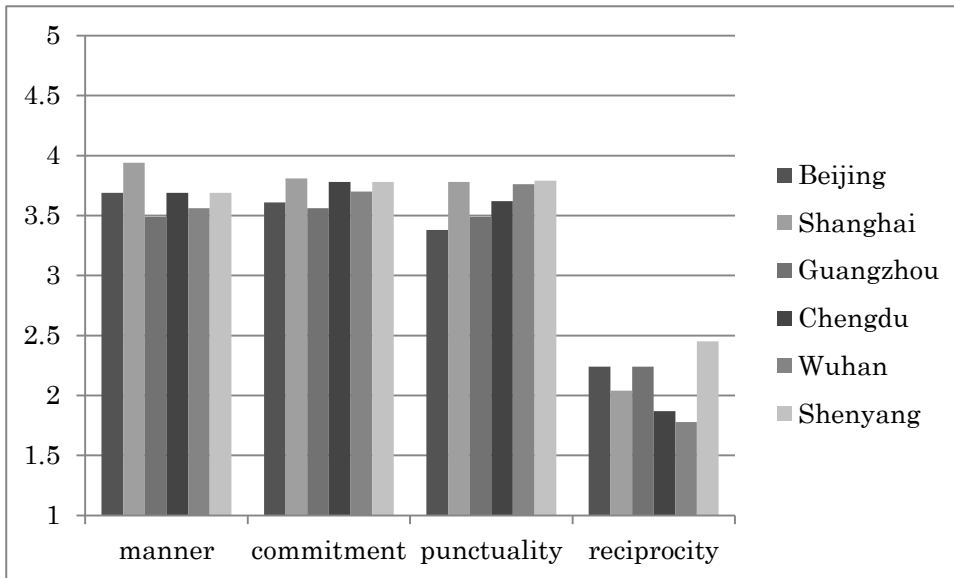
the level of business ethics among Chinese workers high, compared with other countries? The above-mentioned Preference and Parameter Study for 2011/2012 asked the same business ethics questions in the United States and Japan. Figure 1 presents the results of the current study, along with the 2011/2012 study results. Chinese business ethics appear to be low in each of the four categories compared to the United States and Japan; the score for reciprocity in China was particularly low.

Figure 1: The average scores of business ethics questions by country



Second, are there regional differences in business ethics? Figure 2 shows the results by city. There appear to be considerable regional differences in that each city has different strengths and weaknesses. Workers in Shanghai, for example, consistently score at or near the top of the scale in all categories while in Wuhan and Shenyang workers have similar ethical profiles in all categories except reciprocity.

Figure 2: Business Ethics by City



To investigate what matters in business ethics in China, the study needed to control various factors, including basics such as age, gender, and education, as well as individual work style and the industry in which the respondents worked. Table 1 presents the dependent variables of manner, commitment, punctuality, and reciprocity (including a description of each) and the independent variables.

The descriptive statistics are indicated in Table 2. The average *age* of the observed subjects, about half of whom were male, was 37.61, and the average education (*educ*) was 11.84, which is almost equivalent to being a high-school graduate. Nearly 80 percent of the subjects were married. The average monthly salary (*msalary*) was 3,609 CNY, whereas the national average is about 2,000 CNY (National Bureau of Statistics of China, 2012). The fact that the study collected the data only from major cities may explain the difference.

Table 2: Descriptive Statistics

Variable	Mean	Sd.	Min	Max
(Dependent)				
(1) manner	3.69	0.857	1	5
(2) commitment	3.71	0.81	1	5
(3) punctuality	3.64	0.82	1	5
(4) reciprocity	2.21	1.59	1	5
(Independent)				
male	0.55	0.50	0	1
age	37.61	11.27	19	68
spouse	0.78	0.42	0	1
educ	11.84	2.83	0	16
company	0.27	0.45	0	1
self	0.13	0.34	0	1
family	0.14	0.35	0	1
official (base)	0.28	0.45	0	1
pubcompany	0.17	0.38	0	1
farmfishming	0.03	0.17	0	1
manufac	0.24	0.43	0	1
service (base)	0.73	0.44	0	1
e300above	0.86	0.35	0	1
msalary	3,609.32	2,528.24	800	30,000
beijing (base)	0.16	0.37	0	1
shanghai	0.19	0.39	0	1
guangzhou	0.14	0.35	0	1
chengdu	0.19	0.39	0	1
wuhan	0.16	0.37	0	1
shenyang	0.16	0.37	0	1

The estimation results are shown in Table 3. In model 1 (manner), *age* appears to influence *manner* negatively, whereas the *spouse* variable appears to affect it very positively. In terms of the city comparison, the workers in Shanghai seem to have a better *manner*, compared to the workers in the capital, Beijing. In model 2 (commitment), *male*, *spouse*, *educ*, and *msalary* serve as positive factors. As for the city comparison in the model, Shanghai, Chengdu, and Shenyang provide more positive results than the capital Beijing. In model 3 (punctuality), the factors of *age*, *company*, *pubcompany*, and *e300above* appear to be negative; the subjects in Shanghai, Chengdu, Wuhan, and Shenyang perceive punctuality as an important ethical value more often than those in the capital Beijing. In model 4 (reciprocity), no significant factors are found, but the subjects in Chengdu are generally less likely to value it than those in the capital Beijing.

Table 3: Estimation Results

	Model (1) manner (ordered probit)	Model (2) commitment (ordered probit)	Model (3) punctuality (ordered probit)	Model (4) reciprocity (ordered probit)
male	0.117 (1.32)	0.190** (2.12)	0.103 (1.15)	0.000856 (0.01)
age	-0.0124*** (-2.58)	-0.0000177 (-0.00)	-0.0108** (-2.24)	0.000844 (0.16)
spouse	0.456*** (3.90)	0.236** (2.02)	0.178 (1.52)	0.0649 (0.51)
educ	0.0243 (1.44)	0.0289* (1.71)	-0.000330 (-0.02)	0.00553 (0.30)
company	-0.170 (-1.41)	-0.135 (-1.11)	-0.216* (-1.78)	-0.0574 (-0.44)
self	0.0427 (0.29)	-0.0202 (-0.14)	-0.0422 (-0.29)	-0.109 (-0.68)
family	0.0787 (0.55)	-0.00865 (-0.06)	-0.180 (-1.25)	0.159 (1.04)
pubcompany	0.164 (1.05)	-0.177 (-1.13)	-0.365** (-2.32)	-0.253 (-1.49)
fishfirm	-0.378 (-1.48)	-0.183 (-0.71)	-0.133 (-0.52)	0.00620 (0.02)
manufac	0.0341 (0.29)	0.0528 (0.45)	0.0937 (0.80)	-0.126 (-0.99)
e300above	0.0781 (0.60)	0.0438 (0.34)	-0.278** (-2.12)	-0.0319 (-0.23)
msalary	0.0000292 (1.58)	0.0000338* (1.78)	-0.0000156 (-0.85)	-0.0000235 (-1.13)
shanghai	0.391** (2.57)	0.258* (1.70)	0.543*** (3.57)	-0.265 (-1.62)
guangzhou	-0.218 (-1.37)	-0.120 (-0.75)	0.0905 (0.57)	-0.0293 (-0.17)
chengdu	0.120 (0.81)	0.292** (1.97)	0.344** (2.32)	-0.381** (-2.39)
wuhan	-0.155 (-1.01)	0.138 (0.89)	0.542*** (3.49)	0.0936 (0.57)
shenyang	0.0557 (0.37)	0.274* (1.80)	0.615*** (4.02)	0.0582 (0.37)
cut1 _cons	-2.188*** (-5.56)	-1.944*** (-4.63)	-2.864*** (-7.23)	-0.0960 (-0.26)
cut2 _cons	-0.980*** (-2.77)	-0.638* (-1.80)	-1.735*** (-4.84)	0.448 (1.19)
cut3 _cons	0.141 (0.40)	0.523 (1.48)	-0.555 (-1.57)	0.632* (1.68)
cut4 _cons	1.492*** (4.20)	1.937*** (5.40)	0.910** (2.57)	0.654* (1.74)
<i>N</i>	644	644	644	644
<i>Pseudo R2</i>	0.03	0.02	0.03	0.02

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Conclusion

With the rapid increase in Foreign Direct Investment (FDI) in China, investors need current information about business ethics in China in order to make informed decisions. Accordingly, this study investigated business ethics in China using data collected from face-to-face interviews with Chinese workers aged 19 to 70 years old in six major cities -- Beijing, Shanghai, Guangzhou, Chengdu, Wuhan, and Shenyang.

There are considerable regional differences in the six cities where interviews were conducted, and, as might have been expected given the history and diversity of China, each city has different strengths and weaknesses. Subjects in Shanghai and Guangzhou scored highest and lowest respectively in manner. The highest scores in the commitment model were nearly the same in Shanghai, Chengdu, Wuhan, and Shenyang while Beijing and Guangzhou had similar, lower results. Punctuality was lowest in Beijing while Shanghai, Wuhan, and Shenyang provided nearly identical higher scores. Reciprocity in all cases provided generally lower scores than the other dependent variables with Shenyang at the top and Wuhan at the bottom of the range.

In terms of differences among the subjects by factor, manner was negatively impacted by *age* but *spouse* was significantly positive. The impact of factors in the commitment model was noticeably positive in *male*, *spouse*, *educ*, and *msalary*. Punctuality was negatively impacted by *age*, *company*, *pubcompany*, and *e300above*. Finally, no factor significantly impacted reciprocity either positively or negatively.

As foreign investments seems likely to continue to expand for the foreseeable future, further research is required to expand the scope of our understanding of business ethics in China to more cities and regions.

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