

Stephan Rothlin  
Parissa Haghirian *Editors*

# Dimensions of Teaching Business Ethics in Asia

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*To our friend Msgr. Jean-Claude Hollerich S.J.  
Archbishop of Luxemburg  
A true master of ethics and pedagogy*



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**Stephan Rothlin** is co-founder and Secretary General of the Center of International Business Ethics in Beijing, China. After running an Academic Center at the University of Zurich, he moved to China in 1998 where he focuses his research on International Business Ethics in the Asian context. Since 2009 he is Chief Editor of the *Journal of International Business Ethics*. He is regularly invited to teach at UTSA, the University of Texas at San Antonio.

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# Chapter 1

## Introduction

**Stephan Rothlin and Parissa Haghirian**

Within the globalizing context of international business we intend to give full prominence to an aspect of ethics that is often overlooked or completely ignored: virtue ethics.

The ongoing financial crisis has provoked not only a worldwide wave of economic anxiety, but also widespread frustration over the irresponsible behavior of all-too-many business corporations. The result has been a call for decisive change that goes beyond the question of reforming regulations for financial institutions, to challenge the basic mindset associated with business-as-usual. Given the success with which the paradigm of profit maximization has been inculcated on various levels of education it is not surprising that the sea change involved in transforming that basic mindset is not likely to happen overnight. The need to respond in a consistent and positive way to a situation that apparently has gotten out of control is what prompts us to reexamine conventional approaches to business ethics in order to rediscover the perennial wisdom enshrined in the many spiritual and cultural traditions generically identified as virtue ethics.

We attempt therefore to develop much further some dimensions of virtue ethics and argue for positive strategies that in cultivating the virtues specific to good business may actually prevent the disorders exposed in the current crisis. By contrast, by the time ethical considerations are usually raised in business-as-usual, they tend to come into the picture when it is already too late.

Though the virtues are often overlooked or completely ignored in conventional approaches to business ethics, we hope to stress the creativity of ethical reasoning by focusing constantly on the following questions: What kind of people should we

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strive to become? Which character traits should be cultivated so that leaders might emerge who would stand firm in highly demanding and sometimes troubling situations? How can we develop our ethical potential? If we focus on strengthening moral character, how might ethics inspire change for the better on the level of a firm, as well as on the whole society?

Obviously in the realm of business the possible answers contributing to change for the better need to be as down to earth as possible. Virtue ethics, properly understood, is pragmatic because it provides the missing link between the individual and institutional components of ethics. It is grounded, not in philosophical abstractions, but in the “social practices” (Alasdair MacIntyre) by which human interactions are successfully accomplished. However common the misunderstanding of virtue occurs when it is restricted to individual proper behavior, the fact is that virtue flourishes in a certain social environment. As every great tradition of virtue ethics, for example, Confucianism in China, clearly understood, the *social* and political components of virtue must be taken systematically into account.

Business ethics will never be improved, nor can it be taught effectively, simply by analyzing case studies *alone*. Appropriate financial and legal regulations are urgently needed but these will not be enough to overcome the far reaching loss of public trust. The public is right to demand a pragmatic, and not just an idealistic framework for cultivating virtues sufficient to guide a fair, as well as functional, international economic system. Arguably, this demand was recognized from the beginning in the first treatises on ethics, the, *Nicomachean Ethics*, by the Greek philosopher Aristotle, and the *Analects*, by the Chinese sage, Confucius. These classics describe the character traits that are necessary for living a fulfilling and happy life. They understand virtue as a character trait developed by habitual action. Consistent with their insights, in today’s business world, we should be inquiring how truthfulness, reliability, and honesty can also be instilled through habit, or the practice of virtue.

As the nineteenth century Hindu philosopher Vivekananda put it, we must learn to conceive the World as a “Grand Moral Gymnasium”: virtues need to be exercised, for ethics to reach its full blossoming. When we attempt to ground ethics not only on Western philosophy but also on different sources of Eastern wisdom virtue ethics it seems both appropriate and necessary to take into consideration how different religious traditions did and do shape moral convictions, attitudes and social practices. Understanding the impact of religion on morality is not just challenge for believers. Even in secular societies where the practice of religion may seem to have virtually disappeared, as in much of Europe, it is clear that religion had a profound historical impact on the value systems of different cultures and societies. Their continuing influence, even when unrecognized by most people, for better or for worse, remains strong. It therefore seems necessary to take religious traditions more systematically into account in order to unlock the deepest aspirations of people and activate their potential for positive change.

Virtue ethics explores the ultimate sources of values and norms, which is a very large and never ending task, more like finding and following a way to live, rather than arriving at a destination. Our book is only a first step in shaping ideas and

models demonstrating how values can deeply transform our thinking and acting for the better. We intend to offer no “Magic Kingdom”, a dream world detached from the hard reality of finance and business. Our assumption is that if ethics is just perceived as soft skill it may be lacking in social relevance. In order to establish its relevance persuasively, virtue ethics must take into account the personal, institutional, as well as the psychological and spiritual aspects of society.

A widespread prejudice is that the bottom line on business ethics basically boils down to philanthropy; as if its concrete demands would be satisfied when the firm’s expenses include giving handouts here and there in order to sustain its reputation for good citizenship in supporting various social or cultural undertakings. While the creation of a new philanthropic culture can be considered a fruit of virtue ethics, the *core aspect* of virtue ethics touches upon all the key issues of business strategy, including but hardly limited to labor and employment, relations with the government, and environmental policies.

In a situation of rapid change as well as of a financial crisis of unprecedented scale, we have the challenge to develop new economic models that take into account the ethical implications of management, economics, finance and the related social sciences. Virtue ethics identifies an ethical foundation that presents the ethical choice in business not only as rational, but also as the most fulfilling choice, a reliable guide for shaping concrete policies. Virtue ethics, then, need not be regarded as an alternative to conventional approaches based on *applied ethics*, but rather as an effective means to a common end. Both seek to explore every possible theoretical and practical venue which might lead not only to better insights into the challenges afforded by any given situation and an increased ability to distinguish between right and wrong but also to act upon such capacities in ways that render them more effective in the complex and wide ranging challenges of today’s business world.

New approaches to virtue ethics, however, should not only be searched for in traditional Western economic models but also in other parts of the world. Philosophical and business traditions differ, but can bring innovation and inspiration to our ideas of how ethics should be applied in businesses.

In this book we therefore present a so far little investigated perspective on business ethics – an Asian perspective. Asia, which has been the most interesting place of international investment and management, is rarely discussed as a place to look for models on how businesses are run. Over the past decades only Japanese management styles have been considered a “real” economic model. The Japanese system however, lost its appeal to Western observers during the recession of the 1990s and recent scandals in Japanese firms (e.g. Olympus) have strengthened the image of Japanese organizations operating in unethical ways.

Another aspect which comes to mind, when thinking about ethical business, are problems with market entries in the most popular Asian market at the moment: The People’s Republic of China. Copyright issues place a major hurdle for international investors in China.

News featuring stories about corruption and cross-cultural challenges when interacting with Asian enterprises have shaped the Western idea of Asia as being a place where business ethics are still missing and have so far been a topic of little interest.



Despite this assumption, Asian businesses and researchers have started to research and to discuss on how businesses in their countries could become more ethical and have more members of their society participate in their success. In our book we would like to present ideas and philosophies which are the base of this process. Most chapters presented here have been written and presented at the Seminar “The Asian Dimension of Teaching Business Ethics” organized by the Centre for International Business Ethics (CIBE) in Beijing. In these yearly seminars, scholars, researchers and business experts from various countries discuss ideas and proposals on how to improve and implement business ethics in their countries.

The first part of the book presents theoretical aspects of International Business Ethics. Gerhold Becker is here exploring the moral dimensions of leadership in business. Assuming that business does not operate in an amoral space and that business decisions are not exclusively determined by economic factors of the market, business leaders are not necessarily and exclusively self-interested but act within a moral culture shared with society and its basic institutions. Becker argues that moral leadership is leadership whose power and authority has not only a legal basis but is also grounded on normative principles of common morality, and is therefore something for which ethics has more than merely instrumental value.

David W. Miller and Timothy Ewest contributed the chapter called “Rethinking the Impact of Religion on Business Values: Understanding Its Reemergence and Measuring Its Manifestations” (Chap. 13). In their chapter they argue that religious values have impacts on and in the workplace, and that these impacts are still extant, worthy of continued research, and are possible to measure. Moreover, the recent emergence of intense scholarly interest in the study of the connections between religion/spirituality and the workplace is driven not only by a desire to understand the variables and interrelationships of the phenomenon, but increasingly also by other interdisciplinary questions of interest to scholars and practitioners alike, such as leadership studies, ethics, diversity and inclusion, cultural competence, human rights, globalism, and changes in immigration patterns, organizational and economic structures, and geo-politics. In their chapter they offer The Integration Box (TIB) theory as a means to understand and potentially evaluate how individuals integrate faith and work, as well as a means for organizations to understand, and respond constructively to the phenomena of religious values in the workplace.

In the second part of the book we investigate business ethics in Asia. Here we would like to outline how challenging it is to implement ethical guidelines in Asian corporations.

The first chapter in this section written by Dai Changzheng is named “Corruption and Anti-corruption in China: Challenges and Countermeasures” (Chap. 5) and discusses how corruption is a serious challenge that China faces as it moves to modernize its economy and society. This chapter examines what is different in the nature and extent of corruption in China compared to those of other nations based on its different political structure and reform policy. It differentiates the typologies of corruption and analyzes the causes and the dilemma that the country faces in wrestling with ways to eradicate corruption.

In their chapter “Taking Your Codes to China” (Chap. 6) Kirk O. Hanson and Stephan Rothlin discuss which challenges occur when companies wish to apply their ethical codes in the People’s Republic of China. With pressure 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 chapter presents the learning of the two authors and the companies they have consulted and worked with over the last 10 years in China. It summarizes why it is so difficult to apply Western Business Ethics, and what the most successful companies are doing to make it work.

Peter Verhezen argues in his chapter called- “Do as the Romans Do in Rome”?- A “pragmatic” corporate governance perspective beyond ethical relativism in Asian Emerging Economies- (Chap. 7) that Asian companies are still lacking behind in terms of transparency, accountability to all its shareholders and being responsible to affected stakeholders. He describes three models of corporate governance, arguing that the Asian model is strongly relationship based and Asian businesses often show family like structures which make it difficult to keep international corporate governance standards. However, an abolition of these practices is neither possible nor advisable. In the chapter examples of Asian companies which changed not only their business practices, but also their attitudes toward ethical business are presented.

The final chapter of this section leads us to another striving Asian Economy: India. Indian Business Ethics are strongly influenced by the teachings of Mahatma Gandhi, which are presented and discussed by Jose M. Ybanez Tomacruz. In his chapter he explains the background and main intentions of Mahatma Gandhi’s Satyagraha, a philosophical practice which is often seen as the foundation of the “Civil Disobedience” movement in India. Ybanez Tomacruz investigates main aspects of Gandhi’s writing and draws ethical inclinations from it, which can also be applied to business practices.

The third part of the book investigates on how business ethics can be taught effectively in an Asian context. Our authors draw on their experiences teaching business ethics in Asian classrooms.

Antonette Palma-Angeles from Ateneo de Manila University writes in her chapter on “Teaching Business Ethics: Challenges and Responses” (Chap. 9) Ethicists are of two minds about the cause of ethical failures. One side says, ethical failure is a function of cognition; it stems from the agent’s lack of understanding of the ethical dilemma, stakeholders, available options, and their consequences. The other side believes that unethical decisions happen because agents prioritize their self-interests above anything else, most especially above those of the group for which they are responsible. Now third reason is moral numbness without sensitivity to the dilemma, no moral reasoning can ensue and no moral courage is required. In her chapter she discusses these three challenges confronting the teaching of Business Ethics in the Philippines and proposes a course framework and outline, and some notes on how to handle case studies.

Mike Thompson of China Europe International Business School in Shanghai further addresses the topic and suggests reframing business ethics. Business ethics has traditionally been a discipline to provide tools to management dilemmas. Reframing business ethics however, may challenge the relevance of traditional ethical theories whilst not rejecting their role in the discourse of moral philosophy”.

Roderick O’Brien argues in a similar manner in his chapter “Implementing Business and Professional Ethics in an Asian Context: Three Steps to Integration”. He argues that our philosophies and theologies, integrating our ethics and also considering culturally different ethics in this attempts. More integration in business ethics curricula are needed. He suggests that key individual introduced to students can support the integration of intercultural business ethics.

The chapter “Why and How to Use Case Studies in Teaching Business Ethics” (Chap. 12) by Dennis McCann focuses on using teaching materials in the Asian Business Ethics classroom. He further discusses a prominent example of business ethics, the introduction of a Code of Conduct in Hong Kong. He concludes that Asian case studies should be preferred when teaching in Asian classrooms.

The final section of the book asks what the future will bring for Business Ethics Education. Here Henri-Claude de Bettignies asks the question “Can Business Schools Lead the Way To a World Worth Living In?” (Chap. 13) and discusses which role teaching and in particular teaching in business schools can support a more virtue and ethics oriented approach to management and business processes.

According to de Bettignies their role is a vital one, but the current paradigm of business teaching is not changing fast enough. The current economic crisis has not been integrated successfully in business curricula to teach students about business ethics. A new paradigm is needed which does not only go beyond teaching traditional classes in business ethics, but also should rethink the purpose of the firm, challenge existing models, and question the techniques and tools we use to teach business ethics to students in all parts of the world.

We hope that this book is a first step into this direction.

**Part I**  
**Theoretical Aspects of Business Ethics**

# Chapter 2

## The Competitive Edge of Moral Leadership

Gerhold K. Becker

### Power, Self-Interest, and the Moral Imperative in Business

#### *Moral Leadership*

Jack Welch, the outspoken former chairman of General Electric Co., once summed up his leadership philosophy as follows: “The Welch Theory is those who do, get, and those who don’t, go.” In other words, leadership is all about authority and power and the will to move on, to change and to transform. It is some kind of process that gets people to do something in accordance with the leader’s vision and objectives. And what business leaders want most is prestige, success, and profit. After all, business is no charity.

To achieve this, leaders need specific skills through which they translate their vision into reality. For this they need “followers.” The main question of most leadership research and training programs is how to turn subordinates and colleagues into followers who not only execute their leader’s orders but are fully committed cooperators in a grand enterprise. The typical answers range from the old-fashioned enforcement of compliance through reward and punishment and sophisticated manipulation all the way to what former AT&T executive Robert Greenleaf called servant leadership (Greenleaf 1991). It may not be easy to find many business leaders who understand themselves, above all, as facilitators and servants of a common cause and who are able to stand back behind the common interest. David Packard, co-founder of Hewlett-Packard, apparently was one of them.

All too often, business leaders seem to stick to the “*Welch theory*.” This is, of course, a theory with a long history. One of its most brilliant advocates was Niccolo Machiavelli who wrote the first leadership manual for the new class of powerful

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individuals who emerged during the Italian Renaissance. In his work *The Prince* Machiavelli argued: “One ought to be both feared and loved, but as it is difficult for the two to go together, it is much safer to be feared than loved ... for love is held by a chain of obligation that, men being selfish, is broken whenever it serves their purpose; but fear is maintained by a dread of punishment that never fails” (Machiavelli 1999). This statement reveals not only the mechanism and the psychology of power, but also the ethical issue that comes with power and thus with leadership. Moral leadership is both: it is leadership whose power and authority has moral legitimacy by extending beyond individual selfishness, and it is leadership for which ethics has not merely instrumental, but intrinsic value.

There can be no doubt that the social sciences together with a whole range of business studies on management and human resources have tremendously contributed to a better understanding of the mechanisms of leadership (Burns 1979; Bass 1998). Yet while these studies usually include some considerations about ethics, their main focus is on the strategic value of ethics for greater economic efficiency. Frequently, ethics seems to be considered merely as bait for otherwise ethically ignorant or unconcerned leaders in their quest for personal success and profit. A typical example of this approach is Lennick’s and Kiel’s book *Moral Intelligence: Enhancing Business Performance and Leadership Success*. In a promotional blurb the authors claim that “there is a powerful correlation between strong moral principles and business success.” Offering step-by-step techniques for using MI in business, they promise to unlock the “secret that makes great leaders and builds great companies” on the premise that “winning executives use ‘MI’ to outperform their competitors” (Lennick and Kiel 2005).

There is nothing wrong with regarding ethics as a business asset and long-term investment – provided it is not the only answer to the question: “Why should I be moral?” If the only motivating answer were-“because ethics pays”- ethics would in fact be “instrumentalized” (Jürgen Habermas) and reduced to a function of success; any “intrinsic”, “categorical”, or “absolute” value it may also have would be denied. Yet, as former Bosch CEO Hans Merkle put it, there are certain things an honest person simply doesn’t do – period. Obviously, the coincidence of ethics and good business on the one hand and reasons for behaving ethically on the other are two quite different concerns. To argue that ethics will “enhance the bottom line” offers little more than “an easy, prudentially acceptable, attractive, and enticing reason for business to be ethical” (Cohen 1999: 15). It ignores, however, the fact that everyone stands under the moral obligation, including business leaders. The ethical imperative demands that one does first what is good, right and just – and looks for personal gain later. There is a long tradition in philosophy arguing that ethics is never a means only but also the end as it defines what we call the good life. As Immanuel Kant has pointed out: Even “moral philosophy is not properly the doctrine of how we are to make ourselves happy but of how we are to become worthy of happiness” (1788: 130). Therefore a good life in the emphatic sense of the term will include more than just profit and financial gain.<sup>1</sup>

Although I am aware of the complexity of this issue, which we cannot discuss here in detail, taking note of this tradition can prevent us from inappropriately and exclusively defining the idea of moral leadership through its possible economic utility.

This would even do injustice to a large number of business leaders. Leadership ethics must be more than a leadership tool (Ulrich 1999).

## ***Business and Ethics***

The idea of moral leadership in business rests on two important assumptions, which must be briefly addressed before we can proceed, i.e. that business does not operate in an amoral space and that business decisions are not exclusively determined by economic factors of the market. The near universal focus in leadership handbooks on the techniques and psychologies of leadership seems to suggest that they take as their premise the classic economic view. On this premise, economics is the realm of pure and autonomous business transactions that are – and must remain – external to ethics. The economy evolves with some kind of necessity in accordance with the laws of its own rationality and stands outside the realm of ethics and morality. It follows that,

- “Economic behaviour is separate and distinct from other types of behaviour, and business organizations are distinct from other organizations.”
- “The primary criteria of business performance are economic efficiency and growth in production of goods and services.”
- “The primary goal and motivating force for business organizations is profit. The firm attempts to make as large a profit as it can, thereby maintaining its efficiency and taking advantage of available opportunities to innovate and to contribute to growth” (McKie 1975).

As we recall, this view was most succinctly summed up in Milton Friedman’s statement (in his *Capitalism and Freedom*, 1962) according to which the sole purpose of business is to make “as much money as possible.” In anthropological perspective, such strict separation of business from ethics draws on the psychology of self-interest. The strongest of the various human drives is the drive for individual gain and benefit in the interest of pure survival and the avoidance of costs. The genealogical lineage is long but the philosophically most ambitious such conception derives from Hobbes, who explained leadership as the necessary implication of social and political institutions in the service of the rational pursuit of self-interest.

In the meantime, Hobbes’ materialistic and a-historical anthropology has lost much ground. Human agents are no longer seen as exclusively self-interested and ethics is not simply a means to achieve political or economic ends. Consequently, the belief that ethics has no role to play in business or business decisions is now regarded as a myth: the myth of amoral business. Companies, particularly multinationals, may frequently “forget” about ethics, but they depend on it nevertheless. Although they are in business for making money, they rely on extant and well-functioning ethically informed social systems. As Richard De George points out, “the myth [of amoral business] obscures the fact that people do apply ethical criteria” in judging business and that business leaders in general don’t behave less ethical than the average citizen (De George 1993).

What is missing in the classic view is the perspective in which we see ourselves not only as role-bearers and functionaries of economic systems but also as social beings with a shared history of beliefs about “the good life”. As social beings, we can only expect to further our self-interest when we recognize the needs of others. The necessary rules for effective cooperation among individual players are not only the result of rational behaviour and communal prudence but also of an interest in “the good” that can be shared.

In applying this insight to business, Amitai Etzioni has argued that “there is a moral dimension in all business decisions. When planning a corporate takeover, which substance to use for a product, whether to hire temps or full-time workers, or where to invest, all reflect values and hence moral considerations” (Etzioni 1993). This moral dimension implies “that the corporation and its managers should be responsive to all who invested in the corporation, which includes, aside from the shareholders, also those who worked long and loyally for the corporation, communities that provide the company with various resources, and often some other groups. To argue that only the owners (in the narrow legal sense, not recognizing job rights and community rights) have a moral standing is (...) not an objective scientific position” (Etzioni 1993).

In other words, self-interest may be the major drive in humans, but it is certainly not the only one. Throughout history human beings have built societies and instituted moral and legal frameworks that mediate individual self-interest with the good of society as a whole. The difference between human society and a gang of bandits is that the latter is exclusively defined by individual and collective self-interest whereas the former is, in addition, defined by a comprehensive vision of the good. If ethics is not external to society but one of its main constituents, and if business is one of the most significant social institutions, then business cannot operate in an amoral space. In spite of all their historical variety, societal systems have internalized moral values without which they could not exist. In as far as the economy forms an integral and most important part of society it is also shaped by and implicitly draws on the moral vision of society as a whole. Business, for example, is based on and presupposes trust, honesty, responsibility and larger frameworks of fair play. Business leaders and managers are not only relying on society’s functioning moral system in their daily interactions but are also themselves citizens with moral obligations. As “institution citizens” (Nielsen 1983) they must strive to integrate moral sensitivity with business competence and must not sacrifice moral judgment and practical reason for prudential considerations and the most profitable strategies. Instead, their moral goals must include balancing the needs of the individual and the community and defending society’s fundamental values (Gardner 1990).<sup>2</sup>

### ***Leadership and Responsible Agency***

Furthermore, moral leadership assumes that business is not exclusively determined by economic and societal forces that leave no space for moral decision-making. If it is true that the economic system as well as its key players depend and thus benefit from



**Table 2.1** Contrast

Economic rationality	Ethical reason
Normative logic of the exchange of benefits	Normative logic of human interaction
Power-based (what can be asserted is what counts)	Justice-based (what is legitimate is what counts)
Interests in maximization of private success	Inter-subjective obligations
Benefit-oriented conditional cooperation between self-interested, mutually unconcerned individuals	Unconditional reciprocal respect and recognition of persons of equal dignity
Market principle	Moral principle

Ulrich (2002)

the common ethos they have not and cannot generate on their own, this reveals another important truth. Contrary to popular perception, the autonomy of the economic system is not absolute and its rules do not have the status of immutable laws of nature. Instead, it is the product of human culture whose further development can be directed in accordance with human needs and the moral vision of the good society.

As the Swiss business ethicist Arthur Rich has argued, in spite of economic rationality and the autonomy of the economic sphere business leaders retain sufficient space for responsible acting even within the parameters of the economic imperative and its constraining objectivity. Although business leaders as everyone else have to work within economic and societal frameworks, these systems are not determinants that would leave no space for human freedom and decision-making. On the contrary, Rich maintains that both the economic and the ethical are interrelated dimensions of human agency. “That which is not economically rational cannot really be humanly just; and that which contradicts human justice cannot really be economically rational” (Rich 2006).

Therefore, people need to reflect critically on their actions and assume responsibility before the court of humanity if they do not want to become slaves of their own creations. Leadership and in particular moral leadership would be meaningless and indeed impossible, if economy and markets were exclusively determined by their own rationality. On this premise, even Adam Smith’s belief in the “invisible hand” is either one more myth, or rather the benign illusion by which we seek to protect ourselves from the otherwise disturbing truth about the utter insignificance of human acting and decision-making. Or it is the somewhat reluctant acknowledgment that economic rationality can only be “trusted” and expected to work towards the greater good of all when it is based on a shared moral vision of functioning social relationships. We may contrast ideal-typically and in rough strokes the two distinct views as follows (Table 2.1):

It seems obvious that in real life as in business, the two views are not necessarily mutually exclusive but frequently intertwined. It is one of the tasks of leadership ethics to illuminate their interrelationship and to provide theoretically plausible and practically-feasible reasons for strengthening the bond between them.

When we now turn directly to central issues of moral leadership in business, we need to remind ourselves that if this concept were to have any value it must be

carefully attuned to the complex reality of business in all its various aspects. In particular, it must reflect the situation of business in the global economy and the age of information technology. Within the limits of this chapter and for analytic reasons, I suggest to look at the following three closely interrelated dimensions of moral leadership:

1. The moral legitimacy of leadership: leadership ethics in business seeks to clarify the normative principles that apply to the relationship between superior (employer, manager, CEO) and subordinates.
2. The organisational dimension of moral leadership: as leadership unfolds within specific organisational settings and corporate frameworks, the ethics of leadership must include reflections on the moral norms of corporate culture and business practice at national and international levels.
3. The individual dimension of moral leadership: mediating good business practice with normative ideals leadership ethics identifies virtues and thus serves the moral development of individual business leaders.

While it is evident that the analysis of moral leadership intersects with all traditional divisions of business ethics, the three dimensions relate closely to issues in management ethics, corporate ethics and individual or virtue ethics respectively.

## **The Moral Legitimacy of Leadership**

Business leadership is characterized by asymmetrical power-authority relationships in hierarchical organizations. It can be exercised by “coercion (the possession of, and threat to use, the means of inflicting pain), reward (the possession of, and the promise to bestow, pleasure) and legitimate authority (warrant to speak for the group).” Business leaders have the power to “fire or demote, they can pay bonuses and promote, and the organizational chart backs up their right to command the obedience of their subordinates” (Newton 1987).

While its authority derives from legal and contractual stipulations between employer and employee, its moral legitimacy must be justified independently of considerations about legality and economic efficiency. As leader and follower, manager and subordinate are not only functional actors of the corporate system but above all autonomous human persons, the moral legitimacy of authority and power is fundamentally grounded in the free and informed consent of persons and in the respect of their dignity. Leadership certainly requires subordination and obedience, yet employees are not only means for greater profit, but persons whose rights must not be compromised and their dignity not violated. Moral leadership then integrates respect for human dignity and the recognition of fundamental human rights into business excellence and the competence to pursue economic efficiency.

Despite its somewhat high-sounding tone, grounding moral leadership in a strong conception of human dignity is not without teeth. It specifically challenges business practices sanctioned or tolerated by business leaders where violations of human dignity have come to be regarded as an unavoidable consequence of competitive

market economy. As one German human resources expert noted, the most common failure in business is the fundamental violation of human dignity (“Das häufigste Vergehen im Wirtschaftsleben ist die fundamentale Mißachtung der Menschenwürde,” quoted in Ulrich 1999).

Placing the principle of human dignity firmly on the agenda of business leadership implies not only a genuine “concern for the safety and welfare of all individuals with which the corporation deals,” but also regarding subordinates “as independent persons, capable of making their own decisions” (Newton 1987). Dignity-based moral leadership will not tolerate immoral orders or requests and not expect slavish obedience at the expense of constructive and critical loyalty. It will promote a participatory leadership style that seeks as much consensus as possible. It regards colleagues as members of a team and actively seeks their opinion. It engages them in the process of decision-making instead of merely asking them to follow and execute orders. Thus the moral legitimacy of leadership authority and power derives from the respect for fundamental rights grounded in the dignity of the human person. In particular, they include the right to physical and psychological inviolability, the right to privacy (data protection), and the right to fairness and protection against discrimination. This latter right extends from fair work conditions to fair pay.

In this regard, business leaders need also to be sensitive in their sphere of influence and authority to issues of what Johan Galtung has called “structural violence” (Galtung 1969). Company structures may be too rigid and stifle individual development or prevent employees from realizing their potential. As ethical rules are usually applied to individuals and not to companies, it has been argued that corporate cultures could generate “dehumanizing” effects on individuals.

In her highly recommendable book *Value Shift: Why Companies Must Merge Social and Financial Imperatives to Achieve Superior Performance* (2003) Harvard business ethicist Lynn Sharp Paine recalls how she once met a business man on a plane who told her frankly that his job was to be “a liar”: After his company had been bought by a large global enterprise his first truthful report as regional manager was received with such hostile response “that he never again dared to tell the truth.” Since then he regularly fabricated reports for headquarters. While it is easy to blame this manager, the company leadership failed even more in its humiliating and dehumanizing treatment of its employees, which clearly shows its destructive potential and self-defeating consequences. Klaus Leisinger, president of the Novartis Foundation, has proposed to domesticate corporate institutions with inherent potential for structural violence (instead of domesticating critical employees) by turning them into “open systems,” which are in continuous communication and interaction with their social environment. This would enable them to self-critically evaluate their own structures and to safeguard what he has called the “directed autonomy” of employees (Leisinger 1995). This implies providing the conditions for individual development and empowerment and working towards “a participatory leadership style” that subjects itself “to the control process of a pluralistic company-internal ‘public’.” Good companies are not so much interested in people who are easy to manage because they are obedient, diligent, honest, punctual, and reliable, or – in the worst case – simply report what the boss likes to hear. Instead they need employees who “distinguish themselves through primary critical virtues.” Besides the traditional cardinal virtues

of justice, courage, moderation and prudence Leisinger argues that they include “basic attitudes associated with the concepts of civil courage, ability to cope with conflict, tolerance and the capacity for constructive disobedience.”

“But can managers of corporations, who must meet quotas and deadlines and get a product shipped, afford the luxury of encouraging ‘independent thinking’ among their employees? The classic answer to this question (...) is that they must encourage, or permit, or tolerate, or support, the independent moral thinking of their employees, or else the enterprise is in violation of the fundamental rights and needs of human beings” (Newton 1987). The whole range of possibilities to fail on dignity-based leadership or to succeed and integrate it into superior performance may be illustrated by the following two examples. In 1996, when Sunbeam CEO Albert Dunlap announced he would either sell a subsidiary or shut it down as part of his strategy of slashing half the work force, then US Labor Secretary Robert B. Reich described the move as “treating employees as if they were disposable pieces of equipment.” When Newsweek ran a cover story about corporate layoffs, Dunlap boasted how wonderful such firings were for stockholders but completely ignored the moral claims of those fired. As the full story of Dunlap’s ruthless authoritarian leadership style would later reveal, it not only lacked the moral dimension but was also financially disastrous.

Contrast this with Marianne Nivert of the Swedish Telia Group, a regional leader in internet and communications services. Faced with layoffs of some 7,000 employees, Nivert and her team decided to develop a program that would help existing employees to upgrade their skills for possible reemployment. “Besides cushioning the negative social impact of restructuring, the program would enable the group to function more smoothly and without losing the valuable and company-specific knowledge possessed by these employees.” In the end, this program worked out for all stakeholders: staff was treated with respect and not as disposable equipment. It made financial sense and benefited both the company, which saved about \$300 million, and the Swedish government, which saved over 100 million in social cost (Sharp Paine 2003).

When Ralph C. Larsen, retired chairman and CEO of Johnson & Johnson, had finished his talk on “Leadership in a Values-Based Organization,” he was asked for major qualities he was seeking in young business applicants. Besides a strong commitment to a highly developed work ethic, he particularly stressed respect for human dignity: “Are they going to be respectful of people in lower positions? One of my pet issues is that, you show me somebody who is treating a subordinate badly, and I will show you a bad person. Those are the fundamentals that we focus upon.” It seems dignity-based leadership is not only possible but has also its advocates among respected business leaders.

## **The Organizational Dimension of Moral Leadership**

The best qualities of moral leadership are useless unless they are embedded in a supportive company structure. That is to say, moral leadership not only interacts with internal environments, corporate cultures, and hierarchical structures, it also

influences their development. While leaders may be the most visible representatives of an enterprise, companies, particularly corporations, are themselves moral agents with their own sets of values and objectives. CEOs come and go, while companies are usually there for the long term (French 1975).<sup>3</sup>

Among the various sociological factors that suggest that companies have their own identity and thus must be regarded as moral actors in their own right we may point to the following (Geser 1989): due to their internal structures and external conditions (environmentally dependent and resources-driven) companies generate their own needs, interests, and objectives, which are not necessarily identical with those of individuals. Decisions by individuals have implications for the whole company, but are also a function of the organization. The division of labour among all employees results in products that must be attributed to the company and not to individuals. Companies as juridical persons have rights and duties that usually outlive individual CEOs and managers. For instance, in US companies not the individual perpetrators are liable for the consequences (punitive damage claims) of sexual harassment (Bierach 2006). Furthermore, the general public sees in companies not only actors with legal but above all moral responsibility.

As Joseph W. Weiss has observed, “purpose, embodied in corporate culture, is the glue that holds organizations together. A corporation’s culture is the shared values and meanings its members hold in common” (Weiss 2003). Above all, companies must recognize the effects their activities have on society and the environment and take responsibility. For example, the concept of a firm’s responsibility has been expressed as early as 1994 in the mission statement of the Swiss pharmaceutical company Ciba, which together with Geigy and Sandoz is now integrated into Novartis (Ciba 1994). Novartis is a world leader in offering medicines to protect health, treat disease and improve well-being with net sales of \$32.2 billion in 2005 and net income of \$6.1 billion. The company seeks to achieve “sustainable growth by balancing our economic, social and environmental responsibilities.” The engagement of Novartis in development policy and humanitarian issues found its logical progression in the Novartis Foundation.

The company’s commitment to corporate citizenship rests on the four pillars of: Patients – discover high quality healthcare products targeting unmet medical needs. People – build an exciting workplace where people grow and realize their full potential. Health, Safety and Environment – reduce our environmental footprint. Business conduct – ensure corporate governance through high ethical standards and management processes.

In recent years an increasing number of companies have similarly expanded their objectives and explicitly recognized social and economic responsibilities. For instance, the Royal Dutch/Shell Group of Companies wants to deliver “economic progress, social development and environmental improvement” (Moody-Stuart 1999), highlights its concern with “People, Planet & Profit” and publishes progress reports on “economic performance,” “social performance,” and “environmental performance” (Enderle 2002). Ralph S. Larsen once summed up his company’s famous ‘Credo’ as follows: “In essence, it says that our first responsibility is to our customers, to give them high-quality products at fair prices. Our second responsibility is to our employees, to treat them with dignity and respect and pay them fairly. Our

third responsibility is to the communities in which we operate, to be good corporate citizens and protect the environment. And then, it says that our final responsibility is to our shareholders, to give them a fair return. In the final analysis, the Credo is built on the notion that if you do a good job in fulfilling the first three responsibilities, then the shareholder will come out all right. That is exactly what has happened over all these years [The Credo] implicitly tells us what's important: honesty and integrity, respect for others, fairness, and straight-dealing. Those are the ethical values on which we operate all over the world" (Larsen 2002).

While company leaders represent these values most visibly and while they are expected to take them seriously in their daily interactions with employees, business partners, and society, they must, above all, assure themselves of the moral grounding of their companies' values and objectives. Apparently, the interplay between leader and company is not exclusively defined by economic parameters but also opens up the moral space of leadership. In sorting out company values and formulating rules and policies leaders must therefore institute effective ethics checks and take measures to further develop established company policies in line with ethical standards.

Internally, the company-wide mechanisms to bring moral leadership to bear include codes of ethics, mission or core value statements, ethical training programs and reporting channels for ethical grievance (ethics office). According to a survey by the Conference Board, "for many CEOs a company's ethical principles help define the corporate mission, determine obligations to various constituencies, and set guidelines for the organisation's policies and practices" (Enderle 1993). Reidenbach and Robin have argued that companies like individuals, can develop morally and move through five stages that range from the (1) amoral organization, to (2) the legalistic, the (3) responsive, and the (4) emerging ethical, to the (5) ethical organization.<sup>4</sup>

Ronald Sims suggested the following ten guidelines for business leaders seeking to implement an ethical culture in their companies "(1) consider the personality characteristics of people applying to the organization, (2) make up statements that ethical behaviour is important and expected, (3) develop organizational policies that specify ethical objectives and formal procedures for addressing unethical behaviour, (4) develop a code of ethics, (5) develop a corporate ethics committee, (6) maintain an ethical organizational culture, (7) punish unethical behaviour and avoid punishing ethical behaviour, (8) when placing members into competitive situations, be sensitive to the potential for unethical behaviour and take appropriate steps to avoid it, (9) develop a systematic training programme, (10) remember that when decisions require moral judgment, group decision making generally results in higher levels of moral reasoning than does individual decision making" (Sims 1991: 503–4).

As morality and the law don't necessarily match, and business does not operate in an ethics free zone either, the need for the pro-active commitment to moral norms and values derives in part also from pragmatic considerations. While the law may only define the very bottom line of socially acceptable behaviour, unethical practices encouraged or condoned by business leaders, almost inevitably, will lead to calls by the general public for the extension of the law so as to assure compliance

with society's moral standards. Business leaders are, however, well aware of the undesirability of ever expanding legislation as this ultimately would restrict the space for decision-making by countless legal regulations, which would stifle business activity. It would also put business at a considerable disadvantage with regard to companies operating under more liberal legal regimes elsewhere. Moral leadership, in contrast, will be sensitive to society's expectations and voluntarily adopt standards of good practice that take the justified interests of others into account.<sup>5</sup>

Leaders must pay close attention to the avoidance and clarification of value ambiguities and value rankings within their organizations. It has been argued that many ethics violations by mid-level managers signal in fact conflicts of loyalty resulting from their leaders' inconclusive, ambiguous, or outright misleading value statements and personal behaviour. Morally committed leaders therefore will take measure to assure the development of moral sensibility and morally sound judgment in their subordinates and throughout the company. They will see to it that the moral point of view becomes an integral part of company performance and strategy (Gini 1997).

Leaders and subordinates, services and products, a company's culture and business objectives, they all make up a company's moral personality, which is in turn reflected in everything the company does. Yet besides their role within the company, moral business leaders will also recognize their responsibility within the larger business community. Through business organizations, chambers of commerce and board memberships, their influence usually extends far beyond their own company and into society. Business leaders are in close contact with government, accompany government officials on visits to foreign countries and participate in negotiations on regional and international trade agreements (WTO, GATT, GATS, TRIPS).<sup>6</sup> The failure of the Doha Round (within WTO) illustrates both the need for morally sustainable international trade agreements and the tremendous difficulties they are facing.

In all those activities, moral leaders will tie the strategic interests of their companies, and of their country to standards of common morality. They will recognize the fundamental importance of issues of human rights, global justice, and environmental sustainability. They will refrain from merely paying lip service to moral commitments and instead will go the extra mile by searching for ways to translate their moral vision into tangible results in their own business enterprises. They will support initiatives that seek to apply the moral point of view to all areas of business activities and, in particular, shun all unethical practices.

## **Moral Competence, Character, and Virtues**

“In the final analysis, it is individuals who will determine the ethical quality of business conduct. Personal integrity and commitment to high moral values begin in the family, are nurtured in schools and universities and mature on the job. The individual working in a business must be regularly reminded from the top of the need

for integrity, which includes adherence to stated principles and codes but which also requires a standard of conduct beyond printed guidelines” (Webley 1988).

If moral leadership is to be more than merely a technique for economic efficiency, leaders must believe in its intrinsic value and strive for moral character. They will neither merely instrumentalize ethics for personal success, nor mistake it as a substitute for “business literacy.” As Konosuke Matsushita, the founder and president of Matsushita Electric Industrial, illustrates, moral leaders must be able to look “up to the stars” and at the same time stand with both feet on the earth. If they expect people to take their leadership seriously, they must inspire them not only by reward and precept, but primarily by example and by visibly living the values others are to follow (Murphy and Enderle 1995).

Moral leadership therefore requires moral common sense, a clear value commitment, and moral character. It combines business expertise with the determination to bring the moral point of view to bear on all business decisions. Its authority derives as much from moral authenticity as from business acumen.

1. The story of US apparel maker Levi Strauss reminds us that company performance must be both ethically committed and financially sound. While Levi Strauss was one of the first global companies to set up ethical standards in its factories and decided to do business only in countries that recognized basic human rights, this could not protect it from financial difficulties in the late 1990s, which put its ethics commitment to the test. Yet even in these adverse conditions, Levi Strauss stuck to its moral principles. When it had to close down 30 of its 51 plants worldwide, it “offered departing employees generous notice and severance packages,” including a substantial amount of money for education, job training, moving expenses and health insurance for as long as 18 months, and provided grants to affected communities (Paine 2003).

In surveying the various individual requirements of moral leadership, we must remember the simple truth that its authority has to be grounded in astute business competence and not only in the powers that come with the top position. At the minimum, this implies what business consultant Warren Bennis has called ‘business literacy’ (Bennis 1989). It includes job specific knowledge and expertise, combined with high analytical intelligence and the ability to perceive, interpret, and create reality. Usually, successful business leaders possess the knowledge, skills, abilities, personal characteristics, and other person-based factors that help distinguish between outstanding and average performance (Pritchard 1999). Thus leaders are smart, articulate, strong-willed, and clear in their thinking, with a broad perspective on business and good judgment about important business decisions. They will have good interpersonal and communication skills and be excellent communicators who integrate expressive and communicative talents with argumentative competence without aggressiveness. It is only on those conditions that they can expect to influence and encourage subordinates to higher performance levels.

In the global economy of multicultural interactions business leaders need also to be “globally literate.” They must be able and confident to see, think, act, and mobilize in culturally mindful ways. Global literacy then is “the sum of the attitudes, beliefs, knowledge, skills, and behaviours needed for success in today’s multicultural,



global economy” (Rosen and Digh 2001). On the assumption that economic mechanisms do not fully determine decisions and that there is space for responsible and free agency, effective leadership requires broad vision and creativity.

2. Moral common sense identifies the bottom line of moral leadership and includes the moral minimum of acceptable business practice. Kenneth Goodpaster (1984) has summed it up in the following nine precepts:

- avoid harming others,
- respect the rights of others,
- do not lie or cheat,
- keep promises and contracts,
- obey the law,
- prevent harm to others,
- help those in need,
- be fair,
- reinforce these imperatives in others.

Regardless of how cleverly carried out, there is not much cultural insight needed to know that stealing company money or confidential information, plundering pension funds, accepting bribes, tolerating or authorizing false accounting practices, ignoring product safety standards, risking employees’ lives through unhealthy work conditions are universally condemned as shameful. Moral leadership begins beyond this threshold. It commits executives to look for ways how they can contribute to minimizing unavoidable harms and to improve the living conditions of the worst off while increasing company value. This may turn out less impossible than it looks. A recent example is Gilead Sciences Inc., maker of the world’s best-selling AIDS treatment. In early August of 2006, the company announced that it has offered to help generic drug makers in India produce the medicine at a fraction of the cost it charges in the U.S. (87 cents a day, compared with \$24.51 in the U.S.). Gilead’s offer to help generic companies manufacture their products represents the latest step by drug makers to increase access to AIDS therapies. Previously, in addition to cutting prices, drug companies had granted permission to generic makers to copy medicines. They also promised not to defend patent rights. Now Gilead announced it is handing over its manufacturing secrets to generic companies to reduce prices even further and to get the drug to more patients. Among the AIDS-drug manufacturers, New York-based Bristol- Myers Squibb Co. and Basel, Switzerland-based Roche Holding AG are pursuing similar deals that involve handing over proprietary production data. Gilead officials pointed out the new initiative builds on an approach pioneered in 2002 by the Clinton Foundation. By giving away the patent and helping the Indian companies make the drugs, Gilead is hoping to drive down prices by fostering competition (Kottle 2006).

3. Moral leaders are aware of the tie between the core values of their company and their personal value commitment. In adopting the moral point of view in all their actions, they develop moral character and become shining examples for their subordinates. This insight can be traced all the way back to Confucius who made it the cornerstone of his political philosophy: “When a prince’s personal conduct is

correct, his government is effective without issuing orders. If his personal conduct is not correct, he may issue orders, but they will not be followed.” (Lunyu, XIII, vi) And again: “A ruler who governs his state by virtue is like the north pole star, which remains in its place while all the other stars revolve around it” (Lunyu, II, 1).

In an Asian, particularly Chinese context, the confidence of society in the integrity of moral character is expressed in the concept of “face” (*lian*), which provides it with social “visibility” and connotes more than mere social standing.<sup>7</sup> As individuals who have lost “face” cannot function in their community, moral standards are enforced by social sanctions, which in turn foster the internalization of moral norms and thus the development of moral character (Ho 1976; Connerly and Pedersen 2005).

“Virtue” as the integration of the moral point of view into all dimensions of business leadership unfolds in a variety of specific moral qualities. Most important among them are honesty, integrity, trustworthiness, and justice and fairness.

As Donald G. Zauderer has pointed out, “managers who lack integrity place themselves and their organizations at risk. When they transgress norms of integrity, they risk losing the trust, loyalty, and commitment of employees, suppliers and customers. The best preventative is for organizations to define the moral standards expected of everyone and to develop programs that reinforce these standards” (Zauderer 1992). Integrity means acting in accord with one’s own principles, values and beliefs. Inconsistency means a lack of integrity, as demonstrated by the CEO who preached integrity in his speeches but whose direct reports found him untrustworthy. He mishandled bonus money to boost his own bonus and ended up resigning (Lennick and Kiel 2005).

Honesty and integrity imply a commitment to openness, truthfulness and transparency. To be honest is to be not deceitful, but frank and open. Honesty is primarily a relational value rooted in an experience of sharing with others and communicating with them truthfully. For a business leader to be a person of integrity implies not to be corrupt, not to promise what one cannot deliver, not to misrepresent or to evade accountability, and not to suppress obligations. In Kouzes and Posner’s survey of thousands of managers about what they wanted in their leaders honesty came out on top (87 %). The authors concluded: “Honesty is absolutely essential to leadership. After all, if we are willing to follow someone, whether it be into battle or into the boardroom, we first want to assure ourselves that the person is worthy of our trust. We want to know that he or she is being truthful, ethical, and principled. We want to be fully confident in the integrity of our leaders” (Kouzes and Posner 1993; Draft and Lengel 1998).

In 1991, Salomon Brothers was a respected Wall Street investment firm, when it began to circumvent Treasury rules through submitting fraudulent bids and lost its integrity. When Warren Buffett began to “clean up” the firm “to earn back its integrity,” the first thing he did was to demand of each senior manager “to report instantaneously and directly to me any legal violation or moral failure of any employee of Salomon.” He would exempt from this rule “only minor failures not involving significant breach of law by our firm or harm to third parties.” And he reminded everyone in no certain terms of his ethical stance: “Lose money for the firm, I will

be very understanding; lose a shred of reputation for the firm, I will be ruthless” (Sharp Paine 2003).

4. Furthermore, moral leaders are leaders who are trusted because they have proven to be worthy of trust – by colleagues, subordinates, clients, and customers. Trust establishes an atmosphere of shared understanding, even feeling, and is a precondition of any alliance and mutual understanding. A moral leader is someone who succeeds in establishing and sustaining a framework of trust. Gaining trust by new CEOs or presidents just taking office is probably the most important factor in their success or failure as leaders. Trust is a reciprocal relation, one that binds people together in their mutual interests. “Whereas leaders may be said to earn the trust of their followers, it is the followers who have the capacity to give that trust. Trust thus becomes a part of the dynamics of the relationship between those who would be leaders and their followers” (Solomon 1998). Only leaders able to foster relationships that create respect for all parties will earn the trust they deserve.

As the Caux Roundtable Principles for Business emphasize, business leaders must “rise above the letter of the law towards a spirit of trust.” Not everything that is legal is for that reason also moral, and the law leaves many loopholes for morally dubious actions that undermine public trust. Yet trust is both a fundamental requirement for doing business and one of the most precious company assets. It cannot be legally mandated but has to be gained through morally committed practice.

Richard Lancaster, then President of RBI Precision, called trust the basic element in all relationships, particularly in business relationships. “As we direct our resources and energy towards achieving our mission we develop covenants along the way. Employers depend upon employees, customers depend upon suppliers, banks depend upon borrowers and in each case the latter party depends on the former party while the list of parties goes on and on. Therefore we find that the businesses of quality and long tenure tend to be those where all relationships are built upon honesty and trust.” Business leaders who are insensitive to society’s value expectations or deliberately ignore them, will not be trusted. In the absence of trust, companies will increasingly be faced with calls for expanding legal controls that will institute costly checks and balances.

5. Moral courage: Courage in general involves the capacity to cope with difficulties and dangers, and not to be intimidated by them or unduly fearful. Moral courage is the capacity to do what one judges is ethically called for in spite of one’s instinctive reaction to the perceived dangers and difficulties in which such an action will result. Moral courage means refusing to do what is unethical (e.g. paying or accepting bribes even in countries where corruption is “endemic” and laws either non-existent or not enforced) and instead promoting the ethical way even in times of recession and other obstacles. Corruption is certainly the most obvious opportunity to prove moral leadership and to face it with moral courage. Corruption is ubiquitous and affects all countries. It causes huge losses to individuals and societies and causes real harm. What is at stake can be seen in the annual Global Corruption Report of Transparency International. In its 2005 report it listed ‘Monuments of Corruption’ around the world with bribe money for individual projects ranging from 2 million to 1.8 billion US dollar.

6. Lastly, moral leaders must have a clear sense of and a commitment to justice and fairness. Justice concerns the fact that “each person matters and matters equally, each person is entitled to equal consideration” (Will Kymlicka). In business environments, justice demands of leaders the distribution of benefits and burdens in accordance with moral principles. They must be personally concerned about the fairness of salaries, bonuses, and wages they pay to the people in their companies. Truly moral leaders will not shy away from applying standards of justice and fairness to their own remuneration.

Authentic leaders (George 2003) therefore need moral courage, the capacity to do what one judges is ethically called for and not to give in to difficulties that may result. Moral courage means refusing to do what is unethical, for instance paying or accepting bribes even in countries where corruption is ‘endemic’.

## Moral Leadership Counts

In conclusion, if we accept that business does not operate in an ethics-free zone and that business leaders are not only functionaries of economic efficiency but persons with moral obligations that define our common humanity, then moral leadership is not optional but a must. It is beyond the simplistic dichotomy of being either an asset or a liability. Instead it is an indispensable constitutive factor of what can count as business excellence within the parameters of the “good society.”

Much has been said in leadership studies about its strategic business value, and there are many reasons to believe that, indeed, ethics pays and that good ethics is good business. Reporting the results of a survey of business leaders, the Business Roundtable of New York called the belief that ethics and profit contradict each other “a myth”. “That myth is thoroughly debunked by the attitudes and actions of top managers in the companies that contributed to this report. There is deep conviction that a good reputation for fair and honest business is a prime corporate asset that all employees should nurture with the greatest care.” Basic to effective leadership “is the insight that corporate ethics is a strategic key to survival and profitability in this era of fierce competitiveness in a global economy.” Similarly, The Institute of Business Ethics, London, confirmed that “surveys of businessmen concerning their view on corporate ethics show that the belief is widely held that good business and good ethics go hand-in-hand” (Enderle 1993). Various studies have confirmed the positive effect of trust, helpfulness, and fairness for increasing work-group creativity. “Employees are more likely to support management decisions that have been reached through a fair process.” And they clearly look for integrity in their boss.<sup>8</sup>

Yet as the limerick has it: “The rain falls on the just and on the unjust fella. But mainly on the just, because the unjust has the just’s umbrella.” To be sure, there are moral leaders who had to quit because their companies floundered, and there are managers who thrive on unethical practices. The majority seems to follow the

opportunist's path. They are ethical as long as it pays but have little qualms to trade ethics for more tangible profit.

Ethics, however, is not a luxury we could do without. Business leaders, too, feel its pinch, and underneath their sometimes ruthless images many experience that nagging suspicion that all their success may fall short of their own ultimate standard. Leadership consultant Peter Koestenbaum recalls one of those moments when a business leader comes across his true self: "I am the top executive in a very large organization and I live with a deep conflict. There is a fundamental 'bad' in business, a pervasive cancer. Business lives in a cutthroat, ruthless, dishonest atmosphere. You do what it takes and care nothing about morality. You are not true to your word. In the end, you cheat, deceive, and lie. Eventually, even the most determined among us must contract this disease. This presents me with a fundamental dilemma: Can you win being 'good'? I do not want to take on the characteristics that disturb me in some of my colleagues" (Koestenbaum 2002:127). Obviously, the moral imperative cannot be ignored indefinitely. There is a moral self in each of us, which proves that ethics defines our very humanity.

The motivation for moral leadership may start from strategic considerations about the many personal advantages that come with an ethical reputation in a society where ethics plays an increasing role in many areas. It may also be motivated by the potential for profit and success for the company, at least in the long term. Yet ethics has not only instrumental but intrinsic value. Ethics is its own reward. It turns our world into a liveable habitat for all humans where together we can enjoy the fruits of our labour. Moral leadership must therefore go beyond strategic calculations and express the conviction that, in spite of all the crooks around us, ultimately, ethics is without alternative; ethics counts – in business as elsewhere. Business excellence and excellent leadership performance without ethics are contradictions in terms. Excellent business leaders are able to look their subordinates in the eyes without blushing, and they can bear their true selves without being ashamed every time they look in the mirror. Moral leaders would not have to shy away from the "reciprocity test" of the universally recognized Golden Rule: "How would I feel if they did that to me?"

It may be true that in the ruthless world of business as we know it such moral vision stands little chance. There is a long tradition in western philosophy that has even doubted that ethics can be taught, and this may well apply to courses in leadership ethics and managerial ethics training programs, if moral awareness and sensitivity had first to be created from scratch. The question, "why should I be moral?" will remain without answer as long as we don't know it already. It is either redundant or wrongly footed as it suggests a world without ethics as a viable alternative. Yet human society anywhere in the world is already impregnated by moral values and norms without which humanity could not have survived until now. The truly amoral person, therefore, is either parasitic on society's extant and functioning ethical systems, or he or she is mentally disturbed and deserves our compassion. The value of moral leadership training courses then lies in their potential for making leaders aware of their moral sense, strengthening their moral sensitivity, and

furthering their competence for sound moral judgment. Leaders need to be conscious of their power to harm or to benefit individuals and society alike, they need to include ethics in their standards of performance evaluation and the assessment of the consequences their decisions are likely to have. That is to say, they need to personally endorse in their practice the insight that ethics counts and that it is without alternative.

In a world without ethics and the respect it demands of each of us for no other reason but that we are human beings – fragile and vulnerable, but with a dignity beyond all price – in such a world even profit and success would have lost their meaning. I would like to conclude with a quotation from Jürgen Habermas, which I fully endorse and to which I have nothing to add: “Without the emotions roused by moral sentiments like obligation and guilt, reproach and forgiveness, without the liberating effect of moral respect, without the happiness felt through solidarity and without the depressing effect of moral failure, without the ‘friendliness’ of a civilized way of dealing with conflict and opposition we would feel, or so we think today, that the universe inhabited by human beings was unbearable. Life in a moral void (...) would not be worth living. This judgment simply expresses the ‘impulse’ to prefer an existence of human dignity to the coldness of a form of life without moral considerations” (Habermas 2001).

## Notes

1. It is characteristic of ethical norms that they are universalisable, justifiable, overriding and impartial (Cohen 1999:15). In the Kantian tradition, ultimately, it is not happiness that counts in morality but being worthy of it: “Do that through which you become worthy to be happy” (Kant 1787: 836–7).
2. Together with MacGregor Burns (Burns 1979), John W. Gardner is regarded as one of the most respected and quoted figure in leadership studies. His book *On Leadership* offers “a good, common-sense discussion of ethics and leadership in his chapter ,The Moral Dimension” (Ciulla 1998: 8).
3. Peter A. French has argued that corporations are moral persons on equal footing with natural persons with all the privileges, rights, and duties moral persons normally have (French 1975; similarly Werhane 1985).
4. The corresponding moral attitudes are expressed in slogans such as the following: (1) “get what you can and get out,” (2) “if it’s legal, it’s ok,” (3) “ethics pays”: growing concern for various stakeholders, (4) “we want to do the right thing”: ethical values become part of the corporate culture, (5) a total ethical profile with carefully selected core values (Reidenbach and Robin 1991: 282–3)
5. A recent example is the EU’s decision not to intervene, for the time being, in the financial markets by mandating regulations for the clearing and settlement sector. It expects, however, the industry to voluntarily adopt a code that would not only ensure greater competition through greater transparency in pricing but also more overall efficiency).

6. World Trade Organization (WTO), General Agreement on Tariffs and Trade (GATT), General Agreement on Trade in Services (GATS), Trade-Related Aspects of Intellectual Property Rights (TRIPS).
7. The related concept *mianzi* represents social perceptions of a person's prestige.
8. Paine (2003: 42).

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# Chapter 3

## Rethinking the Impact of Religion on Business Values: Understanding Its Reemergence and Measuring Its Manifestations

David W. Miller and Timothy Ewest

Many in Western business no longer ask “if” religious values<sup>1</sup> have an impact on employees and companies that comprise the modern economy. Rather, the question for many today is “in what ways” and “how does one measure the impact of religious values on organizations?” As a result, American business scholars and practitioners have developed a rich and growing strand of literature trying to understand the relationship between the variables of religious values and business performance. It is increasingly also a question of global interest, witness this conference in Beijing hosted by the Center for International Business Ethics and Caux Round Table, and many other academic and practitioner gatherings throughout other parts of the globe.

So the question before us is, “what types of impacts do subjective human values, specifically religious values, have on the marketplace?” and “is it possible to measure them?” This is not an Western or an Asian question; it is a crucial question for business leaders and scholars across all cultures and countries. As for answers, we inquire from a variety of academic and practitioner fields some proximal and subject to change, while others are transcendent and eternal. Some are of secular origin, while others are sacred, drawing on religious texts, narratives, and traditions.

This chapter argues that religious values continue to have impact on the economy and in the workplace, as was suggested early on by Weber (1905), and is experiencing resurgent practitioner interest and scholarly research in modern times. Moreover, the recent reemergence in the study of the connections and relationships between the marketplace and religion in the West and increasingly globally are due to changes in organizational and economic structures (as well as macro patterns and issues such as

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ethnic diversity and immigration, ethics, human rights, and globalism). And finally, if understanding the ethical and other practical impacts of religion on the marketplace should become a strategic concern for business professionals, the chapter suggests The Integration Box theory and its ensuing scale as a measure of subjective human values, including but not limited to religious values, and their manifestations in their corresponding integration with work. This will, among other things to be later discussed, will allow business professionals and organizations to detect and understand various religious traditions and their manifestations at work in a meaningful way, and when appropriate, adjust policies in light of the spiritual climate of their organization.

## The Challenge of Max Weber

Max Weber (1905) in his work *The Protestant Ethic and the Spirit of Capitalism* was one of the first in modern times to observe the interconnection of religion and the marketplace. Author of many cross-cultural studies and theories, this is likely Weber's best known work in the West; most often cited and studied, and most frequently qualified and critiqued. Weber's seminal insight was that a relationship existed between certain religious teachings and economic behavior. A brief review of his thesis, however later challenged, remains instructive for scholars of religion and society. In particular, and most controversially, Weber observed that regions and countries that adhere to Protestant theology had the highest rate of business and capitalistic economic growth. Moreover, he asserted that attitudes and motivations toward engagement in economic activity and structures were shaped and informed by religious ideas as well as theologically informed ethics (Goldman 1990). Weber believed that among other factors, components of Protestant theology, specifically, its Calvinist and Puritan strands which developed in light of Luther's dramatic theological impact, were catalytic and elemental in the emergence of entrepreneurial activity.

Luther imputed religious meaning to daily work, traditionally considered profane and mundane, identifying work as a calling (*Berufung*), imbuing it with theological importance on the same par as priestly work (Holl 1921; Miller 2007). Calvin, building on Luther, had a broader view of work as a calling, allowing for social movement and self-betterment. Weber saw in Calvinism further theological motivations where hard work, sober and modest lifestyles, and reinvestment of profits into business led to material success. Commercial success was deemed a sign of God's pleasure and an indicator of eternal rewards, often known as the doctrine of predestination. Moreover, Weber observed the economic impact of Calvinist teachings that accented a "this worldly" asceticism, and that called for rational economic actions. Weber saw in Calvinist and Puritan forms of Protestant Christianity a historically distinctive "spirit," that when coupled with other variables led to a religiously motivated accent on rational economic engagement and production, and an ascetic protestant ethic (Goldman 1990; Koch 1993; Miller 2007).

The spirit of enterprise was created where willingness to work placed the motivational burden on individuals, where each person's work was a gift of grace from God and therefore perceived as a calling to which one responded with industriousness

(Fleißigkeit), prudence, and rational economic behavior to maximize one's calling and seek evidence of God's pleasure. The presupposition was that God desired profitability as a means to demonstrate stewardship, that is, the person who fulfills a calling, does not waste time and resources (Hansin 1963; Barbalet 1980; Goldman 1990; Koch 1993). This belief in the connection between the values, beliefs, motivations of faith and the direct effect on entrepreneurial commerce in organizations has carried forward to modern scholarship. This "spirit" has been observed in modern times, as well as in alternate religious expressions.

## Modern Applications of Weber's Theory

In modern times, Weber's methods, data, and conclusions have undergone a great deal of revisionism and critique. Yet his core observation – that there exists a relationship between religious beliefs and economic agents and their activities – remains widely accepted. Indeed, the phenomenon of "spirit" of capitalism is observed as wide-ranging; some scholars see evidence of its impact in religious traditions other than Protestant Christianity. For instance, Catholics have laid claim to similar influences (Novak 1990, 1996). Woodrum (1985) observed the same phenomena in Japanese Americans who immigrated to America during, Japan's Tokugawa period (1600–1868). Woodrum argues that the Buddhist sect of Shinshu, had similar ethics to that of protestant Christianity, namely: asceticism, calling to work and legitimated stewardship. During this period large numbers of the Japanese Buddhist sect of Shinshu migrated to the United States. Using data from 1964 to 1966 Japanese American Research Project (JARP) surveyed 18,000 immigrants who arrived in the U.S. before 1924. Those surveyed had high incomes and were self-employed. The study correlated the success of the Shinshu immigrants with those Weberian religious indicators that contribute to increased entrepreneurship. The findings demonstrated that religious beliefs do in fact contribute to their economic achievements. Specifically of the two religious forms: Buddhism and Shinshu.

Finally, Redding (1995) argues that the spirit of capitalism is alive in China as well, suggesting that cultural values, in this case the religious values of Confucianism, have significant impact on economic behavior. Based on interviews with some 72 Chinese entrepreneurs and executives in Hong Kong, Taiwan, and South East Asia, Redding finds Confucian core religious values such as paternalism, collectivism, feminism and social hierarchy have created a significant context from which new ventures are fostered.

While some scholars ignore or dismiss the role religion plays in societies in general, we join those scholars who continue to study and debate the types of impact religious teachings and other subjective sources of human values have on motivations, attitudes, and behaviors, including on business ethics and values have on the marketplace. Some continue in the Weberian tradition with Western accents, while others accept the thesis that religious values impact organizational and economic life, yet write out of a more international perspective.<sup>2</sup>

So, if as observed by Weber in 1905, and despite decades of rigorous critique remains supported by the modern academic guild, there is an observed connection between religion and commerce, why hasn't this connection been given more attention by practitioners in previous generations? To determine this we need to turn back to Weberian conceptions of bureaucracy, as well as the economic evolution of the American economy.

## **The Bifurcating of Religion and Workers**

Different scholarly guilds come to the same conclusion, albeit drawing on different methodologies and frameworks. For instance, Miller (2007) draws on theological and sociological/ethnographic historiography to describe and explain the bifurcation and compartmentalization of faith and work in American business during the twentieth century. Nash and McLennan (2001) draw on sociological methodologies interviewing business people in management authority, Christian clergy and lay groups. Coming from the management guild, Pine and Gilmore (1998) believe that the present exclusion of spirituality in the workplace is due largely to an evolution in the historical organizational development. Historically, economic progress has passed through four stages: agrarian; industrial; service; and experience economy (Pine and Gilmore 1998). They ascribe the past American separation between religion and the workplace as a byproduct of the industrial era.

The industrial era reflected Weberian conceptions of rational economic activity, atomization, and organizational bureaucracy which focused on specialization and the division of labor, worker's activities were governed by rules, a strict focus on technical competence and strict human impartiality in promotion and evaluation (Koch 1993). The result was that the industrial era was dominated by rational repetitive labor, job fragmentation, increased worker output, and militaristic taking of orders. The production philosophy of Fordism was dominant, where mass consumption combined with mass production was intended to produce sustained economic growth.

The result was workers were "expected to check their brain at the door – managers were responsible for the thinking required" (Ashforth and Pratt 2010, p. 61). This bifurcation created a division in the American worker's life. Thus, employees kept all aspects of their private life, including their faith, apart from their work life, learning to squelch or suppress their spiritual dimension while at work and in their public professional persona.

This condition was carried forward into the next iteration of the economy, the service economy. The perception carried by the employee was that they could not bring their whole selves to work. Mohamed et al. (2001) illustrate the outcomes of the division in the American worker when the 1980s and 1990s bought massive layoffs and constant reorganization. One result, among others, was that workers began to turn to their faith as a source of stability and comfort during this era of

workplace dislocation and stress, often viewing the inclusion of spirituality at work as a panacea to their woes (p. 102).

For Mitroff and Denton (1999) it created the Faustian Dilemma: "If you express your faith without a set of clear guidelines for its appropriate expression you may be punished, but if you do not express your faith, in the area where you devote the greatest amount of your waking hours, the development of the soul is seriously stifled if not halted" (p. 7).

The reaction to this in the present economic era, the experience economy (Pine and Gilmore 1998), was that most executives and consultants from various motivations realized the present organizational structure, in terms of its often oppressive and stultifying effect on employee well-being, was not sustainable for both workers and organizations (Ashforth and Pratt 2010, p. 102). This resulted in a new exploration of organizational models which allowed people to be full participants in the workplace. Porter and Kramer (2006), Senge (1990), Covey (1989), and Block (1996) all envisioned a new paradigm where people in the marketplace could bring their whole self to work. While such consultants did not necessarily or always envision religion/spirituality as being included with the "whole self" concept, it logically opened the door to such questions and has become generally accepted, as religion is considered by many to be a constituent component of human anthropology. The change in orientation by executives and consultants fit well with the present experience economy paradigm, which demands distinctive personal experience for the customers based on endemic human qualities such as human values. Ideally, then, organizational models which allow the whole person to come to work are sought as a means to empower employees and possibly in turn for those employees to meet unique and personal demands of the customers. For example, Mitroff and Denton (1999) held that companies that have a spiritual dimension and allow the whole person to come to work have employees with higher loyalty, lower absenteeism, and greater creativity.

There is a demonstrable and growing body of evidence presented in scholarly research (Fogel 2000; Nash and McLennan 2001; Williams 2003; Giacalone and Jurkiewicz 2010; Miller 2007; Lambert 2009), media stories (Conlin 1999; Gunther 2001; Grossman 2008), and voices from the marketplace itself (Pollard 2000; Julian 2002; Maxwell et al. 2005; Beckett 2006) which clearly demonstrate this change in the marketplace. Many employees of all levels, in all industries, and in all parts of the country (and increasingly the world) wish to live a holistic life and bring their whole self to work, including their faith. This is often called the Faith at Work movement or Spirituality and Work movement (Miller 2007). The global economic crisis triggered in 2008 has, if anything, furthered strengthened this movement.

However, if the inclusion of religion in the workplace is to be a going concern for business professionals, then a means to detect universal religious manifestations must be developed which could allow business professionals to understand, measure, and as appropriate adjust the policies pertaining to the spiritual climate of and impacts on their organization. Is there a theory to understand this phenomenon particularly one that works in a multi-faith environment?<sup>3</sup>

## **The Integration Box (TIB): Toward an Understanding and Measurement of Religion/Spirituality in the Workplace**

In light of this question, Miller (2007) developed a theoretical model, called The Integration Box. The organizing principle of The Integration Box (TIB) is that men and women increasingly desire to live an integrated life, where faith (however one understands it) and work (of whatever kind) are integrated, not compartmentalized. Increasingly, as suggested, people are no longer willing to lead a bifurcated life, where their spiritual identity is divorced from their workplace life. For many, living a healthy and holistic life includes integrating mind, body, and spirit in all spheres of life, including work. Indeed, few would advocate a return to the dark days of industrialization where workers lived fractured, atomized, and dis-integrated work lives.

Miller's research that led to the TIB theory included literature reviews, field interviews, and an analysis of over 1,000 individuals and "faith at work" groups. Though largely a study on the United States marketplace, it did include evidence of similar such patterns developing in other countries and cultures around the globe. This research contributed to the theory that people of all levels and profiles increasingly desire to live a holistic life, which includes among other things their faith, and a desire to integrate faith and work. And the way in which people sought to integrate their faith and work – irrespective of religious identity, race, gender, or ethnicity consistently conformed to one of four manifestations or modalities.

As a result of Miller's research into the faith at work movement, it was posited that there are four manifestations or ways that people integrate faith and work (Miller 2007). These different manifestations are referred to as "the Four E's." The Four E's are driven by the organizing principle of people's desire to integrate faith and work, whether consciously or subconsciously. Furthermore Miller's initial research suggested that each person has a natural orientation toward one of the Four E's as their primary manifestation of understanding and living out the concept of integrating faith and work. Central to the TIB theory is that all of the Four E's are theologically legitimate and valid, and that no one manifestation is better or worse than another. Each has their distinguishing features, strengths, and weaknesses. The Four E's or manifestations are: Ethics, Expression, Experience and Enrichment. See Table 3.1 for full definitions of the manifestations and their corresponding motivations. Within each of these four manifestations, there are also two orientations, which further help measure and define the primary manifestation. For example, some manifestations of how people integrate their beliefs are done in an outward, more visible, and overt manner, while others are done in an inward oriented, less visible, and more subtle manner.

Another critical aspect of The Integration Box theory is that it is ecumenical in nature, designed to be reflective of all worldviews, be they theistic or secular. The Integration Box theory is conceived to apply to and be of use in a multi-faith organizational environment, whether a publicly traded company, a privately owned small business, an educational institution, or even a nonprofit. Further, understanding and using this theory is posited to be of benefit at the individual level for people to

**Table 3.1** Definitions of the manifestations and their corresponding motivations (Source: Miller 2007)

Manifestation	Description	Motivation
Ethics type	Places high value on attention to ethical concerns	One's faith/spirituality: guides one; compels one; and/or inspires one to take ethical actions
Expression type	Places high value on the ability to express their faith tradition and worldview to others	Persuading others to join their faith tradition or worldview, as a response to religious obligation or freedom of expression
Experience type	Places high value on how they experience their work, often understanding it as a spiritual calling and having special meaning	A search for meaning in their work; purpose for their work; and value in the work itself
Enrichment type	Places high value on drawing strength and comfort from spiritual and/or consciousness practices	Draws strength and comfort for work; coping with pressures and problems at work; and finding wisdom and personal growth through work

become more self-aware and respectful of others at work and the plurality of religious traditions. And at an organizational level, an employer might profile their organization as a whole to notice patterns, policy congruency, support a diverse workplace, and to help shape and inform certain managerial decisions.

The prospective goal of the TIB theory is to help individuals understand how people integrate faith and work, and for organizations who wish to understand, and respond constructively to the phenomena of religious values in the workplace. However, without a validated assessment, managers and employees are unable to understand or identify the constructive business benefits of faith and work which provide foundations for ethics, excellence, enrichment, and experience (meaning and purpose) in work. Nor is management be able to provide protections for legitimate religious practices, behaviors, and accommodations, as protected by law, even if they are unfamiliar or alien to the majority population. As seen with racism, sexism, and other forms of workplace discrimination and/or harassment, the law alone seldom provides management with analytical tools that lead to better understanding or business solutions. As such, it is further posited that the TIB provides management a theory intended to educate and prevent maltreatment of religious peoples and vice versa in the increasingly pluralistic workplace.

## Conclusion

This chapter argues that Weber's (1905) initial observation of the affect of religious values on marketplace activity, while for a time being suppressed due to organizational and economic structures and normative practices has, due to those same and

other forces, resurfaced. Recognizing the integration of faith and work becomes timely and important because it encompasses issues such as ethics, leadership, diversity, human rights, and globalism. Furthermore, if this phenomenon can be assessed through an empirical instrument, managers and employees can benefit both corporately as well as personally.

Specifically, the chapter posits the TIB theory as a potential theoretical framework, established in theological, historical and ethnographic research, as having the ability to diagnose four universal manifestations of faith or religious identity (Four E's) at work. These four manifestations as posited in the TIB theory would help individuals understand how they integrate faith and work, as well as those organizations that wish to understand and respond constructively to the faith at work movement. The intent is for organizations and individuals to have a validated instrument that quantifies and classifies the relationship between people's individuals' orthodoxy (set of right beliefs) and their workplace orthopraxy (how their beliefs are manifested and lived out at work).

At the organizational level, if a company has composite information about manifestation patterns for faith and work integration, it may bring many potential business benefits, including increased diversity and inclusion; avoidance of religious harassment or discrimination claims, respect for people of different faith traditions or worldviews, and possibly a positive impact on ethics programs, employee engagement, recruiting and retention.

## Notes

1. The use of the words religion and religious throughout this chapter will also be used to connote similar conceptions articulated by the words spirituality, spiritual, and faith.
2. Peter Berger's, *The Capitalist Revolution* (1998) and *The Desecularization of the World* (1999); David Landes, *The Wealth and Poverty of Nations* (1989); Lawrence Harrison and Samuel Huntington's *Culture Matters: How Values Shape Human Progress* (2000); Giacalone, R. and C. Jurkiewicz (2010); *Handbook of Workplace Spirituality and Organizational Performance* (2003); Benjamine Friedman's *The Moral Consequences of Economic Growth* (2005); Robert Fogel, *The Escape from Hunger and Premature Death* (2004); and Gregory Clark, *A Farewell to Alms: A Brief Economic History of the World* (2007); Max Stackhouse's *On Moral Business* (1995); Robert Nelson's *Max Weber Revisited* (2010).
3. Note: while many scales of religiosity exist (Measures of Religiosity, Hill and Hood 1999), few pertain to the marketplace, and the few that do have different aims than this chapter sets out. This will be discussed later in the chapter.



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**Part II**  
**Business Ethics in Asia**

## Chapter 4

# Understanding Integrity Across Generations in China: Implications for Personnel Choices in Chinese Corporations

Rev. Mark Bandsuch

Superior leadership, ethical decision-making, and integrity are essential qualities for business managers at all levels of an organization, especially in today's quickly-changing global society. This is particularly true in the People's Republic of China (PRC) where relationships and their integrity play a prominent role in all interactions, commercial and otherwise. Multinational corporations devote numerous resources to developing leadership competencies and decision-making skills, which include the ability to navigate the business successfully during influential economic, organizational, and societal changes, like the recent economic crisis, the various business scandals, and the numerous political conflicts. Chinese companies will do society a significant service by also emphasizing ethics training and development because their actions reverberate across the global economy

The formative experiences of successful executives, communicated through personal interviews and surveys,<sup>1</sup> lay the groundwork for this chapter's eventual recommendations on how to cultivate integrity, social responsibility, and ethical awareness among this new generation of multinational companies, especially across the generational lines of its leadership in the People's Republic of China (identified respectively as Loyalists, Revolutionaries, Reformers, and Little Emperors). In brief, different generations of business managers in China have different understandings and perspectives about "integrity" and how it applies to business behavior, business ethics, and corporate social responsibility. Accordingly, individual and institutional ethics can and should be cultivated by businesses through personnel, policies, and programs that account for these different generational perspectives. This multi-generational ethics strategy will improve an organization's integrity, retention, and overall performance, as well as provide macro-economic benefits to the global marketplace.

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## Integrity in China<sup>2</sup>

In China, the concept of “integrity” (de) is of great consequence, “perhaps the most significant word, next to dao, in ancient Chinese macro and micro cosmology” (Boodberg 1979, p. 32). The Hanyu Da Zidian (the “Comprehensive Chinese Character Dictionary”) offers 20 definitions for “de” that describe various virtues and moral conduct, of which integrity is highlighted (Mair 1990, pp. 133–135). The notion of “integrity” has played an important role in Chinese culture throughout the nation’s history because of the prominent position it occupies in the various philosophical and/or religious traditions of China – Buddhism, Taoism, and Confucianism among them – and it continues to permeate all aspects of Chinese life, including modern business relationships and activities. China’s religious heritage has undergone a recent revival – making this an opportune time to examine the understanding of integrity in the hope of discovering some guiding principles that might serve as a starting point for constructing a corporate strategy for social responsibility and leadership development appropriate for Chinese companies of the twenty-first Century.

## Integrity Among Asian Wisdom Traditions

Together, Taoism, the recognized religion of China in the sixth Century B.C., and Confucianism, the official national cult around the fifth Century B.C., laid the ideological framework for the concept of integrity that endures in part to this day in China. For instance, the Taoist notion of de/integrity, as expressed numerous times in the Daodejing and Zhuangzi, reflects an “inner power” or “personal virtue” that is the active manifestation of (or behavior in accordance with) the natural order of the universe (i.e., the Tao or the Way) (Sharot 2001, p. 78). The de/integrity “signifies the personal qualities” and moral make-up of an individual, which is “determined by the sum total of one’s actions, good and bad” (Mair 1990, p. 134). In Taoism, “integrity” was and is seen as an essential quality to lead or manage other people (Waley 1958, pp. 59–68).

In Confucianism, integrity clearly encompasses a moral component, even using the translation “virtue” interchangeably with “integrity” for “de.” Confucius (551–479 BCE) held integrity to be one of the essential traits necessary for becoming the extolled “*junzi*” – gentleman or superior man. Mencius, a disciple of Confucius, developed Confucianism into an elaborate ethical system that superior leaders were supposed to follow. The perfect man with perfect virtue thus adhered to *li* (rituals), *shu* (reciprocity), *xiao* (filial piety), *zhong* (loyalty), *yi* (honesty), *zhi* (knowledge), and *xin* (integrity), (Ring et al. 1996, p. 707), with each virtue having implications for leadership. Confucianism emphasizes “social harmony” through the practice of these virtues, especially proper respect for the five relations (ruler to subject, father to son, husband to wife, elder brother to younger brother, and friend to friend). A neo-Confucianism can be gleaned from the Communist Party

of China's current ideology extolling "social harmony" and from the international business community's promotion of respect for stakeholder relationships.

Buddhism, by far the dominant religion today in China, outlines its view of "integrity" in the practices of "the Eightfold Path" (i.e., Right View; Right Intention; Right Speech; Right Action; Right Livelihood; Right Effort; Right Mindfulness; Right Concentration). The different sets of Buddhist precepts provide greater direction to the ethical integrity of the path. For example, Mahayana Buddhists, the most common form in China, usually follow the Ten Precepts found in the Mahayana Sutra (Not killing; Not stealing; Not misusing sex; Not lying; Not abusing intoxicants; Not talking about others' errors and faults; Not elevating oneself and blaming others; Not being stingy; Not being angry; Not speaking ill of the Three Treasures). An individual who follows the "path" through the willful actions of Karma attains merit, which leads to a happier next life, freer from suffering, upon rebirth into one of the six realms of existence.

Although Buddhism, Taoism, and Confucianism did not always enjoy harmonious co-existence, they borrowed frequently from one another. In fact, the three religions were explicitly integrated into one religion named San-i Chiao (literally "Three in One" religion) around 1560 by Lin Chao-en. Today, most Buddhists also consider themselves Taoists with an appreciation of the role of Confucian thought on Chinese culture and practice (Society for Anglo-Chinese Understanding). This devotion continued to varying degrees even during the formal suppression of religion during the establishment of the Republic of China in 1912, of the People's Republic of China in 1949, and of the atheistic Communist Party of China (CPC).

In 1978, the governing atheistic CPC relaxed religious repression with its reform policies known as the Four Modernizations (of industry, science and technology, agriculture, and military). The reforms included a new Constitution that guaranteed the freedom of religious belief and expression and encouraged an "opening up to the outside world" designed to help China become an industrialized nation earmarked as "socialism with Chinese characteristics" (MacFarquhar 1987, p. 320).

## Integrity in the West

China's various reforms also "opened it up" to Western philosophies, religions, and their corresponding concepts of integrity. Similar to the Chinese perspective, the Western "concept of integrity is a cluster concept, tying together different qualities of character under the one term" (Cox et al. 2007). Adjectival synonyms such as honest, true-to-self, courageous, fair, and principled describe some of the traits associated with integrity in general and moral integrity in particular.

Four fundamental philosophies naturally frame any conversation on Western morality: (1) Ancient Greek philosophy; (2) Judeo-Christian religion; (3) Jurisprudence; and (4) the Scientific Method of discovery. Alatheia, the spirit of truth, was the personification of integrity in Ancient Greek mythology. Socrates taught that "The shortest and surest way to live with honor in the world, is to be in reality what

we would appear to be; and if we observe, we shall find, that all human virtues increase and strengthen themselves by the practice of them.” The Latin for integrity – *integritas* (meaning intact or whole) – turns truth into the “quality of being complete, undivided, whole and unified.” Thus, the adjective integrity may be used equally to describe the sound condition of a physical structure like a building and to describe the soundness and stability of a person’s moral character and ethical behavior.

This completeness or wholeness implies a purity of elements (like the quality of bricks or other building materials for an edifice) that include different qualities that comprise a virtuous character (like honesty, loyalty, and compassion). Thus, truth and integrity reflect adhering to one’s deepest values, even when confronted by conflicting desires. Integrity, and its wholeness, manifests itself in relationships, corresponding well with the Chinese concept of “social harmony.”

The Judeo-Christian concept of integrity promotes the adherence to precepts of divinely revealed universal truths. In the Hebrew Scriptures for instance, the Lord said to Solomon, “As for you, if you will follow me with integrity and godliness, as David your father did, obeying all my commands, decrees, and regulations, then I will establish the throne of your dynasty over Israel forever” (1 Kings 9:4). In the New Testament, Paul instructed Timothy to “Run from anything that stimulates youthful lusts. Instead, pursue righteous living, faithfulness, love, and peace” (2 Timothy 2:22). But biblical integrity does not mean blind obedience, but rather a proper motive joined to a good action, as evidenced by David’s words to God, “I know, my God, that you examine our hearts and rejoice when you find integrity there. You know I have done all this with good motives, and I have watched your people offer their gifts willingly and joyously” (1 Chron. 29:17).

American Jurisprudence (i.e., the theory, philosophy and practice of law) emphasizes the establishment of enforceable rights and duties by the recognized authoritative body of government. The legal concept of integrity expects “lawmakers to make the total set of laws morally coherent” (Dworkin 1986, p.176). Legal integrity is an ideal virtue where laws are established and enforced without the compromise of fundamental principles and values (Dworkin 1986). The Equal Protraction Clause in the United States Constitution is an obvious example of legal integrity. The Fourteenth Amendment’s assurance that “no state shall ... deny to any person within its jurisdiction the equal protection of the laws” (U.S. Con., Am. XIV) is designed to guarantee that no law compromises the United States’ founding principle that “all men are created equal” and that they are endowed “with certain unalienable rights” (Declaration of Independence, Preamble, USA, 1776).

Lastly, the scientific method of discovery – whereby a hypothesis is evaluated and judged by an experiment that provides observable data – adds an objective quality to the Western understanding of integrity. For example, integrity describes decision-making about the rightness or wrongness of actions that is “conceptually clear, logically consistent, apprised of relevant empirical evidence,” and devoid of defective logic, fallacious reasoning, or incomplete processes (Halfon 1989, p. 37).

The similarities between the Western and Eastern concepts of integrity are self-evident. Each appears to try in their own way to balance self-realization with ethical relationships based on fundamental principles rooted in experience and authority.

Buddhism seems to focus on self-realization the most, while the Judeo-Christian view, American Jurisprudence, and Confucianism lean more towards social ethics. Taoism and Greek philosophy seem the most adept at balancing or integrating self-discovery with moral behavior in their respective constructs for integrity. The most interesting similarity between the Eastern and Western perspectives on integrity is the comparable questions that each leaves unanswered.

For instance:

1. Is integrity primarily a personal principle or a relational responsibility?
2. Is integrity a static characteristic or developable trait?
3. Is integrity essential to moral behavior and right actions?

## **Integrity and Business Ethics**

Ethics, as the study of morality, describes, analyzes, and judges what is considered to be right and wrong behavior in a given context. Business ethics is the application of that evaluative process to the behavioral norms and standards as designated in the world of commerce. Many of the moral principles utilized in business ethics find parallels in the concept of integrity in both Asian and Western cultures. For example: Utility (determines rightness or wrongness by evaluating the consequences, favorable and unfavorable, that a policy or practice produces)<sup>3</sup>; Rights (evaluates an action or policy based on the rights of each stakeholder and upon the corresponding duty of the business to protect such rights); Justice (act in a manner that protects basic rights and distributes benefits and burdens in a relatively fair manner); Care (act in a way that cultivates important stakeholder relationships); Exemplar Ethic (act how the person you admire would act or would advise you to act); Religious Ethic (act according to religious norms and beliefs) (Fort 1996)<sup>4</sup>; Golden Rule (do unto others as you would have done unto you)<sup>5</sup>; Virtue Ethic (act in manner that will nurture important virtues like honesty, loyalty, respect, diversity, transparency); Legal Ethic (act in a manner that does not violate the law); Organizational Ethic (follow the values delineated in the company's mission statement or code of ethics) (Bandsuch and Winsor 2005). Each of these principles represents a distinct and vital intellectual instrument and evaluative tool to assist and support the ethical decision-making process and its resultant business behavior.

Business ethics is an evolving field whose decision-making and actions include corporate social responsibility, sustainable development, and philanthropy among its many forms. Both the Chinese and American concepts of integrity contain ethical perspectives that are applicable to the various dimensions of business – from the acquisition of natural resources to the distribution of the final product or service (and every activity and relationship in between). The need for integrity and ethics in business has never been greater as made clear by the numerous business scandals that have ushered in a new generation defined by unethical behavior. For example, the subprime mortgage crisis that counts Lehman Brothers, Bear Stearns, and 118



U.S. banks among its casualties in 2009 (after only 17 banks had collapsed in the previous 9 years), the \$50 Billion Ponzi Scheme perpetrated by Bernie Madoff, and the SEC's failure to prevent either have become the most recent infamous faces attached to the growing body of corporate scandals.

The business scandals have not been isolated to the financial industry, as executive malfeasance has surfaced in product safety, environmental damage, labor abuses, and deceptive practices at every stage of the production process. Nor have the scandals been limited to business (with sports, media, and government sharing the scandal spotlight) or by geography with Europe, Asia, and Africa experiencing their own continental controversies. In particular, China has taken center stage with its scandals involving lead-tainted toys, anti-freeze-containing toothpaste, and melamine-contaminated milk. The role of globalization and multinational companies further broadens the impact of business improprieties beyond the traditional geographical or economic barriers, which are quickly disappearing. Finally and most ominously, these scandals seem to reveal only the tip of an immense unethical iceberg, whose enormity remains unknown underneath the current murky and tumultuous economic waters.

Together, these scandals are eroding trust in businesses, economies, and in the integrity of their stakeholder relationships. Customers no longer trust producers, employees no longer trust employers, retailers no longer trust suppliers, investors no longer trust executives, lenders no longer trust entrepreneurs, and society no longer trusts business. The impact of this lack of trust and integrity on business, on the economy, and on overall society is potentially devastating as the current economic crisis indicates. The solution, in part, requires the rebuilding of integrity among all aspects of business and the renewal of trust among all stakeholder relationships. This chapter outlines a corporate ethics strategy designed to cultivate stakeholder integrity and business trust across generational lines in China.

## **Different Generations and Their Views of Business Ethics and Integrity**

Cultural factors studied for their impact upon ethical behavior in business include individual characteristics like age, gender, education, class, and job tenure as well as organizational components like company culture, reward structures, and training programs (Dubinsky and Levy 1985). As influential as religion, education, and class may be on ethical attitudes, the prominent events within one's generation may be that much more formative to one's moral development (Baltes et al. 1979). This seems especially true in China, where each respective generation displays a slightly different understanding of integrity and of its importance to business based on the formative experiences of their specific generation.<sup>6</sup>

Every culture makes generational classifications based on the political, social, and moral ideas, experiences, and personality of the youth cohort during a specific

historical period (Scappini 2006). Because these experiences and ideas are shared by a vast majority of young people during the formational stage of their lives, deal with profound and fundamental aspects of society, and occupy a significant political, cultural, and moral position during that particular historical period, they essentially form or transform the cultural dynamics of an entire generation of people, significantly influencing most dimensions of their lives – and most likely for the duration of their lives (Scappini 2006).

In short, a generation is characterized by the fundamental and formative societal experiences that significantly and enduringly shape the social, cultural, political, and moral development of a critical mass of young people, simultaneously distinguishing it from previous or subsequent generations (which are formed from their own defining moments).

The following is a summary sketch of the generations in China,<sup>7</sup> their formative experiences, their view of business ethics and integrity,<sup>8</sup> and some visible members (Table 4.1).

*Party Loyalists* (born before 1945) were formed by the numerous conflicts that scarred the Chinese landscape. Its members were born into the Republic of China, itself born out of the Xinhai revolution against the corrupt Qing dynasty of the minority Manchus. The country remained divided during the warlord era (1916–1928), the New Culture Movement (1917–1923), and of course the Chinese Civil War (1927–1937, 45–49) which pitted the newly formed communist party against the nationalists. The conflicts were not limited to domestic battles, but included World War I (1914–1919), the second Sino-Japanese War (1937–1945) which merged into World War II (1939–1945), and the Korean War to a lesser degree (1945).

This war-weary history explains in part why this generation founded the People's Republic of China in 1949 and its party Loyalist members emphasize the well-being of the state and are very apprehensive about engagement with other nations that might compromise that well-being. For the Loyalists, ethics and integrity involve adherence to institutional precepts representative of Chinese culture and tradition embodied in the Communist Party of China, Confucianism, Taoism, and Buddhism. Former President Jiang Zemin (born 1926) exemplifies this generation, coming to power in 1989 after the pro-democracy demonstrations at Tiananmen Square and re-establishing the stability of the Communist Party, while simultaneously pursuing economic reforms that would make China an economic world power by the time he retired in 2003. A younger member of this generation, He Xiangjian (67 years old), Billionaire President of Midea Appliance Company has benefited immensely from these economic reforms.

*Revolutionaries* (born between 1949 and 1960) were shaped by the early formation of the isolationist attitude of the early People's Republic of China as led by Mao Zedong, its Chairman and President from 1949 to 1976. Mao's anti-imperialism, anti-feudalism, and anti-bourgeoisie philosophy guided the Great Leap Forward of 1958 and the Cultural Revolution of 1966–1976, which tried to abolish old customs, old habits, old culture, and old ideas and replace them with a reconstructed and self-sufficient socialist state embodied and protected by the young

**Table 4.1** Generations in China

	Loyalists	Revolutionaries	Reformers	Emperors
Generations in China	Born before 1948	Born 1949–1964	Born 1965–1979	Born after 1979
Famous members	Jiang Zemin He Xiangjian	Xi Jinping Peng Liyuan	Hu Chunhua Pan Shiyi	Liu Xiang Zhang Xin
Formative experiences	Civil War Sino-Japanese War World War II	PRC Mao Zedong Cultural revolution	Death of Mao Economic reforms Open to west Tiananmen Square	One child policy Economic growth Revive Chinese culture
View of ethics and integrity	Loyalty, respect Formal authority Identifiable rules Adherence to institutional precepts Chinese tradition	Distrustful and questioning of formal authority Apprehension and self-protection	Integration of Chinese culture and tradition with western values Individual rights Adapt principles and guidelines	Apolitical Self-interested Neo-Confucian Balance principles and rules

members of the Red Guard. However, the early success of the PRC gave way to apparent failure that resulted in China's political exclusion (unrecognized by the United Nations), economic disaster, educational stagnation, and cultural chaos. The dogmatic nature of this generation's xenophobic experiences combined with the substantial failure of its ideology create a conflicted generation, disillusioned and distrustful of the PRC and all authority that it followed wholeheartedly, only to be drastically disappointed by its outcomes. Integrity, ethics and decision-making vacillate between distrust and obedience to authority. Xi Jinping and Peng Liyuan, husband and wife, have turned their potential cynicism into constructive political service the Communist Party of China and the Chinese People's Liberation Army, respectively.

*Reformers* (1961–1979) experienced enormous economic reforms and an unparalleled openness to western culture after the death of Chairman Mao in 1976. The Tiananmen Square protests symbolize their understanding of integrity as protecting individual rights and achievement, but as loyal Chinese. Hu Chunhua and Pan Shiyi, with their quick ascent to power, success, and fame in politics and business respectively, exemplify the unlimited potential of the Reformers.

*Little Emperors* (1980–1995) began with the one child policy in 1978 and coincided with a booming economy and the revival of Chinese culture. Little emperors are self-interested and apolitical so that their ethics and decision-making focus on individual well-being that is tempered by traditional Confucian Ethics and its humaneness for the other. The track star and national idol Liu Xiang and the very successful heiress Zhang Xin typify this generation.

*Globalists* (born after 2000) will be shaped by the economic growth and political prowess of the People's Republic of China. Born after China was welcomed into the World Trade Organization, the prognosis is that Globalists will push the prominence of China further into the global arena with a nationalistic ethic balanced slightly by multinational implications. Having witnessed the economic and societal tragedies caused by various scandals in all areas of society, Globalists will pursue a Neo-Confucianism integrity that returns to basic honesty, transparent ethics, and just decision-making that pursues and protects equitable relationships. 2008 saw a tremendous outpouring of national pride and cooperation during the Olympic Games, the Sichuan earthquake, and southern snowstorms that will further solidify the cohesiveness and caring of this youngest generation.

Each generation, because it coalesced around its own unique formative experiences and defining moments, has its own particular set of values, decision-making skills, view of integrity and how it relates to business. These generational differences thus have a significant impact on all facets of the workplace, including the harmony of stakeholder relationships, ethical behavior, and overall production and performance. Accordingly, these generational differences must be accounted for and incorporated into any business strategy or program designed to cultivate integrity and ethics in the organization and among the stakeholders. The "generations" in the U.S. share a similar chronology,<sup>9</sup> but not the same formative experiences, which raises an entire sub-set of cross-cultural, cross-generational issues between Sino-US business dealings<sup>10</sup> (Table 4.2).

**Table 4.2** Multi-generational ethics program

	Lovalists	Revolutionaries	Reformers	Emperors
Generations	1948	1949–1964	1965–1979	1979
Hiring	Mentors Responsibility	Limited numbers Limited authority Provide oversight	Leadership Nucleus	Give training
Training	Mentors	Detailed info on goals, purpose, method, reasons	Prepare for leadership	Prepare of leadership moral reasoning
Managing	Moral voice Structure Respect Security	Moral reasoning Rewards Guidance	Social networking Flexibility Autonomy Responsibility	Teams Mentors Uniqueness

## Discussion: Designing a Multi-generational Business Ethics Program

Recognizing the importance of business ethics to employee loyalty, customer satisfaction, company performance, and overall economic wellbeing, many businesses have implemented business ethics programs. The Chinese government recently issued guidelines for Corporate Social Responsibility,<sup>11</sup> providing evidence that China recognizes that business ethics and CSR are essential components for the economic and societal success of the country and its constituents. While a complete ethics program should consist of three equally important dimensions: (1) ethical personnel, (2) ethics training,<sup>12</sup> and (3) ethical culture<sup>13</sup> (Bandsuch et al. 2008), the subsequent section explores only the ethical personnel dimension in order to illustrate how generationally-sensitive business ethics programs can help cultivate integrity and ethics across generations in the Chinese corporate context.

### *Ethical Personnel Policy*

A critical factor in determining an organization’s ethical culture, reasoning and behavior is of course the ethical disposition of its members – the actual decision-makers. Ethical decision-making is impacted by individual factors like values (Dubinsky and Gwin 1981), attitudes, religiosity (Vitell and Paolillo 2003), moral reasoning skills (Murphy et al. 2005), ethical sensitivity (Sparks and Hunt 1998), and age/generation/job experience (Hoffman et al. 1991). The ideal interview instrument or portfolio process would be one that could accurately measure<sup>14</sup> a potential employee’s moral maturity (i.e., ethical sensitivity, ethical disposition, moral motivation, moral reasoning, cognitive complexity, ethical judgments, ethical actions,

and ethical fortitude). Given that all these factors are influenced strongly by generational experiences, the potential employee's particular generation becomes an extremely important consideration in the hiring, recruitment, placement, and promotion of personnel and the resultant development and management of an organization's ethical culture, decisions and actions.<sup>15</sup>

### ***Recruitment and Selection of Ethical Employees***

The goal of creating an ethical culture is advanced by the employment of personnel whose personal morality corresponds with the ethics of the company because it naturally decreases ethical conflicts, while also increasing job satisfaction, performance, and loyalty (Ferrell et al. 1998). Hiring for a congruence of values seems to be a logical approach that will eventually lead to a more ethical work force (Schwepker Jr and Good 2004). The importance of the overall employee selection process only increases when one considers the significant influence that peers have on ethical behavior (Ford and Richardson 1994).

In general, Party Loyalists whose values correspond with the company's values are ideal employees because their integrity and ethics are based strongly on adherence to institutional precepts. Unfortunately, Party Loyalists comprise only ten percent of the Chinese population and are already over 60 years of age. Relying on this generation for the future of any organization will be short-lived and mistaken. However, these Loyalists should occupy isolated leadership positions and play a significant role as mentors in the formation of the business' future leadership. This is a wise strategy given that two thirds of the Chinese population is under 50 years of age. This youthfulness provides great promise for the future growth and economic well-being of China, but it also raises concerns about ethical maturity and organizational continuity. Ethics training and leadership development logically become critical components within such entities, but so does the composition of employees – the optimal generational mix when trying to cultivate an ethical culture that will endure for generations to come.

Reformers seem to be the generation upon which to build an ethical business. In addition to being the largest generation, they have come of age during the economic reforms, as well as during the openness to Western culture. The generational journey of the Reformers seems to parallel the journey of China in general, thereby creating an ideological synchronicity with the nation's moods and movements. They seem to have recaptured many desirable traditional Chinese values while masterfully and delicately blending them with helpful Western ideas. Reformers seem perfectly situated to lead China and Chinese businesses during this period of "Capitalism with Chinese characteristics."

Other reasons for the privileged place of Reformers include:

1. There are so few Loyalists and many are ready for retirement;
2. The Revolutionaries and their ethically conflicted demeanor do not seem well-disposed to China's trends;

3. The Revolutionaries are also not especially well-respected by the Loyalists who are selecting the new generation of leaders;
4. The Little Emperors are still a little young to assume too much responsibility, especially in a society like China that has historically valued tenure and experience highly;
5. The Little Emperors also exhibit more self-interested tendencies resulting from their youthfulness, their status as only-children, and their overexposure and infatuation with many Western values – at the expense of traditional Chinese values (including that of the common good of the people).

When considering all these factors, it seems that the optimal mix of generations in the workplace would be approximately 10% Loyalists, 15% Revolutionaries, 45% Reformers, 30% Little Emperors, with getting well-trained Globalists into the employment pipeline as soon as possible. These are very general approximations that may fluctuate depending on the industry and other factors. More important is the leadership role that each generation should occupy within a business.

### *Leadership Development*

Organizational theory recognizes the role that leaders have on a company's culture in general and on its ethical culture in particular (Trevino and Youngblood 1990; Belizzi 1995; Chonko et al. 2002). Top management exercises its ethical influence over employees through the communication, implementation, and embodiment of the company's values.<sup>16</sup> Executives and managers not only help write the ethical policies, but they play a pivotal role in communicating and implementing their values among the sales force. The degree to which leaders at all levels model and reinforce ethical behavior will have a profound impact on the ethical culture of the organization and others perception of it (Valentine and Barnett 2007).

Mid-level managers, by the nature of their direct supervision, control strategies, positive mentoring, and more observable modeling, may occupy a more influential role than upper-level executives upon employees. Managers leave an unmistakable imprint on the ethical activity of subordinates through the recruiting and hiring process, through training and control systems, and through their attitudes, words, and actions (Schwepker Jr and Good 2004).

China's Ministry of Commerce CSR Guidelines recognize and promote the importance of leadership by calling for upper level leaders to implement an ethics program, to appoint an ethics or compliance officer, and to promote management support for ethics at all levels (CAITEC 2008). This makes perfect sense since studies and history have clearly displayed that "superiors have a strong impact on the ethics of their subordinates" (Baumhart 1961; Carroll 1975; Kelly 1987; Wotruba 1990, p. 36). Confucianism, Taoism, and Chinese traditions likewise attribute responsibility to those in positions of authority. Leadership development among all generations must be a high priority to ensure the continuity of the ethical culture and institutional integrity of an ethical organization.

Loyalists should be serving as mentors to all generations, a role for which they are well-prepared and disposed. Employees within every generation who possess leadership potential should be identified and trained through a well-developed leadership program. This is especially true for Reformers who will be expected to carry the brunt of the leadership for a long time. But Little Emperors need to be prepared quickly and fully so as to ensure the ethical continuity of the business. Thus, the moral reasoning skills of these leaders need to be particularly refined.

Bass (1997), Grojean et al. (2004) and Ingram et al. (2007) join others who recognize the incredible potential of managers to influence the ethical culture, which they call “transformational leadership.” Transformational leadership “features a long-term holistic perspective whereby leaders interact openly and frequently to achieve organizational goals” (p. 307). Transformational leaders clearly articulate the company’s mission; express it in their attitudes, words, and actions, extending its values into their relationships with the sales force (Ingram et al. 2007). Leadership’s ability to develop positive relationships with both internal and external stakeholders seems essential for cultivating an ethical culture and ethical behavior. Even though “years of research point to the primacy of organizational factors in determining ethical decisions at work” (Ferrell 2005) such as ethics training and ethical culture, the role of the individual employees remains significant in itself and to the effectiveness of the other two dimensions of an ethics program.

### ***Benefits of a Multi-generational Ethics Program***

The implementation of a multivalent multigenerational ethics program will improve an organization’s ethical sensitivity, ethical analysis, ethical culture and ethical behavior, while also leading to more traditional business benefits of job satisfaction, loyalty, retention, and performance among its employees (Mulki et al. 2006). Ethical behavior appears to contribute to performance advantages at both the individual and organizational levels (Schwepker and Good 2004), even maintaining and expanding its customer base and reputation (Ingram et al. 2007). These business benefits are attributed to the greater ethical sensitivity, stronger stakeholder relationships, and clearer company guidance and support embodied in well-crafted ethics programs (Mulki et al. 2006). Other benefits include greater “job performance, organizational commitment, satisfaction with company policies, with supervisors, with the overall job, with compensation and promotions, with coworkers, and with customers,” as well as lower levels of job stress, “role ambiguity, role conflict, emotional exhaustion, and intention to leave” (Cravens et al. 2004, p. 243).

The highest level of ethical behavior and of corresponding business benefits will be achieved when the three dimensions of ethics training,<sup>17</sup> ethical culture<sup>18</sup> and personnel become fully integrated and mutually-supportive, providing a synchronicity that leads to synergy. The multigenerational dimension of the ethics program



needs to be equally balanced in order to maximize its benefits. The social harmony among the generations in the workplace will also facilitate social harmony among the company's various stakeholders. The micro-benefits to the company may also provide macro-benefits to the industry and economy – such as sustainable economic growth, avoidance of scandals, and expanded trade relations.

Although parallels between integrity and ethics clearly exist, a major distinction continues to create confusion – the personal nature of integrity versus the institutional nature of ethics. Descriptions of integrity in business usually are personal – clarifying the person's beliefs or behaviors. Meanwhile, ethics contains an organizational dimension – even to the point that an individual's morality often contains the qualifier of “my personal” ethic. Integrity needs no such qualifier. This distinction raises questions about the role that personal integrity might play in institutional ethics – questions that could be illuminated through additional research.

## Conclusion

The different generations of workers in the People's Republic of China (Loyalists, Revolutionaries, Reformers, and Emperors) have different understandings of the meaning of integrity and of its application to business behavior, business ethics, and corporate social responsibility. Yet, individual and institutional integrity and its corresponding business ethics can be cultivated through ethics program that account for these different generational perspectives in the critical areas of: (1) ethical personnel, (2) ethics training, and (3) ethical culture. These multigenerational ethics programs should enhance the “social harmony” among the four generations, which should advance overall stakeholder relationships, ethical behavior, and traditional business benefits like productivity and profit.

## Notes

1. The methodology consisted of a two phases: (1) A qualitative study consisting of interviews with executives and entrepreneurs; (2) A quantitative study that included questions on the importance/relevance of the teachings of Confucius, Mao Zedong and Western philosophy on their decision-making processes.
2. The attempt to precisely define a moral concept like “integrity” is laced with linguistic, cultural, contextual, and philosophical limitations. Additional challenges involve interpretations influenced by race, gender, education, geography, age, income, and other demographic characteristics like generations (which this chapter proposes as most determinative). Yet, accepting these inherent challenges, trying to understand the important concept of integrity is a worthwhile endeavor because it helps to provide a more nuanced and layered understanding

of a significant moral construct within and between various cultures, which should then assist the communication and interaction between these various cultures in their business, political, and social dealings.

3. Mao himself admitted to reading and admiring western classics like John Stuart Mill on ethics, Adam Smith on capitalism, Rousseau on logic, and Montesquieu on law (Melvin 2007, p. 11).
4. As to religion, strength of religious beliefs (but not denomination or value orientation) was found to be strongly related to ethical behavior (McNichols and Zimmerer 1985).
5. Comparable sayings to the Golden Rule, found in MTT 7:12 of Christian scripture can be found in other religious traditions. In Confucian teaching, the rule is most prominently presented in a negative form, “Never impose on others what you would not choose for yourself” (Analects XV.24).
6. Preliminary findings indicate that geographical region, urban/rural setting, and type of education also influence the view of integrity and ethics among Chinese.
7. The demarcations of generations are not immutable because some people’s development may overlap two generations (beginning at the end of one generation and continuing briefly into the beginning of another). These “cuspers” may exhibit characteristics outside their birth generation and possibly of both generations.
8. Although other characteristics such as political affiliation, family dynamics, and work/leisure balance may be influenced by generational affiliation, the focus here is on ethical perspectives and decision-making in business.
9. Veterans (born before 1945) found their identity in World War II and the earlier Great Depression. They view integrity as loyalty and assistance to the larger group, with ethics and decision-making as adherence to rules and norms. Baby Boomers (1945–1960) experienced the Civil Rights Movement and other social reform during their formative years. They see integrity, ethics, and decision-making as being rooted in fundamental values and inalienable rights that can be adapted to different situations. Gen-Xers (1961–1980) were influenced by their absentee parents and early political scandals like Watergate. Thus their ethics and decision-making emphasize individual well-being, self-sufficiency, and self-realization. Millennials (1981–2000) have been raised in prosperity and rapid technological advancements. Integrity, ethics, and decision-making all attempt to balance personal development with societal well-being. Homelanders (2000–2020) have experienced scandals in all areas of society accompanied by an economic downturn. The prognosis is that Homelanders will be very apprehensive of international relationships and will pursue a reform agenda with emphasis on a transparent ethics that pursues and protects equitable relationships and punishes unethical and illegal behavior.
10. The interest in cross-cultural business ethics has paralleled the growth of multinational businesses operations, a natural consequence of companies encountering differing ethical perspectives in various countries. Academicians,

governments, and businesses alike believe that a fuller understanding of cultural differences will improve multinational business relationships, cross-cultural ethics, and global economic development (Blodgett et al. 2001). This insightful theory contains at least one major flaw: it views each nation as possessing an essentially homogeneous culture, which incorrectly oversimplifies the cross-cultural dynamics of the current global economy.

11. The Chinese Academy of International Trade & Economic Cooperation (CAITEC), a subsidiary of the People's Republic of China Ministry of Commerce (MOFCOM) issued CSR Guidelines in 2008.
12. A well-run ethics training program that utilizes the stakeholder model and social networking can help employees to understand the different perspectives, decision-making approaches, and formative experiences of their co-workers and other stakeholders.
13. Ethical culture usually includes formal policies (mission statement, codes of conduct), control strategies (compensation, discipline), and informal practices (symbols, stories, interactions). Control strategies and informal practices should be tailored for each generation in order to achieve optimal impact.
14. In order to determine the cognitive complexity, ethical sensitivity, personal values, ethical fortitude, and moral stage of development of potential professionals, tests designed to measure these attributes and their optimal levels should be developed and given as part of the application process. Rest's (1986) Defining Issues Test, which looks at moral sensitivity, judgment, motivation, and character, is a good place to start. Christie and Geis' (1970) Mach IV exam, which measures a leader's perspective on the appropriate purpose and use of power in order to anticipate ethical compromise, would be another helpful tool. Similarly useful are the Ethics Position Questionnaire developed by Forsyth (1980) and the Multidimensional Ethics Scale developed by Reidenbach and Robin (1988). Interestingly, scholars predicted an increase in psychological testing among businesses would eventually occur (Bergen et al. 1993; Verbeke et al. 1996). It may be worth the investment to create an exam tailored to one's particular organization.
15. Without diminishing the important role that ethics training plays in improving the ethical behavior of sales people, limits to its effectiveness do exist based in part on the individual's current level of moral development (Ferrell et al. 2005). Given this limitation, the recruiting and hiring of ethical people takes on added significance and can only enhance the ethical well-being of a sales force. This is especially true since cognitive complexity, empathy, and moral development are critical ethical skills for the stakeholder management framework. Therefore, sales departments might want to organize their candidates' pool in a manner that prioritizes the non-discriminatory attributes of type of education, cognitive complexity, ethical sensitivity, personal values, ethical fortitude, and moral stages of development. Yet, further research is necessary to more clearly understand this area, and to avoid any sort of discriminatory "sales personnel profiling."
16. Influential organizational leaders, however, are not exclusively found among professionals with titles and prestige. Lower level employees are often the most

influential leaders through friendships, peer pressure, informal mentoring, humor, and gossip (Bandsuch and Cavanagh 2005). An organization that touts its ethical culture is rendered mute if its message is unheard or ignored by the many subsidiary employees who serve as a major voice to a company's true ethical message. The union representative, the helpful co-worker, the insightful lunch partner, the successful sales team, even the funny and popular peer have an unprecedented power to impact organizational culture and its ethical climate. Therefore, it may behoove a company to identify both potential formal and informal leaders and work with them in designing and cultivating an ethical climate. The hiring and training of employees at all levels of the business, but especially of informal and formal leaders, will be a significant factor in determining a company's ethical culture, climate and corresponding behavior.

17. A well-run ethics training program that utilizes the stakeholder model and social networking can help employees to understand the different perspectives, decision-making approaches, and formative experiences of their co-workers and other stakeholders. Such ethics training can help overcome generational differences in ethical reasoning by breaking down the false stereotypes about generations that often hinder inter-generational dialogue and cooperation. Improving the multigenerational communication and social networking, especially among the boundary spanners within the organization, will decrease role ambiguity, expand the ethical reach of the business, and cultivate "guanxi" among internal and external stakeholder relationships.
18. Ethical culture usually includes formal policies (mission statement, codes of conduct), control strategies (compensation, discipline), and informal practices (symbols, stories, interactions). Control strategies and informal practices should be tailored for each generation in order to achieve optimal impact. In general, revolutionaries need much more positive reinforcement for their good behavior and a softer form of admonishment and detailed explanations for their mistakes. This need is rooted in the mixed messages they experienced during the Cultural Revolution. Little Emperors have a similar disposition resulting from the one-child policy. Loyalists and Reformers thrive with a balanced reward system. At the very least, some specific management responses to both ethical and unethical behavior are necessary to influence the ability of the entire sales force to recognize ethical quandaries (McClaren 2000).

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# Chapter 5

## Corruption and Anti-corruption in China: Challenges and Countermeasures

Changzheng Dai

### Introduction

Corruption and Anti-corruption has become a hotly debated issue in China, both among scholars as well as common people. No doubt, the scourge had existed since the founding of the PRC but most people, including the State and Party leaders, had not supposed that it would spread so fast and become so serious. The hatred of corruption in China is easy to understand. Despite this, however, its prevalence has resulted in two defeatist attitudes. The first is a pessimistic resignation that there is nothing that can be done and the second, an “ostrich” point of view that corruption is actually an efficient mechanism to smooth the path of development.

The latter perspective reflects an attempt at rationalizing the cost of corruption. Contrary to popular belief, this argument is based on the premise that corruption promotes economic development since it provides a way to get past the barriers erected by entrenched interests and status quo powers (Li 2009). This pessimistic viewpoint has arisen also because corruption still exists despite having had so many resources invested in countering it.

Many scholars have also noticed the connection between corruption and societies in transition (Zhou 2009) and they picture the worsening of corruption as a phenomenon of a transitional society. Other scholars, however, have probed deeper and found more fundamental causes for the worsening of corruption. This chapter studies the characteristics, forms and trends of corruption in China as well as the country’s anti-corruption efforts.

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## Forms, Features and Trends of Corruption in China: Old and New

Corruption is not a new phenomenon in China. Even in the Maoist era, there existed varieties of corruption. But the corruption then was quite different from that in contemporary China (Ma 2009). This actually illustrates the changes and continuity of corruption in terms of forms, features, and the extent and severity of it in the past and the present. Contradictory institutional arrangements and ideological doctrines shaped the forms and characteristics of corruption before the reform. Because of the need to promote state-building and economic development, Chinese society was highly organized. This resulted in a hierarchical bureaucracy. Both the Party organs and the state organs were made powerful and strong so as to realize the grand goals of the communist state. Instead of efficiency, however, corruption took root.

The communist leaders, including Mao Zedong, had noticed the increasing danger of bureaucratic misconduct and corrupt behaviors and mandated a plain lifestyle for all party cadres and government officials. Strict rules were introduced. In addition, various mass movements were constantly mounted and succeeded in intimidating wrong-doers. In Maoist China, therefore, corruption was restrained. The forms of corruption in this period generally fell into the following categories. First was the advancement of personal interests resulting in an improved lifestyle for the corrupt official and his family.

Second were privileges for exchanging loyalty and substantial contributions from those who were in a patron-client relationship. Easy access to the so-called “back door” was the main specific right for the party cadres and government officials, especially for the senior cadres. The interests the corrupt cadres and officials gained were mainly commercial goods, sometimes including sexual favors.

The above-mentioned two types of corruption could be classified as forms of nepotism, power abuse and manipulation of patron-client relations. Third were graft and embezzlement. Though this form was highly dangerous and easy to lead to severe punishment, attempts to be engaged in it were not eradicated. But corrupt gains in the Maoist era were, to a great extent, constrained. Obviously, the rather limited corrupt gains were partly due to the shortage of luxuries because of the underdeveloped economic conditions. Other contributing factors were the strict political disciplines, the promotion of moral doctrines and the mounting of mass movements against corruption.

The forms, extent and characteristics of corruption have changed greatly in the reform era. To further illustrate the situation, a brief look at the typologies proffered by scholars is needed. One famous scholar specializing in corruption studies is Heidenheimer (Heidenheimer and Michael 2002). Heidenheimer classified corruption in China in three categories:

***Class A or “black corruption”***: The corrupt practices in this category, including graft, bribe, fraud, embezzlement, extortion, smuggling, tax evasion, etc., constitute



an important part of “economic crimes.” Because they are obviously illegal and the main purpose of those involved in these practice is to increase their personal wealth, government officials and the public generally agree that such practices are corrupt.

***Class B or “grey corruption”:*** The key characteristics of this category, into which more and more practices are being categorized, is of leaders of public institutions using their institutional power to increase the interests of their institutions and improve the welfare of their staffs through various legal, semi-legal and illegal ways. Such practices includes public institutions making profits by engaging in business activities (such as a public bank entering into the stock market, the bureau of environment protection selling environment protection facilities to their clients), setting up satellite companies, and imposing fines or collecting administrative fees or charging the so-called ‘service fee’ and then putting the income into their own coffers. Class B also includes such “unhealthy practices” as extravagance and waste, e.g., spending public money to support luxurious work conditions and/or life style by senior officials. Such extravagance and waste is manifested in many aspects: expensive entertainment, costly foreign cars for senior officials, magnificent and tastefully furnished office buildings, domestic or foreign travel in the name of official business, etc. Such “unhealthy tendencies” and the associated corruption, both significantly increasing the public’s burden, have led to a significant public outcry.

***Class C: or “white corruption”:*** Class C practices constitute a kind of ‘common practice’ of social life. They include the nepotism and favoritism in personnel recruitment and promotion, bending the law in favor of relatives and friends, preferential treatment in resource-allocations for relatives and friends, fellow-villagers etc. Much of this is, in fact, a way of reciprocating previously given favors. Such practices have penetrated widely into public life, influencing the behavior of government officials and ordinary citizens as well, contributing to the operation and existence of networks of personal ties. Creating and maintaining such networks is accepted by most people, including government officials, as a ‘normal’ practice. However, such networks are condemned by those excluded from them although they will not hesitate to engage in such practice should they have an opportunity to do so.

The above forms of corruption are universally acknowledged in Chinese academic circles. In fact, the situation in current China is so serious that almost all the existing types of corruption can be spotted. Gerald Caiden has set forth a typology of corruption, cited in the list below, from which almost all the misconducts and malpractices can be found in contemporary China (Table 5.1).

The above list is taken from a description of the state of corruption in General Nuymayri’s Sudan. The fact that scholars have used the list to compare it to corruption in China has raised serious concerns that China is following the model of

**Table 5.1** Regularized forms of non-violent corruption<sup>1</sup>


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Political shortage and espionage; illegal surveillance; frame-ups
Electoral chicanery; gerry mandering; ballot stuffing; ineligible voters
Public employment; payroll padding; sinecures; nepotism
Legally bestowed monopolies
Non-competitive contracts; fixed/rigged bidding; profiteering
Expropriation of property; illegal search and seizure
Favors, bribes, pay offs, kickbacks, commissions
Gratuities, gifts, presents, tributes, “service fees”
Discriminatory distribution of public monies
Preferential treatment in obtaining public services
Loans, grants, subsidies of public resources
Deceit, fraud, improprieties; unlawful detention; house arrests; forgeries
Tax avoidance and evasion; non enforcement of laws and regulations; unlawful orders
Conflicts of interest; influence peddling; use of confidential information
Illegal use of the mails and telecommunications
Misuse of official seals, stationery, residence and perquisites
Boondoggles; junkets; conspicuous consumption; self-gratification
File tampering; false evidence
Currency manipulation; smuggling; swindling the state and citizens
Undeserved pardons; remissions and suspension of sentences
Covering up, white washing and exonerating gross misconduct

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General Numayri’s Sudan where the evil of corruption in political and economic life eventually caused the collapse of the regime (Qin 2002).

## Typologies of Corruption in Modern China

Still, while corruption in contemporary China is a commonly recognized phenomenon and shares the primary characteristics of corruption in other countries, it is characterized by a transitional Chinese style that reflects its different social, cultural and political background. Below, this chapter categorizes and describes the main corruption forms in China today:

### *The Form of “No.1 Leader Corruption” (Yibashou Fubai)*

This form of corruption is caused mainly by the specific institutional arrangement of the political system of China. It is rather difficult to tell to the outsiders who “the No.1 leader” is in so many diverse types of political, economic and social apparatus and organizations in China. For a state-owned firm or corporation, say an economic organization, the general manager is “the No.1 leader”. For a jurisdiction, say a provincial, a prefecture or a county, “the No.1 leader” actually means two persons – the

No.1 leader of the party apparatus and the No.1 leader of the government. But in the case of the state apparatus as a whole, the No.1 leader usually refers to the head of party apparatus, say the party secretary of a party committee. Generally, however, opportunities for corrupt behaviors are provided for both the so-called No.1 leader of the party and the No.1 leader of the government.

This is because under the specific institutional arrangement of “the collective responsibility but personally job allocated system”, administrators hold the power and responsibility of daily work, but actual strategic decisions and those decisions affecting personnel are discussed and decided jointly by administration and party apparatus, usually at the meetings of a level of the party committee where administrators hold positions of secondary importance. In state-owned economic organizations and other social organizations with less political concern where manager or corporation responsibility system is implemented, the managers or administrators are regarded as the key figures. But the heads of the party apparatus in such non-political organizations are still of critical importance where the organizations are considered important politically and economically. In, say a province, a prefecture or a county, both the No.1 leader of the party apparatus and the government are equally powerful in decision making, resource allocation and interest distribution. But as the No.1 leader of the party apparatus usually keeps the power of personnel appointments, this affords him a chance to sell public positions, while the No.1 leader of the government is afforded the opportunities to gain from economic development such as public projects.

Both of these officials are in positions to take the advantage of their power to commit graft, bribery and embezzlement. Typical cases are those of party secretary of Beijing municipality, Chen Xitong, and that of the former chairman of the Guangxi Zhuang minority autonomous region and later the vice chairperson of the Standing Committee of the National People’ Congress, Cheng Kejie. For administrative apparatus and economic organizations, the biggest and typical No.1 cases of corruption are those of the Minister of the National Land Resources Ministry, Tian Fengshan, and the President of the Bank of China, Wang Xuebing who were both accused of abusing power and causing great loss of the state interests.

### ***The Form of Personnel Management Corruption (Yongren Fubai): Cash for Jobs***

Though in China, all procedures and measures relevant to official selection are institutionalized, they usually mean guises not realities. Whether a person could be selected to an important position or promoted to a higher position depends on whether the person has developed close ties with the leaders of high ranks. The ties could be those of relatives, friends, classmates or colleagues of high rank officials. Or they could result from providing substantial commercial interests to the leaders which nowadays means sending money to them. Selling and buying public positions is the main form of Personnel management corruption, of which the typical case

is the case of a county governor of Hepu city in Guangxi Zhuang Minority autonomous region who sold public positions at precise prices according to the levels of the positions, set by him. The public positions are increasingly becoming sources for exchanging interests, support and loyalty in China today.

### ***The Form of Collectively Practiced Bribery Corruption (Gonghui)***

The resource and interest allocation system in China is rather affected by the paternalist way the government or government organs at higher levels treat departments, professions and localities at lower levels. Important power and resource are often centralized in the hands of those government or government organs in higher positions. Localities, enterprises and other social actors have to compete for administrative approval, special treatment and other favorable policies from those at higher levels. This even applies to some quasi-government organizations which monopolize the distributional power of resource and interest. The best way for the localities, departments, enterprises or other social actors to successfully compete is to develop close relations with government organs at higher levels or whoever holds positions of power. They turn the public relations into private ones by bribing those who are thought critical in resource and interest allocation or policy making.

Such a type of corruption is in the category of grey corruption because it is usually practiced collectively and for some kind of public interests of certain localities, departments, enterprises and other collective actors. It is becoming increasingly a critical way for resource and policy competition in China in the reform era because the competed targets, such as production materials, trade qualifications, capital circulation, land use and other administrative approvals are vital for the development of certain localities, departments, enterprises and other collective actors. The typical characteristic of such a kind of corruption is to use public money to bribe for public interests, but its harmful impacts are no less serious than those of other corruption forms.

### ***The Form of Public Money Consumption Corruption or Power Abuse Corruption (Hangye Buzheng Zhifeng and Puzhang Langfei)***

The political and administrative culture in China has inherited from Chinese feudalism based on the Confucian ideology, an emphasis on the importance of and reliance on the hierarchical system of authority. The political and administrative authorities have been thought to be powerful and capable of doing anything. This was

exacerbated by the institutional arrangements characterized as power centralization and administrative arbitration. Both government and citizens are tolerant for power abuse and even apathetic to the phenomena of abuse, waste, extravagance of government and its officials. Few people think that the power in the hands of public servants are from the public, but rather take it for granted that government officials deserve the privileges.

In contemporary China, waste, extravagance and luxury are surprising. It is estimated that every year, the spending on official cars is 30 billion US dollars, and the total amount of government waste is approximately 250 billion US dollars. Government budget and public fund are the main sources of such a big waste, but they are obviously not enough. Government and its officials at all levels have to rely on illegal measures and malpractices to support their high lifestyle. Each of the government organs and departments has developed its own ways of abusing power for raising fund. The notorious “three arbitrations” (San Luan) is an example, namely, illegal charges, illegal fines and illegal fund raising. In fact, every chance and every piece of public power can be privatized in contemporary China as a way to realize personal interest, by which, wealth and luxurious life facilities of government officials are growing extraordinarily fast, rapidly widening the gap in the lifestyles of government officials and common citizens.

### ***The Form of Public Project Corruption (Gongcheng Fubai)***

China is now on track of economic take-off, so the whole country is like a huge construction site. It is admitted that public investment is the key pivot to promote economic development and this is especially true for China. Actually, nearly all public investment provides chances for government officials to extract money. This is because all public projects have to be contracted out, which means that government officials actually play a role of public agents responsible for bargaining with the contractors. Since the government officials responsible for certain public projects have the power to decide who are qualified for the job, and since they are entrusted to determine the baseline of bargaining with the contractors, they have enough incentive to turn traitor to public interest and to collude with the contractors.

In fact, the kickback of public projects is so high in China that it is estimated that 20% of a certain public project fund is utilized to bribe the relevant government officials. That is to say, for a public project of 1 million Yuan, 200 thousand Yuan is used to bribe the relevant government officials in the form of kickback. This is why so many key figures at every level of government have attempted to be involved in public projects and as a result, many of them have been accused and prosecuted.

## ***The Form of Examining and Approval Power Corruption (Shenpi Fubai)***

China is now in the transitional period, which means that the nature and the features of the old system will still last for a long time before China completes the course of transition. Indeed, many scholars, both at home and abroad, have cast doubts on whether China can be judged as a country practicing market economy since government intervention and administrative discretion are still playing critical roles in economic life. The prominent manifest of government intervention and administrative discretion is the examining and approval power in the hands of the government and government organs. In China, enterprises, citizens and other social actors find it difficult to navigate the large number of complicated administrative and approval processes and procedures. For example, if someone wants to open a small bookstore, he has to be examined and approved by a number of official departments, including the department of city management, the department of taxation, the department of industrial and commercial management, the department of city construction, the department of cultural affairs, the department of public security, the department of news and press management, the party's propaganda department, and so on.

The entrepreneur can be blocked by any of the listed official apparatus. Usually it is so hard to pass the examination and get the approval from the government organizations that it is regarded as a shared and tacit consent to "buy the road", e.g. to bribe for the official approval. It has become a main way for the officials responsible for examining and approval to take the advantage of public power to blackmail and fraud their "served" enterprises and citizens to extract money. Actually, this popularizes a saying describing this phenomena as "no money, no approval; less money, slow approval; much money, fast approval", which vividly pictures the situation of administrative corruption in China today. While the aforementioned forms of corruptions are the prominent ones, there are three new trends that are worth noting (Lin 2010a, b).

### **New Trends of Corruption**

While a great many of officials in the public sectors are involved in corruption, a new trend is that the families of a large number of senior cadres have become involved as well. Before the reform era, senior cadres were distinguished from others mainly in that they enjoyed a special lifestyle based on their rank and the state provided what they needed in the form of substances and life facilities, such as big houses, cottages, larger quota of food and meat, cars and other necessary commodities for their families, but rarely in the form of money. Things have changed greatly since China began market-oriented reform. The senior cadres no long enjoy their previous privileges but now do so in the form of high salary and welfare. But what they have gained from the state seems rather trivial when compared with those

in the private sector who have accumulated much wealth and rapidly become extraordinarily rich. Therefore they began to be more greedy and predatory in gaining wealth. The public power in their hands can be used as a tool and a medium for them to squeeze for graft. Power cohabiting with capital has rapidly created the crony capitalism in China.

Although the CPC has found it difficult to eradicate such corruption committed by senior cadres, when caught, punishment has become increasingly severe. A large number of senior cadres and their families involved in economic crimes have been exposed and prosecuted, among whom, Chen Xitong, a politburo member of CPC and the party secretary of Beijing, Chen Kejie, vice chairman of the Standing Committee of NPC and former governor of the Guangxi Zhuang Minority Autonomous Region, Hu Changqing, the vice governor of Jiangxi Province, Tian Fengshan, Minister of National Land Resource Ministry, Wang Xuebing, president of the Bank of China, Wang Huaizhong, vice governor of Anhui Province, Cheng Weigao, party secretary of Hebei Province, Li Jiating, vice governor of Yunan Province, are the most notorious. The pessimistic view is that few senior cadres of the party and government are clean. This has harmed the reputation of the socialist party and state and greatly undermined the moral and political basis of the regime.

While petty cases of corruption are numerous, so-called big cases of corruption have increased in number. Corruption is a widespread phenomenon in China, not only in its variety but also because of the large number of officials of all ranks involved in it. Even worse, there has emerged a tendency that the number of big corruption cases is enlarging. In the 1980s, an economic crime case of 10,000 Yuan was judged as a big case, but in the 1990s, the figure has risen to 100,000 Yuan. Within the first 8 months of the year 2000, 23,000 graft cases were investigated and 1.6 billion Yuan recovered. Four people holding minister-level positions were investigated. Prosecutors investigated a total of 5,700 government and CCP officials (Xianhua, 15 September, 2000).

The President of the Supreme People's Court announced that 15,748 government officials and businessmen had been sentenced for corruption during 1999. In the first 6 months of the year 2000, the figures were reported to be up 7%, with the number of judges, prosecutors and judges prosecuted up 33% (SCMP, 22 July, 2000, Internet edition). Some big cases are so spectacular that people find it hard to believe. In the massive smuggling scandal in Xiamen, it is estimated that at least 80 billion Yuan has gone missing. A mixture of corruption, negligence and shady investments had caused losses of over one billion Yuan from Shanghai's medical, pension and housing funds. Such big cases have resulted in shocking impacts among the people and caused enormous outrages.

At the same time when single-person-committed corruptions are flourishing, cases of collective corruptions have become more popular and prominent. Due to the China's special political and administrative institutions as mentioned above, collective corruption is easy to organize, and officials in the same department and organization are found to conspire for corruption in the name of public good. Actually, the bigger the corruption case is, the more possible for officials to cooperate in practicing corrupt actions. The typical example is the huge project to dam the

Yangtze River at the Three Gorges, a project already billed at \$72 billion and designed to boost electricity by 10% and to tame downstream flooding. An audit of the resettlement project revealed that 473 million Yuan had been misappropriated (8.8% of the total funds audited) and used to build offices, dormitories and to set up companies (Xianhua, 28 January, 2000). In July 2000 it was reported that 97 government officials involved in the project had been found to have engaged in corrupt practices. One official was condemned to death for stealing 15 million Yuan to invest in a hotel, while another stole 650,000 Yuan from one of the resettlement accounts. A further 425 million Yuan is still missing and while staff at the Three Gorges Economic Development Corporation had not been paid for 11 months, their boss had run away with over one billion Yuan (SCMP, 3 May 2000, Internet Edition). This case exhibits loopholes and weakness deeply embedded in China's political and administrative structure for which, without effective remedies, corruption will lead to its collapse.

## **Anti-corruption Efforts and Measures in China**

The increasingly serious corruption situation in China today, has caused great social dissatisfaction and outcry. It has caught the attention of the central authorities as well. Great effort has been made and various measures have been taken to prevent the situation from worsening (Xin 2010). Since the late 1980s and early 1990s anti-corruption is one of the primary themes of the Party's congresses and the sessions of the Central Committee of CCP. Decisions, regulations, disciplines and rules have been constantly initiated to curb the practice. Since China's social and economic transition might last for a long time due to the nature of incremental reform, more fundamental means should be taken into consideration in addition to the existing efforts and measures (Lin 2010a, b). Below are described three main categories of anti-corruption measures, A, B and C with sub-groups for each category where appropriate.

### ***Group A: Strengthening and Improvement of Various Anti-corruption Agencies and Institutions***

Since 1978, the Chinese authorities have re-established various anti-corruption work agencies, which were suspended during the Cultural Revolution. At the end of 1978, the Central and local Commissions for Discipline Inspection of CPC, whose major function is to supervise party members and leaders in various political organizations on the basis of the party's disciplinary regulation, were re-established. The Supreme People's Procuratorate and local Procuratorates, whose major task is to supervise law-enforcement and investigate and prosecute economic crime, were



re-established in 1978. The Ministry of Supervision and its local branches, whose major task is to supervise government officials and punish those who violate administrative discipline, was re-established in 1987.

The Anti-Corruption Work Bureau was established at the beginning of the 1990s under the command of the Procuratorates to serve as the major anti-corruption agency. In order to strengthen the anti-corruption organs and enhance their independence in law and discipline enforcement, the Chinese government has taken several measures to improve the leadership system of these agencies. The Central Commission for Discipline Inspection and its local branches and the Ministry of Supervision and its local branches were merged into one body, and began work jointly in 1992. The government also worked to strengthen vertical leadership within the system of anti-corruption agencies although such leaders must still accept the party committee's leadership. Finally, the central and local Commissions for Discipline Inspection of CPC have begun to play a coordinator role in anti-corruption work among various anti-corruption agencies. Other important institutional reforms that have helped to curb corruptions have been implemented within the past two decades. These include:

- (a) Increasing the transparency of the public decision making process. Beginning in the late 1980s, some local governments and departments began to experiment with making the procedures and results of handling official business decisions public so that citizens could supervise the government's work. Since the beginning of the 1990s, such practices have spread to more and more local governments and departments.
- (b) Additional mechanisms for internal control of institutional power, such as teamwork, overlap of duties, reduction of the power of individual officials have been implemented.
- (c) The so-called "regulation of avoidance (of relatives) and transfer of leading cadres" at various levels have been implemented. "The regulation of avoidance of leading cadres" has three provisions: first, avoidance of conflicts in appointment to official posts, namely, senior officials must avoid having their spouses, children or relatives hold important posts in their own work units. Second, avoidance of conflicts of loyalty in official business, namely, senior officials are not allowed to participate in official business or exercise influence on such activities if they are involved in their own or their kin's interest. Finally, the avoidance of such conflicts in regional assignments, namely, officials local to a specific county are not allowed to hold senior official posts in that county. The "regulation of transfer of leading cadres" requires that government officials be transferred regularly from one region to another or from one department to another in order to break whatever personal networks may have developed. This avoidance and transfer practice is inherited from the traditional Chinese imperial practice.
- (d) According to recent regulations, all senior officials at the county level and above must report their income from all sources every half-year. Although this should be an effective measure for detecting corruption, its effectiveness has been

weakened in large part by the backwardness of banking and tax systems in contemporary China. For example, there are no special organs to verify such income registration. There is also no legal requirement to register and the requirement is only one backed up by party and administrative disciplinary regulations.

- (e) Report centers have been established and the reporting system improved: The report centers within the Procuratorates and the Supervision Ministry and its local branches were established in 1988. Citizens can report any evidence of economic crimes by phone, fax, letter, or orally to such centers. Citizens have provided a vast amount of such evidence to these centers. For example, from April to June 1988, the Ministry of Supervision's hotline received 1,250 calls. Elsewhere, the report centers attached to the Shanghai Procuratorate received 15,000 reports in 1 year. Of these, 11,035 provided relevant information about graft, bribes and other such acts. The report system was recently improved through additional measures to protect and reward those citizens who reported evidence of corruption and informing them of the progress and results of the relevant investigations and trials (He 2003).

### ***Group B: Anti-corruption Campaigns***

Since 1978, the Chinese government has launched four anti-corruption campaigns. The first one, which began in 1982, targeted economic crimes with significant success. 136,024 cases of economic crimes were investigated, of which 44,000 were wound up with 26,000 persons convicted and 44,000 persons surrendering themselves to the police. The second anti-corruption campaign, which began in late 1983 and lasted until early 1987, concentrated on consolidating party organizations. During this movement, a large number of party members who had violated party discipline or engaged in corrupt activities were punished, including 35,616 senior officials at the county level and above. The third anti-corruption campaign began in 1988 and reached its peak in late 1989. A large number of corrupt officials were punished or surrendered themselves to the anti-corruption agencies. According to official statistics, 11,763 cases of graft, bribery and other relevant crimes were accepted and heard by the Procuratorates in 1989, of which 58,726 cases were investigated and prosecuted, 20,794 criminals were arrested, and 482.86 million Yuan were recovered. 36,171 officials surrendered themselves to the anti-corruption agencies from August 15, 1989 to October 31, 1989.

The fourth anti-corruption campaign began in late 1993 and has lasted to the present. This campaign has had three objectives: addressing the issue of self-regulation of senior officials; strengthening the investigation and prosecution of large-size corrupt cases and forcefully curbing unhealthy tendencies within government departments. The newest anti-corruption campaign has had some positive effects as indicated by the slight improvement in perceived corruption in China after 1995 as reported by Transparency International (TI). But the situation facing anti-corruption agencies is still very serious and there is no reason for optimism.

The four anti-corruption campaigns not only focused on cracking down on what were clearly Class A forms of corruption but also initiated some measures to combat the other Class B and C corruption. These measures include:

- (a) Regulations prohibiting public officials and their institutions from engaging in business activities and running satellite companies. The separation of public institutions and their satellite companies became a central focus of the third anti-corruption campaign with considerable success. According to official statistics, by July 6, 1990, 11,934 companies run by party and government institutions (or 85.8% of the total) had been closed while the remainder was separated from the original public institutions. 49,292 government officials, including retired officials who held posts in enterprises, resigned from these posts.
- (b) Implementation of budget management on the extra-budget income of various departments such as revenue from imposing fines and collecting administrative fees. This task has become a focal point of the fourth anti-corruption campaign. According to Wei Jianxing, former head of Central Committee for Discipline Inspection, the separation of government departments' income from their expenditure had been implemented as an important step in curbing unhealthy tendency within government departments.
- (c) Regulations for restricting extravagance and waste within government organs. Such regulations include reducing the number of administrative meetings and files; limiting spending on banquets, cars and office furniture; prohibition of foreign and domestic tourism using public money; prohibition of luxurious entertainment and so on. The fight against extravagance and waste has become another field of battle since 1997.

### ***Group C: Moral Education***

Moral education constitutes an important element of these four anti-corruption campaigns. The second and the fourth anti-corruption campaign particularly attached great importance to moral education. The second anti-corruption campaign was also a moral education movement aimed at consolidating and strengthening party organizations. Since the third generation of political leaders has paid great attention to the moral education as a part of their anti-corruption efforts, moral education played an important part in their anti-corruption efforts. The methods for moral education include:

- (a) The whole party, especially senior leaders, was asked to regularly study political theory, particular Deng Xiaoping's theory "Building socialism with Chinese Characteristics". Party organizations at various levels were required to educate their members with communist ideals, morality and faith.
- (b) Party members, especially the senior leaders, were asked to review their behavior against various anti-corruption rules and to criticize the misconduct of the other party members in party organization conferences.

- (c) Government officials who were honest and clean (most of whom are party members) were cited as models and all public officials were asked to follow their examples.
- (d) Corrupt officials were punished under the appropriate law, party or administrative disciplinary regulation and their behavior condemned by social opinion.

However, there are limits to moral education. Since senior officials and the ordinary party members are actually not equal within party organizations, the wrongdoings of senior officials are not easily criticized or checked by other party members. Moreover, because of the lack of check and balance of power, the lack of transparency in much of the behaviors of senior leaders and the limits of self-regulation, it is very difficult for senior officials to set examples, particularly when they are involved in corruption or are universally believed to be doing so. This undermines the effectiveness of moral education. Another limit is that the behavior of model officials is often too perfect to be followed by the other officials. The exemplary cases of model officials publicized by the authorities are unrealistic. These quote cases of those who are satisfied with low salaries, lead a simple life, work hard, renounce their family lives and handle official business impartially without any fear of offending their relatives and friends. Such perfect models are hard to accept as models, thus further undermining moral education.

## Conclusion

Corruption and anti-corruption have become serious challenges to the party and the regime in China. In its long history, China developed its own tradition, culture, ethics, political heritages and administrative norms which differ from those of the rest of the world (Zhao 1997). China has to find its own road to cope with mounting corruption. On the whole, the anti-corruption situation is not optimistic. Though more severe punishment has been introduced, and increasingly tough measures have been enhanced, the results produced seem disappointing. It is argued that the corruption and anti-corruption situation is actually a dilemma for China, therefore, the policies, measures and means of anti-corruption are doomed to be crippled. China has to try hard to deter the worsening of the situation, but it is unlikely to succeed in thoroughly eradicating corruption.

The primary reasons are as follows: First, the CPC as a leading political force has changed in its role as the representative of working class. It has, instead, become a political stakeholder caring most about its own interests and the stability of its regime. This is because a large part of its members have gained from the economic reform and development, and they have become a new social stratum superior economically and politically to other social strata. Actually the whole ruling elite – bureaucratic practitioners, administrative officials, and party cadres have been integrated into a privileged network of shared interest.

This determines the nature of the anti-corruption strategy of China. On one hand, anti-corruption policy has to be implemented to pacify the anger of common people and to maintain the moral image of the party and the regime. This will in turn benefit the ruling class itself. On the other hand, anti-corruption has to be limited within a scope that might not harm the immediate interests of the new stakeholders. Therefore, rather than taking anti-corruption as a strategy relevant to deepening reform and optimizing governability of the party and state, sometimes anti-corruption has only been regarded as a political tactic for manipulating party cadres and government officials. These have negatively impacted the anti-corruption efforts and the results produced. Another consideration is that although the political structure and institutions are the main barriers to the anti-corruption efforts, they are not permitted to be changed. Indeed, a string of Chinese leaders have railed against the effect that widespread corruption has kept on undermining the legitimacy of the party. However, none has been willing to suggest the kind of structural reforms such as a system of check and balances that would resolve it (Saich 2001, p. 299).

Therefore, though institutional arrangements, such as the Disciplinary Inspection Committee as a party organ, Ministry of Supervision and its branches as government departments, and the Supreme People's Court, the Supreme Procuratorate as legislature organizations, and varieties of other supervision institutions, have been established, their functions and practices are limited because of their dependent nature. Without the agreement and the coordination of the party committee, they find it hard to do anything. A typical dilemma can be seen in the function and work of the disciplinary inspections at all levels of the party organizations. They are in name responsible for checking and inspecting all the party members at certain branches. However, as they are under the leadership of the party committees of the same level, how can they supervise their own authorities? Without the necessary independence, no anti-corruption institution can function well. Third, leaders in China have always stressed the necessity of the rule of law. However, while rules, laws, and regulations have been introduced in large numbers, too many loopholes and weaknesses allow them to be manipulated. Further, under the political guidelines of so-called unitary leadership of the party, laws, rules, and regulations are easily distorted (Pang 2010).

From the arguments above, it can be seen that China has not really achieved its goal of anti-corruption because it has neglected the basic weakness of its political structure and institutions. The most effective way to combat corruption is to build a check and balance power structure. And the most important factor of the check and balance power structure is the differentiation and independence of institutions. This vital element of differentiation and independence of institutions is the foundation of a democracy. Thus, democracy is the final remedy for corruption that China should resort to. Democratic conception, democratic polity, and democratic lifestyle should be the primary factors that China should pursue if it wants to win the battle of fighting against corruption.

## Note

1. Source: Gerald Caiden. 1993. Official corruption and political stability. *Corruption and Reform* 3(7): 15–16.

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# Chapter 6

## Taking Your Codes to China

Kirk O. Hanson and Stephan Rothlin

### Introduction

The proliferation of codes of conduct and ethical standards among American and European companies has been dramatic over the past 20 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 chapter presents the learning of the two authors and companies they have consulted and worked with over the last 10 years in China. Our experience is that Western companies have generally progressed very slowly in applying their codes to their operations in China. This chapter summarizes why it is so difficult to do so, and what the most successful companies are doing to make it work.

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## 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. While corruption is common in many countries of the world, one cannot really say that corruption is welcomed or valued anywhere. There are anti-corruption coalitions among domestic companies in almost every national setting. Even in those countries with the most corruption, there is an awareness of the corrosive effects it brings to the country, and the drag corruption creates for economic development.

Nonetheless, there are some value and cultural differences of significance, and different countries that are at different stages of development often have different priorities for social and economic progress. Further, the national and local governments in host countries present different challenges depending on their history and leadership.

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 area 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

After the end of the so-called “Cultural Revolution” from 1966 to 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, 20 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 multi-nationals 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 cleanup will take at least 10 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.<sup>1</sup> 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 reverted 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 15 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 5 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 10 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.

## Note

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.

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## Chapter 7

# “Do as the Romans Do in Rome”?

### A “Pragmatic” Corporate Governance Perspective Beyond Ethical Relativism in Asian Emerging Economies

Peter Verhezen

When doing business in Asia, one cannot escape the feeling that ethical norms and values are not “valued” that highly nor exist there obvious incentives to behave ethically in the fierce competitive Asian emerging markets. One could even question the ethical sensitivity to ethical values as they are often violated. Moreover, corruption is prevalent in the Asian emerging markets as surveys consistently reveal. However, since the debilitating Asian crisis of 1997–2001, governance structures have been dramatically improved throughout Asia. Despite the considerable improvements, Asian companies are still lacking behind in terms of transparency, accountability to all its shareholders and being responsible to affected stakeholders. This is mainly because insiders in family or state owned enterprises still rule most of the biggest Asian companies. Moreover, when ethical business principles are propagated in Asia, these theoretical ethical concepts originate more often than not from Western philosophy. Is it surprising that a Chinese culture might prefer to adhere to Confucian, Mencius or Lao Tse’s principles, or that Indonesians or Indians are likely more familiar with the ancient epics of Ramayana and Mahabharata, narratives of good and evil? In business, however, allegedly attempting to apply ethical principles – be it teleological, deontological or consequentialist in nature – have largely remained a mere public relations exercise to convince others about their presumed good ethical intentions. The reality on the ground is often quite different: powerful business elite in ‘tacit’ or even explicit collaboration with the politicians and public officials rule vast business empires. This political elite uses the “*rule by law*” instead of making sure their business “associates” abide by the *rule of law*. Relationship building is a survival mechanism in those emerging Asian markets where one faces enormous

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institutional voids. Unfortunately, those relationships can easily turn into nepotistic and corrupt networks. Most business executives will therefore adapt the adage to “*do as the Romans do in Rome*” to survive in such uncertain and fierce environments where one cannot fully rely on contractual enforcement or arm’s length governance structures.

When dealing with Asian executives, I cannot escape the impression that ethical values are not an immediate priority for businesses, nor does opaqueness of Asian firms and the prevalence of insiders help to protect minority shareholders. Asian entrepreneurs and executives can only be convinced about the importance of ethical values when it can be shown that violating some “generic principles of good corporate governance” – which implies good ethical behavior – will damage the trust in the firm, increase its reputational risk that will likely undermine the possibility to tap into more global forces. The purpose of corporate governance that encompasses ethical principles is to safeguard the promises made by firms to investors and other relevant stakeholders which could be described as “to optimize sustainable organizational value”.

In a first paragraph we will highlight why rules-based corporate governance structures are not always applicable or even irrelevant in an Asian context. Similarly, the mainly Western inspired ethical principles as they are promulgated in Business Ethics courses in many international business schools may be interesting to many (Asian) executives but hardly followed in a business context where building relationships with powerful political elite is an easier venue to accomplish financial performance. In a second paragraph we will attempt to indicate how to overcome these hazards and institutional voids, while not falling into the trap of ethical relativism. We will suggest a more philosophically *pragmatic* approach that relies on generic “universal” (to be distinguished from absolute) principles of good corporate governance principles that need to be contextualized to a local content, and urge not to “force” ethics through surveillance and sanctioning systems but make people aware of the importance of integrity in any long lasting business relationship and focus on the organizational biases that can lead to unethical behavior.

## **Why Bother About Good Corporate Governance and Ethical Values in an Emerging Economy?**

Is ethics in crisis in Southeast Asia, China and elsewhere? Are the corporate governance structures underneath in these emerging markets still in disarray, or does individual integrity in business not outweigh the benefits from unpunished corrupt or hazardous behavior?

### ***Corporate Governance in the Asian Emerging Economies***

Executives make decisions on a daily basis that are supposed to serve the organization. However, quite often those decisions may better themselves at the expense of other parties related to the firm: those costs are known as *agency costs* which find its

roots in the separation of ownership and top management. A system of check and balances – the basis of corporate governance – is assumed to lessen those agency costs by controlling and monitoring top management (Friedman 1970; Fama and Jensen 1983; Jensen and Meckling 1976; Jensen 1986; Lorsch and Clarck 2004; Macey 2008). This prevailing Anglo-Saxon outsider model of corporate governance as practiced in the USA, UK, Canada and Australia is characterized by a high reliance on equity finance, dispersed ownership, strong legal protection of shareholders (including minority stockholders) under a common law system, strong bankruptcy regulations and courts, little role for creditors, employees and other stakeholders in management, and strong requirements for disclosure and high level of management discretion in mergers and acquisitions. This American-English model of corporate governance has been mainstream because of New York’s and London’s status of predominant international capital markets which lead to the belief of an alleged ‘global consensus’ that corporate managers should act exclusively in the economic interests of shareholders. One assumed for instance that by granting limited equity ownership (or stock options) to professional managers, one could reduce the agency problem since the managers would now be assumed to think alike owners and align their interests with the main shareholders of the firm. Moreover, this *outsider corporate governance model* that has dominated international finance is based on the belief that the creation of liberal markets will facilitate the allocation of scarce resources in the most effective and efficient manner that consequently will lead to optimal economic outcomes. Mainstream corporate governance claims that a majority of independent board members will not only reduce agency costs but also improve the overall performance of the firm (Bown and Caylor 2006; Cairnes 2003; Dimma 2002; Fama and Jensen 1983; Gordon 2007; Jensen and Meckling 1976; Klein 1998; Larcker and Tayan 2011; Lev 2012). International “Western” capital and investment have logically followed this paradigm and shown the undeniable tendency for global mobile capital to locate itself in countries and firms that have efficient corporate governance systems. The recent global financial crisis (2008–2009) has definitely undermined this alleged superior outsider corporate governance model (Roubini 2011; Rajan 2010; Shiller 2012).

The “insider” model on the other hand so characteristic to German, French, Scandinavian and Japanese corporate governance has, indeed, gained some prominence since the financial mortgage debacle in the USA. This insider model is family-oriented or state-owned with long term focus that also emphasizes the community. Such an *insider corporate governance model* is usually characterized by a high reliance on bank finance, concentrated ownership, relatively weak protection of minority shareholders under a civic law system, a more predominant role of particular stakeholders in the ownership and management (creditors and employees in the German case), relatively weak disclosure requirements and more limited freedom in mergers and acquisitions. In this loosely defined “European Continental” environment and in Japan, the Agency Theory that is closely associated with the Shareholder Model is complemented or even “overruled” by a Stakeholder Model and a Resource-based model that emphasizes the importance of employees and community among others as an important stakeholder or relevant resource for the

firm (Freeman et al. 2007; Freeman 2010; Pfeffer 1972; Pfeffer and Salancik 1978; Peng 2003; Peng and Zhou 2005; Yoshikawa and Phan 2001).

A third cluster of different governance practices could be attributed to considerable *institutional voids* in the emerging markets and Southeast Asia and China in particular (Khanna et al. 2005). In Russia and China, one could claim that a form of State Capitalism rules these economies. To a certain extent, Asian firms – either family or state owned – are more closely related to insider governance structures with the additional constraint of a number of weak institutional structures as in protection of minority rights, corruption and weak legal enforcement among others. Overcoming institutional voids will not be resolved by preaching ethical principles or complying with “best” corporate governance practices which may not be applicable in such a constraining structural business context. In order to overcome such institutional voids, most businesses have associated themselves with the political elite in power, building useful relationships or *guanxi*, almost the opposite of the arm’s length rule of mainstream corporate governance (Chua 2012; Verhezen 2008b; Verhezen and Morse 2009, 2010). These business relationships – to be distinguished from coercion by corrupt public officials – are perceived as a valuable resource in obtaining competitive advantage (Young et al. 2001; Sun et al. 2011). One even dares to speak of a “relationship-based governance mechanism” that allows business to survive in a context where law enforcement is weak; in such cases trust and reputation have partially taken over the role of rules and regulations (Allen 2005; Verhezen 2009).

### ***Ethical Behavior Within Guanxi Relationships***

A simple acid test to judge whether a *guanxi* network is in fact ethical is to determine if there are victims resulting from *guanxi* relations. In other words, a *guanxi* practice is ethical only if it causes no harm to a third party or to society as a whole. Examples of victims would include competitors or customers, or even undetermined stakeholders. When *guanxi* or a network becomes a pure exchange, a degradation process of displacement and a process of commodification enter the relationship, or when *guanxi* commoditizes into a shadow of money exchange only, the network degenerates into its corrupted form of nepotism and clientelism (Verhezen 2008b, 2009). The direct payment of corruption money trivialises and degrades the practice of *guanxixue* to monetary compensation and bribery in certain contexts. This is why business *guanxi* has gained such a notorious bad reputation, inside ASEAN countries (with the possible exception of Singapore), India, China and other emerging countries.

Any governance mechanism should aim to balance the arm’s length principle that emphasizes the importance of neutral objectivity in managerial decisions and some form of relationship that binds people. *Guanxi*, unfortunately, quite often results in personal gain for the agent (or executives) as individual beneficiaries of the nepotistic relationship at the expense of the principal (or firm), and undermines

the price mechanisms of the market which make these relationships from an efficiency, effectiveness and merit point of view, *highly* problematic.

Public financial information is very limited while government and bank intervention were perceived as “useful” for the business to thrive in Asia. In other words, information is still closely guarded within a group of vested insiders who benefit from this *managed capitalist system*. Unfortunately, such a relationship-based system has proven to be inefficient to monitor the responsibilities and accountabilities of those in charge – a primary role of governance. If public governance is in disarray, more, if government officials and politicians are intervening in business process decisions, one cannot expect businesses to adapt to “best” corporate governance practices of transparency, accountability, responsibility and fairness. The more so because both governmental officials and favoured business groups have vested interest to keep such beneficial relationships that have brought them no windfalls. Relationships should not be banned altogether, but features of minimum transparency and accountability may be needed to reduce “un-economic” and unfair corruption and clientelism. Although the Anglo governance system operating at arm’s length with their main stakeholders and being quite ruthless in accountability of business results have produced quite innovative companies, one should not just dismiss relationship-based governance as always ineffective and corrupt. Relying on long term relationships with suppliers, bankers, customers and employees may have some significant advantages as well – such as loyalty, incremental progress, the willingness to share gain and pain among their associates, among others - that may not be easily found in an Anglo-Saxon system. Unfortunately, relationships-based governance that use discretion to make decisions often leads to certain abuses, especially when the power by the elite is not monitored or scrutinized through appropriate check and balances, either publicly or within corporations. These institutional flaws or voids we have described elsewhere as a “zeta”-risk.<sup>1</sup> Taking advantage of those voids by engaging in specific networks, or by having inside access to legal frameworks – not necessarily all legal or ethical appropriate – one can often obtain some “competitive” advantage within such a business context. Moreover, well connected patriarchs, tycoons and their organizations will use networks to obtain business deals and to enforce contracts. Any business that can reduce these organizational risks in one way or another will help to achieve a higher return or a better competitive advantage. One should note that such an advantage is not transferrable to a global context where a more distant rule of law is enforced. Minority shareholder rights are protected and anti-corruption laws enforced in both a shareholder and stakeholder model in the Western hemisphere, contrary to the situation in the emerging markets where individual rights are not so well protected.

If corporate leadership aspires to gain back the trust of the community one may want to take *integrity* of leaders and organizations seriously. The minimum one can expect from any wise leadership is that they do not harm, be fully accountable for their decisions and actions, and that they take their social and moral responsibility seriously toward relevant constituencies of the firm within the boundaries of reasonableness, with the ultimate objective to optimize sustainable organizational value. Unfortunately, that sounds rather like an ideal than a business reality. Without going



into detail, the many ethical debacles of unethical behavior and corruption on a global scale seem to confirm this.

Anglo-Saxon governance rules – determining mainstream corporate governance – and Western philosophical ethical notions will not fly far in an Asian context. Hence why Asians have adopted an attitude of (ethical) skepticism or relativism that prefers opaqueness to keep unwanted outsiders at bay and a no-nonsense ruthless Machiavellistic behavior where high moral norms or ethical principles hardly play a role in pursuing a favorable financial bottom line.

## **A Pragmatic Approach Beyond “Roman” Ethical Relativism in Asian Emerging Markets**

Expanding a minimum of procedural neutrality in terms of unbiased procedures and some policies structured towards impartiality will help increase ‘generalized’ trust in management and benefit merit based efficiency in companies. In short, if they occur in public domains of life when there is a high potential for conflicts of interest and if they are examined through the lens of procedural justice, *guanxi* practices are more likely to be viewed as problematic. But then again, changing the underlying values of ‘particularity’ towards a more ‘impartial’ market system may take time. Any hasty transition may be questioned. And we should not ignore the important fact that *guanxi* – or any (business) relationship for that matter – remains a potent strategic or tactic weapon in the form of social and symbolic capital, which obviously can be turned into economic capital and gain (Verhezen 2008a; Chen, Li and Shapiro 2011). And although ethical behavior may not immediately pay off, it definitely wields influence in any relationship. With growing globalization and intertwined international economies, (international) “governance rules of the game” on an institutional level and the trust generating power of integrity on an individual level are to be recommended.

### ***Creating Trustworthy Corporate Leadership Underpinned by GCG Principles***

Visionary individual ethical leadership and good “institutionalized” corporate governance mechanisms – albeit affected and induced by a better ‘public’ governance context – may be an effective answer to the problem of corruption, ineffective board functioning, moral hazards and irresponsible corporate behavior. Admittedly, corporate governance can only thrive in a business context where governance structures are legally and publicly accepted and enforced, and when ethical incentives and ethical behavior can make a difference.

Claims that corporate governance systems are currently undergoing a strong convergence are a little far-fetched. Although it is true that weaknesses in Asian

corporate governance systems were widely seen as a primary cause of the Asian crisis and the after effects, it is unlikely and not even recommendable that Asian emerging countries will adopt a variant of the Anglo-Saxon “outsider” model.

Governance will not prevent misconduct or misdeeds, but it can actually improve the way a corporation is run in Asian countries. One usually refers to successful companies that apply “best” [international] corporate governance principles as those who have diligently incorporated and integrated (1) the protection of basic shareholder rights, (2) the prohibition of insider trading, (3) disclosure of board and top managers interests and adherence to international disclosure standards, (4) a respect for the legal rights of main stakeholders of the company while acting responsibly within a wider community context, (5) an independent audit committee that regularly meets, (6) the norm that all shareholders should be treated fairly by the board, (7) the expected disclosure of capital structures that enabled certain shareholders to obtain disproportionate control, (8) providing good access to information by the board members, and (9) allow fair and timely dissemination of information to all relevant parties involved.

These corporate governance principles are so generic that they can function as a beacon in any business context. Nonetheless, these “universal” principles will need to be translated into a legal and cultural context that can embed and “absorb” them. It is the board’s fiduciary duty to its shareholders to guarantee (the implementation of the generic principles of) transparency, fairness, accountability and responsibility, the main pillars of good corporate governance practices. Without understanding and re-interpreting those four generic principles and without them wisely translating and or transforming them into a specific Asian business context, these governance principles will remain nice slogans or thick-the-box-exercises without any real substantial impact on the ruling and functioning of the organization.

The Board’s main task is *to monitor, control and oversee* the performance of top management and the continuity of the organization (Carver 2010; Chew and Gillan 2009; Gelter 2009; Huse 2007; Larcker and Tayan 2011). In addition, the non-executive directors at boards provide valuable *advice and mentoring* to top management. In this advisory capacity, the board, indeed, pays attention to guide top management’s decision that balance risk and reward, whereas in its oversight capacity, the board aims to monitor management and ensure that it is acting in the best interest of the company’s long term goals. The board is a governing body elected to represent the interest of shareholders and the company at large. The *fiduciary duty* of a board<sup>2</sup> usually includes a *duty of care* that requires directors to make decisions with due deliberation, a *duty of loyalty* that addresses conflicts of interest whereby the interest of shareholders should prevail over the interest of a director, and a *duty of candor* that requires that management and the board inform shareholders of all information that is important in their evaluation of the company and its management. Governance systems are influenced by the owners of the firm, its managers, creditors, labor unions, customers, suppliers, investment analysts, the media, and regulators and all those who could significantly affect (the value of) the company. In practice, non-executive directors spend most of their time on advising management on strategic planning, competition as well as succession planning, executive compensation, monitoring performance, and compliance

and regulatory issues. However, implementing these “best” practices may not be enough. The role of board directors in well governed family firms should also show the passion for the company, look long term and take personal ethical (as distinguished from legal) responsibility for the firm. In other words, the board should be fully and personally committed over the long term – possibly owning some shares (that can only be sold after the retirement from the board) – and preferably pursuing a purpose beyond mere profitability that is associated with a higher “common” purpose. Such firms with a committed and responsible board have a greater chance to thrive over a longer period.

One of the main challenges for emerging markets is to adapt itself to international best (corporate) governance practices while retaining its own identity and unique culture. The tension between formal corporate governance practices – which are based on an arm’s length system that endorses transparency, fairness, accountability and responsibility – and an informal *relationship-based system* in Asia – which is often seen as the main currency for any exchange – will need to be steered to a manageable balancing act that integrates both into globally acceptable “best” corporate governance practices within an Asian context (Verhezen and Morse 2009). Such a balance will evoke the importance of transparent and disclosed information, protection of all shareholders based on the principle of fairness, accountability and responsibility by board and management and integrate those values with a unique system of relationship building. However, government and bank intervention may be seen as not optimal to achieve economic efficiency. Because of the paucity of public information, enforcement of contractual claims largely depends on the effectiveness and “quality” of those long term relationships, ASEAN countries (except the well-functioning island of Singapore), China and India will need to improve the effectiveness and efficiency of institutions that mediate between the economic and political actors through a better legal system, dramatically enhanced public and corporate governance and appropriately implemented values in business that accentuate and integrate its unique rich culture. We do not advocate to transplant a set of corporate governance features of often Anglo-Saxon origin, but we do believe that contextualizing “best” corporate governance principles as found in some of the best and thus most competitive firms will help Asian companies to gain trust from institutional investors and business community and to become more effective in the process.

Asian emerging economies are bedeviled by ‘official’ corruption that reaches far into business. Moreover, since oversight by regulators, boards and even institutional shareholders is not that well established (compared to the West) and not as significant in the minds of top executives, one will need to rely on creating trust and credibility by the firm, avoiding ethical breakdowns. It is well documented that quite a number of firms in Asia (but also in the West for that matter) face a number of barriers to become an ethical organization, especially in those situations where unethical behavior is overlooked when it is in the interest of the organization or when it is in the interest of top management to remain ignorant, labeled *motivated blindness* (Bazerman and Tenbrunsel 2011). Another potential barrier is the *slippery slope* or *indirect blindness* which allows unethical behavior to be carried out when it develops

gradually or when it is carried out through third parties respectively. And one of the most dangerous situations is where unethical behavior is accepted because the *outcome is* “good” and thus *overvalued*; in such a case it is recommendable that the firm rewards solid decision processes and not just good outcomes. A frequent quite subtle ethical fallacy is setting goals and incentives to promote a desired behavior while in fact encouraging a negative one, as in *ill-conceived goals* (Bazerman and Tenbrunsel 2011; Donaldson and Preston 1995; Madsen and Shafritz 1990; Paine 1994; Singer 2010). The pressure to maximize billable hours in accounting, consulting and law firms which focus on the financial short term rewards instead of the long term credibility of the firm is such an example of ill-conceived goals.

Overcoming such ethical skepticism “to do as the Romans do in Rome”, and to become a trusted leader who guides the organization to sustainable value underpinned by best corporate governance practices will be a main challenge for most entrepreneurs and investors in these Asian emerging economies.

### ***Benefiting from Risk-Adjusted Corporate Governance and “Good Behaviour”***

The danger of “ethical compartmentalization” of our behavior is well known among practitioners and those teaching business ethics in the Asian emerging economies. It seems that many Asian executives believe that they survive by compartmentalizing their behavior, attempting to live by high moral standards at home while allowing a more loose interpretation at work. However, it limits our ability to connect to our values, to be a moral agent, and to act with ethical courage and integrity (Rozuel 2011). Moreover, such compartmentalization prevents self-knowledge by allowing fragmentation of the individual – the opposite of the wholeness of integrity (Verhezen 2008a) – and it disconnects us from an appealing and energizing higher “common” purpose in business that really motivates people. If you add then the negligence of implementing good corporate governance mechanisms, one is in for underperformance or even some potential disasters.

Quite a number of Asian manufacturing companies are part of a global value chain that cannot ignore the perils of bad publicity, especially in B2C business. Those Asian firms that have developed their own brand image and reputation will acknowledge that emotional appeal, great product or service quality and reliability and responsibility by management that constitute part of their intangible assets.

This enhanced intangible value has a number of potential benefits that over the longer term definitely outweigh the cost of investing in such behavior. Reputable Asian firms will have easier access to the financial institutions and capital markets with a lower of cost of capital; they can easier retain managerial talent; international customers and consumers are more loyal to responsible brands; and the trust gained as result of appropriate behavior will ease the regulators and other rules-enforcers both local as international. Finally, it has been argued that GCG and visionary ethical leadership will result in improved efficiency and effectiveness. Singapore and

Hong Kong are such beacons within Asia which have gained prominence through their good reputation to be reliable, to enforce the law and to have high working standards.

Let me briefly give you two examples that indicate the importance of trust and good reputation: one well documented case in China – Kelon – and one ongoing case in Indonesia – the ABB and SMART.

Kelon once was a highly successful Chinese household appliance company in the 1990s, presumably well governed. However, the sudden collapse of Kelon in 2001 shocked most investors and can be attributed to extraction of Kelon's cash flow – even after its flotation on the Hong Kong Stock Exchange – and appalling corruption (Sun et al. 2011). This organizational rent appropriation – a typical agency problem in emerging markets – reveals how corporate governance was reinterpreted, hijacked and manipulated by those in power at the expense of minority shareholders and other stakeholder groups (Sun et al. 2011). It shows how the darker side of *guanxi* has destroyed the firm, despite its initial success as a trusted and well governed firm

The other obvious example is SMART, a Palm-oil company, owned by the Indonesian SinarMas group that has been widely criticized by ecologists for not abiding by the international Round the Table of Sustainable Palm Oil rules. Under pressure of Greenpeace and consumers, P&G, Unilever, Kraft and other heavy utilizers of palm oil were pressed to ban SMART from their supplier list. However, since bringing in some good professional managers, SMART management rectified the firm's policies and practices in such a dramatic manner that most stakeholders including Greenpeace have decided to give the firm another chance. SMART has made good progress and is being perceived as a turnaround success story in that it was able to gain trust and reputation by effectively improving its transparency, accountability and responsibility to shareholders and stakeholders alike. On the other hand, however, ABB, one of the main pulp and papers manufacturers in the world and also owned by the SinarMas group, does not currently fare that well in terms of reputation compared to its sister company SMART. Independent of their debt payment issues resulting from the Asian crisis – not the topic of this essay – ABB is still ostracized by numerous NGOs and consumer activists for not complying to the international pressure to preserve tropical forests, and for endangering the biodiversity in those regions by their logging activities. The future will tell whether the group will be able to also turn around ABB to become a good corporate citizen.

Family businesses – such as the SinarMas group – will only benefit from implementing good corporate governance principles. Studies reveal that family members who acts as good stewards instead of agents positively affect the board's and firm's performance (Chu 2011). That is what we hope for those Asian emerging giants: that they take full responsibility and be accounted for their business activities within the rule of law, allowing them to become great companies, competing with the best. Great business leaders care about the “dance of their shadow”, i.e. the consequences of their decisions and actions over time (Van den Broeck and

Venter 2011; Porter and Kramer 2006, 2011). Those ethical leaders ensure that their impact inspires others. Such a courageous attitude as found in stories of commitment, perseverance, integrity and a sense of justice are an anti-dose for the cynical attitude of accepting corruptive behavior through clientelism and *guanxi*, and circumventing the risk reducing corporate governance mechanisms, all in the name of short term opportunism.

## **Concluding: Corporate Governance Structures and Integrity Must Play Their Respective Roles**

Although most Asian countries are slowly moving from a person-based to a rule-based society where the importance of relational and procedural neutrality in managerial decisions is acknowledged, powerful networks with government officials and bankers remain a very important ingredient in the success of many Asian family businesses. The personal use of *guanxi* may be elevated to an organizational level and is often interpreted as part of the social and customer capital of the organization, despite the ascending value of the rule of laws, merit-based reward, and global competitiveness. In a growing “capitalistic” oriented economy based on merit and competition, accountability, transparency and formal rules, the influence of *guanxi* as an instrument to gain personal advantage may decrease over time while its social meaning may remain entrenched in cultural life.

Nonetheless, family business and especially state companies in Asian emerging markets tend to be more concerned with *guanxi* and its instrumental use than with sincere ethical behavior. Hence, completely avoiding the less socially benevolent or even pure instrumental and negative side of *guanxi* will prove to be extremely difficult and even naive. Blindly accepting *guanxi* as a cultural Asian practice without questioning its intentions and the possible consequences for a company over a longer period would also be a grave mistake. It would be wise to understand the opportunities and pitfalls of networks or *guanxi*, allowing it to play its social role in an Asian business context by advocating appropriate networks while acknowledging its intrinsic ambiguities and temptations.

Without legitimate leadership based on a high level of integrity and structured by corporate governance mechanisms, certain presumed ethical behaviour will remain nothing but window-dressing at best. Asian family businesses deserve better. Cultural differences play an important role in management decisions, but primarily as a matter of emphasis. Family leadership of business firms, including large companies, occurs in very similar ways in most regions, though more common in Asia, compared to Anglo-American firms.

Nothing wrong with networks, as long as the leadership or patriarch is guided by integrity that is aligned to a higher common purpose, instead of short term opportunism, and steered by “best corporate governance practices”, they will become reputable competitors.

## Notes

1. See Verhezen et al. (2012). The zeta risk as Verhezen has suggested can be expressed by the following formula whereby each of the components refer to a specific company specific “excess return on investment” and is based on a Good Strategy implemented.  $\alpha$  is Industry related x risk premium/discount (for being in that particular industry).  $\omega$  through intermediaries or 3rd specialized parties assisting the company (services distinguishing the company’s returns). Finally, the Zeta risk reduction + risk opportunity through specific “expansion” plans within a new context allowing *specific returns above the normal expected returns* in a known context with Beta risk: Reputation, Norms/Standards,/Culture, and the Institutional Context. Most likely there is some correlation between Zeta and Alpha so that part of Zeta might be absorbed in Alpha returns over time (i.e. When the extra return is absorbed in the stock price assuming that CAPM still holds).
2. See Bainbridge (2008), Bebchuk et al. (2004), Charan (2005, 2009) and Dimma (2002). These fiduciary duties are often translated in the legal requirement of having at least two or three professionally run subcommittees at the board: (1) a committee of internal audit and internal control to contain accounting and other specific risks, (2) a nomination committee that explicitly safeguards that the best professional CEO will be chosen, and (3) a remuneration committee that decides on an appropriate and fair remuneration package for its top managers, and sometimes (4) a subcommittee to assess the risks that are allied to the suggested strategy. One could argue that there is a functional convergence of these corporate governance practices, but obviously no convergence in the legal implementation of them.

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# Chapter 8

## Mahatma Gandhi's Satyagraha: A Business Ethics Paradigm

Jose Maria Ybanez Tomacruz

Mahatma Gandhi's Satyagraha is a particular philosophy and philosophical practice and was developed and practiced in the non-violent resistance movement. Its relevance of business ethics lie at least on three accounts. One, is that the roots of its emergence are economic in nature, i.e., an economic elite, white South Africans, were threatened by the burgeoning number and the upscaling economic prosperity of supposedly their inferiors, the Indian immigrants. Second, that numerous Satyagraha movements led by Gandhi in India, were actually against well-entrenched business or economic players. And third, Satyagraha, as Gandhi himself have shown, itself can become a potent force of resistance even against powerfully-entrenched economic powers.

The Transvaal Government Gazette dated August 22, 1906 bore the draft of a new ordinance which is to be passed for approval to the Transvaal legislature. The said draft compelled Asians, both male and female above eight years of age, to register to proper authorities, be fingerprinted, and accept a certificate which they subsequently must have with them at all times. Failure to follow the said requirements would make one subject to the loss of right of residence in Transvaal, and one would consequently face imprisonment, pecuniary fine, deportation, and economic or business curtailments (even if one is then a big owner of properties, or had major business transactions in Transvaal). Furthermore, the said draft proved to be repugnant to the Indians for it permitted any police officer to accost anybody, even women and children, in the streets or enter his/her home and demand for the said certificate "anytime, anywhere, without any warning, and without giving reason." Aside from the fact that the draft would apply to women and children, what further enraged the Indians upon closer scrutiny of the draft was the issue of fingerprinting. Fingerprinting, prior to the introduction of the above draft, was only required of criminals. Ergo, the draft, by requiring Asiatics to fingerprinting, was implying, behind the veil of law, that Asiatics, particularly Indians, are criminals.

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On the other hand, when the draft becomes law, and the Indians resist it, then they would become outlaws. In other words, still criminals. Simply put, what makes the said provision of the draft undoubtedly and doubly malicious is that there is no way out: whether they subscribe to the law or not, Asiatics, specifically, Indians, would still be criminals. “The Government’s aim was to establish the principle that Indians were second-class people, living in the Transvaal on sufferance and not by right.”<sup>1</sup>

En masse, through Gandhi’s initiative, the general assembly moved for a resolution opposing the said draft and to be ready to face the consequences for doing so. Gandhi also asked the assembly that if they make a sacred vow on the resolution it should not only be on the collective level, but that each vow-taker should individually be responsible for such pledge.

Every one of us must think out for himself if he has the will to pledge himself. Resolutions of this nature cannot be passed by a majority vote. Only those who take the pledge can be bound by it. This vow must not be taken with a view to produce an effect on outsiders ... Everyone must only search his own heart, and if the inner voice assures him that he has the requisite strength to carry him through, then only should he pledge himself and only then would his pledge bear fruit.<sup>2</sup>

And he also made them realize the gravity of the journey upon which they are about to embark.

We shall go on till we succeed. It is quite possible that some of those who pledge themselves may weaken at the very first trial. We may have to remain hungry and suffer from extreme heat and cold. Hard labour is likely to be imposed upon us in prison. We may even be flogged by the warders. Or we may not be imprisoned, but fined heavily and our property attached and held up to auction for non-payment. Though some of us are wealthy today, we may be reduced to poverty tomorrow. We may even be deported from South Africa for good. Our wisdom therefore lies in pledging ourselves, knowing full well that we shall have to suffer things like these ... Provided the entire community manfully stands the test, the end will be soon. But if many of us fall back under stress of trial, struggle will be prolonged. At the same time I can boldly declare that so long as there is even a handful of men true to their pledge, there can only be one end to the struggle, and that is victory.<sup>3</sup>

And he himself pledged before the assembly that he will not abandon the struggle, even if he will eventually have to go on alone.

Thus, was the genesis of Satyagraha. It was not even named yet as Satyagraha. Without yet finding a more apt term, at the start it was called, Passive Resistance. It was only two years after that fateful assembly in the Imperial Theatre, that the term Satyagraha came into use.

## **Satyagraha: The Elements**

### ***Satya***

The term Satyagraha according to Gandhi could be translated into English as “Truth-Force”. The “satya” in the term “Satyagraha” comes from the Sanskrit word “sada”,

which in turn is derived from the root word "sat". "Satya/sada/sat", are Sanskrit terms referring to the English term "truth". Now, according to Mahatma Gandhi:

... I have often said, ... Truth is God. My uniform experience has convinced me that there is no other God than Truth. 'Sat' or Truth is perhaps the most important name of God. In fact it is more correct to say that Truth is God.<sup>4</sup> In "God is Truth," is certainly does not mean "equal to" nor does it merely mean, "is truthful." Truth is not a mere attribute of God, But He is That.<sup>5</sup>

The immediate above citations make explicit that the "Truth" of Satyagraha is of a religious nature, a deity. As such therefore, Satyagraha isn't just any movement, but a movement started by a man who has faith in a God. And if so, then this Truth is the paramount existential motive of the satyagrahi, his *raison d'être*, the core of his being, the center of his existence. Indeed, this Truth is the satyagrahi's "sovereign principle,"<sup>6</sup> pursuing it a duty which one should take upon one's self to fulfill, a categorical imperative.

By so saying, we therefore posit the point that in order to do justice in presenting Gandhi's notion of Satyagraha one should not miss the point that first and foremost he was a *mumukshu*, a seeker after *Moksha*, a seeker of the Truth-God. Therefore he further said that:

I am an humble seeker after Truth. I am impatient to realize myself, to attain *moksha* in this very existence. My national service is part of my training for freeing my soul from the bondage of flesh. I have no desire for the kingdom of earth. I am striving for the Kingdom of Heaven which is *moksha*...<sup>7</sup>

According to Gandhi, his said "experiments with truth" are moral in nature, thus, something which happens in the context of being with other people, the Truth of Satyagraha is a Truth lived and also realized with and in the presence of other people.

How is this moral Truth to be lived with others? The world is one vast agora of ideas. Indubitably, there are cases where people can easily come to agreement: they are talking exactly of the same things, understand exactly the same things in exactly the same way, come to the same exact conclusion about exactly the same things, and exactly the same way. There also are times when people think they mean and understand the same thing, yet only to find out that though they exactly mean the same thing, yet they don't understand it in exactly the same way. Or there might also be times when the only mutually clear thing for parties concerned are that they exactly agree that they are in disagreement. And there may even be cases when people even disagree that they disagree, and eventually find out in exactly the same manner that in the end, there is actually no end to their disagreement. If only, solely the first case is our lot, then there is no problem. But in the marketplace of ideas, the usual case is that there are contending vendors, thus, no one has the hegemony of Truth (even though usually the marketplace is not wanting of those who would want or even attempt to monopolize), not even the satyagrahi.

You know the story of the elephant and the seven blind men who actually touched him. They all touched him at different parts. Their descriptions therefore differed from one another. Yet they were all true from their own points of view and yet each appeared untrue from the points of view from the rest.<sup>8</sup>

Still speaking along the same vein, on another time Gandhi also further said:

Seeing that human mind works through innumerable media and that evolution of the human mind is not the same for all, it follows that what may be truth for one may be untruth for another.<sup>9</sup> ... Even so, what may appear as truth to one person will often appear as untruth to another person.<sup>10</sup>

Gandhi offered a solution to the problem regarding the analogy of the elephant and the blind men -and simultaneously to the problem of the above immediate quotation:

The truth was beyond all the seven. We are all, you will perhaps agree, in the position of these seven sincere observers. And we are blind as they are blind. We must therefore be content with the truth as it appears to us.<sup>11</sup>

This implies that though we may be so committed to “the truth as it appears to us,” yet we should also have the sense to accept the possibility that what we know might only be partially true, or if not totally untrue, or if considered true incumbently, could still be proven untrue in the future.

To address the problematic of contending claims, one very important norm is consistent vigilant introspection, or consistent prayerfulness on the Truth.

However, to follow truth as one sees it is like walking on the razor’s edge. Anyone who tries to do so ought to remain wide awake and rightly follow all the rules and restrictions. The lazy, the indolent and the hypocrites can claim no right to act according to their view of truth.<sup>12</sup>

It would be fair to say that from the time that the satyagraha campaign commenced in South Africa till that day he died, Gandhi consistently, or even fastidiously, kept a certain moment of a day as a time of prayer either with a congregation or individually. This he shows when one time, he spoke of the regular activities in the satyagrahi ashram (communities founded by Gandhi which served as home of the satyagrahis, even as way back in South Africa, and later in India):

If insistence on Truth constitutes the root of the Ashram, prayer is the principal feeder of that root. The activities of the Ashram commence everyday with the congregational morning worship at 4.15 to 4.45 a.m. and close with the evening prayer at 7 to 7.30 p.m.<sup>13</sup>

By constant prayerfulness is not meant mere recitations of mantras, or mindless repetitions of memorized verses or litanies. By constant prayerfulness is meant one’s capacity to daily have a time for vigilant introspection, for discernment, for self examination. Through this examination, one conscientiously and consciously probes how one conducted him/herself throughout the day. Out of the said introspection, one therefore is able to daily make resolutions how to conduct one’s life, also on a daily basis. The consistency for such prayerfulness isn’t easy. Real prayerfulness isn’t just a never-ending series of “highs” but specially one of regular, tranquil lucidity and sobriety. People at times find the regularity of prayerfulness vapid. And it can really be vapid. Thus the need for commitment to it. Not only that, but it can even be frightening and burdensome because in the examen one should confront oneself unguised, for anything that one is, in stark self-scrutiny. Thus according to

Gandhi “the lazy and the indolent” have no rightful claim to Truth. Through such prayerful comportment, the satyagrahi thus lives, in Socratic language, an examined life.

The just-mentioned capacity for examen is also important to a satyagrahi because it is a solution to the tendency for self-righteousness of one who may at times already be “content with the truth as it appears to” him or her. The time spent for examen simultaneously gives the satyagrahi time to re-evaluate therefore even the truthfulness or tenability of his/her position/predicament.

As Gandhi said, “He alone is a lover of truth who follows it in all conditions of life,”<sup>14</sup> thus in word, thought, and deed. Here we can see that the satyagrahi is a person of unquestionable integrity. Gandhi abhorred deceit and secrecy, even against those whom he opposed. Gandhi believed that instead of telling a lie, one can choose to keep silent instead, even if it means giving up one’s life for choosing to keep silent about the truth.

Another observable standard that Gandhi set is that, in any satyagraha campaign that Gandhi went into, there is that uniform practice of exhaustively gathering all the facts and details of the issues. He never went into issues for which matters weren’t sufficiently clear for him. Maybe, we can say that such demeanor can be credited to a large extent to the training of Gandhi as a barrister.

Another very important character of satya was its prodigious communicability. An author said that “It is estimated that during his lifetime Gandhi wrote more than ten million words. That translates into 500 words every day for 50 years!!”<sup>15</sup> Gandhi made sure that the message of satyagraha reached even the most unlettered. And this he did by using any form of communication applicable to him, may it be by open air speeches, radio, letters, talks, interviews, television appearances, and most specially, newspapers. This aspect of dissemination is in accordance with the existing practice in the ethicists from all corners of the globe continuously putting their ideas into the public sphere, ideally properly refereed, via either the print, or the television, or the radio, social media, or the ubiquitous internet. Truth has a social dimension, in that the more it is subjected to scrutiny the more robust it becomes, or it may need to be amended, or it may need to be totally eliminated. Whatever the outcome may be, putting one’s ideas before the platform of public space in the end will still lead to more knowledge. It won’t thus be surprising that if the mahatma were alive today, he may be found making blogs and using Facebook or Twitter and the like.

## **Ahimsa**

Inasmuch as “agraha” is one half of the term Satyagraha, and inasmuch as “agraha” means “force,” and the said “force” is “Ahimsa” for Gandhi, ergo it also implies that the other half of Satyagraha is Ahimsa. As such therefore, Satyagraha is the essential combination of Sat-Truth and Ahimsa-non-violence, or in other words, Truth and Ahimsa are co-principles. Thus the Truth of Satyagraha consists of the Truth

being necessarily coupled with Ahimsa or non-violence. Thus Gandhi in several instances said:

The only means for the realization of the Truth is Ahimsa,<sup>16</sup> ... a vision of Truth can only follow a realization of Ahimsa,<sup>17</sup> ... Truth itself is God, and non-violence is just a synonym for truth.<sup>18</sup> ... Absolute truth alone is God. It is beyond reach. The truth that we see is relative, many-sided... There is no scope for vanity in it and the only way for reaching it is through ahimsa.<sup>19</sup>

Why should truth necessarily be coupled with Ahimsa? Gandhi knew too well that many times, for the sake of their claims, people kill, mug, maim, torture, and the like. And, more often than not, once a maelstrom commences, a blackhole of bloodshed is created where no one seems to escape, or escape unscathed at all.

By such, Gandhi means that his holding on to Truth necessarily means that the satyagrahi is not in any way willing to kill, nor maim, nor torture, nor mug, nor hate, now resort to arms, and the like. Thus, a satyagrahi, in holding on to the Truth, would rather, if worse comes to worse, be the one to be killed, or mugged, or maimed, or tortured, etc., rather than the one doing the killing, mugging, maiming, torturing, and the like.

The two sentences in the immediately above citation which go, "The truth that we see is relative, many-sided... There is no scope for vanity in it and the only way for reaching it is through ahimsa"<sup>20</sup> are also significant. Maybe we can also say that another English term that can be used for ahimsa is goodwill. If so, therefore, we can say that even if people continue disagreeing with each other, as long as there is ahimsa/goodwill, then there is the greater, if not real, chance of continued dialogue, rather than resorting to violence – kill, maim, maul, torture, etc. –. And consequently, dialogue, with the continuing hope that eventually the contentiousness can be resolved, or if not, then inasmuch as people continue to have ahimsa/goodwill, then they would still not resort to violence, despite the continued disagreement.

Another feature of Ahimsa of Satyagraha, contrary to what some people think, is that it is not passive. By passive, they mean a certain stasis, as if the satyagrahi is just one who simply waits there in the corner, or maybe does nothing when confronting an opponent, or worst, that it may be taken as weakness. During its early days, Satyagraha as a movement, was first designated the nomenclature Passive Resistance. The said nomenclature was used because the satyagrahis did not retaliate against the violence inflicted upon them during the South African days, but instead unflinchingly absorbed whatever violence was brought upon them. However, as also noted earlier, Gandhi saw the inadequacy of the term Passive Resistance.

It is said of 'passive resistance' that it is the weapon of the weak, but the power which is the subject of this article can be used only by the strong. This power is not 'passive' resistance; indeed it calls for intense activity.<sup>21</sup> ... It is the greatest and activist force in the world... one cannot passively be non-violent. At the centre of non-violence is a force which is self-acting. In spite of the negative particle 'non', it is no negative force...<sup>22</sup>

Let us further examine the above quotation. The first sentence says that contrary to what people think, the Ahimsa of Satyagraha is not of the weak but of the strong. By this Gandhi means that the non-violence of Satyagraha stems not from

the incapacity of the satyagrahi to fight against or even take vengeance the opponent, nor a sense of resignation due to the view that it is helpless against its opponent. The Ahimsa of Satyagraha is not a surrender of the vanquished before an overwhelming foe. Instead, the exercise of ahimsa even before an overwhelming opponent is in turn an undaunted commitment, an unflinching courage and not submissive cowardice.

Thus, according to Gandhi, through Ahimsa being such, even just a single person could defy a whole empire and its tyranny to "save his honour, his religion, his soul, and lay the foundation of that empire's fall or its regeneration."<sup>23</sup>

Aside from the demeanor of courage, what further makes the Ahimsa of Satyagraha active and not passive is that one's courage however should be effectively reined in. It is true that the satyagrahi should be a person of courage and therefore could inflict real harm on the opponent, yet the said courage is not a license to inflict such harm on the opponent. Precisely because of Ahimsa, the satyagrahi will desist from doing so. It is this angle of desisting from reciprocating in violence towards the opponent that makes Ahimsa active and not passive. Active, meaning that it will entail a huge amount of effort not to do harm to an opponent when one has the real means and capability of doing so, and most specially when that opponent is inflicting harm on you with all the malice and impunity. Gandhi was quite explicit about this aspect of Satyagraha when he said that:

... the constant effort of the votary of non-violence is to purge himself of hatred towards the so-called enemy.<sup>24</sup> Hatred is in the air ... I suggest that it is wrong at anytime and everywhere. But it is more wrong and unbecoming where fighters for freedom have declared to the world that their policy is truth and non-violence. Hatred cannot be turned into love. Those who believe in violence will naturally use it by saying, 'kill your enemy, injure him and his property whenever you can, whether openly or secretly as necessity requires.' the result will be deeper hatred.<sup>25</sup>

Because of this, Gandhi thus adds another ingredient in Ahimsa: forgiveness. According to him unless one forgives the opponent, one will only smolder with rancour which if unleashed will just stoke the embers of violence not only in the opponent but even within the so-called satyagrahi. By forgiveness however, Gandhi does not mean consenting to the evil done by the opponent. By this, he means that the satyagrahi should earnestly make the opponent realize his/her (opponent) evil ways, yet without condemning the opponent him/herself.

The Ahimsa of Satyagraha is also not passive but active, because the abovementioned effort does not usually translate into instant gratification. Meaning, that the effort not to do harm against the opponent (despite one's real capability to do so) is to be exerted not only once, nor even just twice, nor even just thrice, but repeatedly, until one has won the opponent over to the Truthfulness of one's claims. Which may take, as long as it takes. Thus, a satyagrahi should be one who has a considerable amount of patience. Of patience to courageously face the opponent, of patience not to retaliate despite one's real capacity to do so, of patience to win the opponent over, of patience to forgive.

Being also of the strong, Ahimsa urges the satyagrahi to unhesitatingly trust the opponent. "Even if the opponent plays him false twenty times, the satyagrahi is



ready to trust him for the twenty-first time -for an implicit trust in human nature is the very essence of his creed.”<sup>26</sup>

However, doesn't this make the satyagrahi vulnerable to the depredations of the opponent? Gandhi counters this by saying that the satyagrahi is one who confident of his own strength and of the strength of his cause, so he does not consider himself vulnerable. Secondly, because the satyagrahi is an adherent of Truth, so he is certain that any deception on the part of the opponent would certainly be exposed, that the truth will come out sooner or later.

Satyagraha is expansive and not a xenophobic Hindu, nor even Indian, entity. Gandhi himself said that “Ahimsa includes the whole creation, and not only human.”<sup>27</sup> This isn't just a hyperbole. It doesn't discriminate against anyone, nor any living creature for that matter. This is the reason why as a satyagrahi, Gandhi was able to magnanimously deal with people even beyond the gamut of Hinduism, or even beyond the confines of Indian patriotism. He opened himself even to Muslims, Christians, non-believers, practically to every person regardless of age, nationality, creed, gender, social status, ideology.

Lastly, let it be explicitly noted that even if Ahimsa urges the satyagrahi to be non-violent, it doesn't follow that a satyagraha struggle is also devoid of conflict and violence. Let it be noted that a satyagraha struggle is always a conceptus of conflict. Meaning, there has been a very clear and concrete contentious issue which the satyagrahi deems to be properly addressed or redressed only through satyagraha. What kind of issue? If we would examine it look at it more deeply, the said issues taken up by Gandhi the satyagrahi during his lifetime were actually cases against Ahimsa itself, or in reverse, of himsa, violence (e.g., the aforementioned South African Asiatic act; case of famine-stricken indigo workers versus their landlords; of the case of the Untouchables being marginalized by the Indian society; oppressed industrial laborers versus their industrial owners, etc.). In other words, Ahimsa has been called for, so as to counteract the prior havoc – ergo, the conflict- wreaked by himsa. Thus, because of this, despite the satyagrahi's Ahimsa, a Satyagraha struggle is also born out of violence. Not because the satyagrahi accepts exceptions in his/her application of Ahimsa, but because prior to the Satyagraha struggle there is already violence inflicted by the opponent, or that later in the struggle the same opponent may choose to be violent against the satyagrahi for a myriad of reasons.

## *Tapascharya*

We earlier said that satyagrahi has the real capability of inflicting real harm. For this, the element of Tapascharya, the deliberate choice to undergo self-suffering, self-sacrifice therefore is needed. Meaning that, simultaneous to embracing Ahimsa is the satyagrahi's assent to all the harm that might befall him, and this without exacting the *lex talionis* retribution on the harm-inflicter or opponent.

The term tapascharya was derived from the Sanskrit root *tap*, which means “to be hot or heated” or “to burn”. Tapascharya therefore signifies in the first instance, warmth, fervor or heat, and that which generates heat. Various practices were considered to be

capable of generating fervor or heat or warmth – e.g., sitting near the fire or under the sun, consumption of intoxicating and narcotic substances. It is also said that internal heating can even be caused by fasting or holding the breath. Ergo, tapascharya was extended to the feelings or sensations, which are usually painful, experienced as a result of heat or fervor. Thus, pain or suffering in general, specially the pain which is voluntary and self-afflicted, as in austerities or ascetic practices are also considered tapascharya. The term tapascharya therefore came to be applied in particular to penance, austerity, devotion, self-suffering, and self-sacrifice.

Scholars, Indian as well as western, have translated the term “asceticism” as tapascharya or austerity or renunciation. It should however be noted that even though asceticism is rendered as tapascharya, tapascharya is but one of the facets of asceticism. Tapascharya has a wider connotation that what is conveyed by the word “austerity”. Rather, tapascharya is used at times to comprehend all forms of the pursuit of self-control.

The term “austerity” implies severity. Life denied of comfort and pleasure becomes austere and painful. Thus the austere life is given to abstinence, severe discipline, hence, tapascharya. When the word “austerity” is used to mean tapascharya, then it stands for physical endurance or harsh treatment of the body by fasts or fastidious avoidance of pleasure or comfort of life. Hence, it is used in ascetic parlance to convey self-torture or self-mortification.

It is also through the Tapascharya that one is able to be patient and forbearing in the satyagraha struggle. The satyagrahi is able to withstand the suffering inflicted upon him/her even unto death -even though he is very capable of striking back-. Such magnanimous capacity for voluntary acceptance of affliction is also the radical reason why the satyagrahi is able to constantly forgive the harbinger of harm or injury on him.

An adage says that one cannot usually extinguish fire through fire but only with water -or with other fire retardants to make it contemporary-. In the same way with water and fire, the satyagrahi is able to confront the malevolence of the opponent through Tapascharya. Meaning, that by willingly taking the inflicted pain unto oneself without offering any retributive or violent resistance to the said pain inflicted by the opponent, Gandhi believes that the satyagrahi deems to awaken the dormant goodness in the opponent, thus awakening his conscience: “... the sight of suffering on the part of the multitudes of people will melt the heart of the aggressor and induce him to desist from his course of violence.”<sup>28</sup>

Through the satyagrahi's submission to tapascharya the opponent is hoped to be brought into the stage of moral reawakening, a purgation. By purgation, the opponent is hoped to be able to see the evil he has committed, and hopefully, it would just be a matter of time before he is brought into humble conversion, or into the cessation of his doing violence upon the either the satyagrahi or his/her other victims. Thus the Mahatma said:

I seek entirely to blunt the edge of the tyrant's sword, not by putting up against it a sharper edged weapon, but by disappointing his expectation that I should be offering physical resistance. The resistance of the soul that I should offer instead would elude him. It would at first dazzle him, at last compel recognition from him, which recognition would not humiliate him, but would uplift him.<sup>29</sup>

## *Brahmacharya and Aparigraha*

In our discussion about the Truth of Satyagraha, we mentioned that it pertains to morality, or the kind of Truth that is very much applied to daily human interactions. Gandhi knew, that though the Absolute Truth should be the sovereign principle in all human actions, the human being, also of flesh and blood, is consequently very much subjected to mundane and temporal clingings and cravings. Thus, it is in this sense that Gandhi found it important for a satyagrahi to also be able to practice Brahmacharya, vows of chastity and Aparigraha, the vor of non-possession.

Thus he surmised that the “Truth in her non-violent manifestation can only be attained by a man of pure detachment.”<sup>30</sup> He therefore explicitated the necessity of the two elements to the satyagrahi. On brahmacharya he said: “Without brahmacharya the satyagrahi will have no lustre, no inner strength to stand unmarked against the whole world... His strength will fail him at the right moment.”<sup>31</sup> For according to him:

There is no such thing as compulsion in non-violence. Reliance has to be placed upon ability to reach the heart ... There must be power in the word of the satyagrahi general-not the power that the possession of limitless arms gives but the power that purity of life, strict vigilance and ceaseless application produces. This is impossible without the observances of brahmacharya.<sup>32</sup>

This view of the Mahatma on brahmacharya is reminiscent of the belief of the ancient Indians regarding the ojas, i.e., through brahmacharya one’s sexual urges and drives are sublimated, thus leading to the preservation of one’s sexual energy. Such energy, if channeled to lofty pursuits, would greatly fructify. Of such sexual virility turned into a potent power, Gandhi said that “All power comes from the preservation of the vitality that is responsible for the creation of life.”<sup>33</sup>

As to the necessity of aparigraha to satyagraha the Mahatma conclusively said:

Wealth and truth have always been in conflict with each other, and will remain so till the end of time. We have found from many examples that he who clings to wealth cannot be loyal to Truth. This does not mean that a satyagrahi cannot have wealth. He can, but he cannot make wealth his God. Money is welcome if one can have it consistently with one’s pursuit of truth; otherwise one must not hesitate even for a moment to sacrifice it as if it were no more than dirt on one’s hand. No one who has not cultivated such an attitude can practice satyagraha. Moreover, in a land where one is obliged to offer satyagraha against the rulers, it is not likely that the satyagrahi will be able to own wealth.<sup>34</sup>

Gandhi did not consider material goods as the only objects of aparigraha. He even included emotional bonds such as those in families.

A satyagrahi is obliged to break away from family attachments. This is very difficult to do. But the practice of satyagraha, if satyagraha is to be worthy of its name, is like walking on the edge of the sword. In the long run, even the breaking away from family attachments will prove beneficial to the family. For the members of the family will come to feel the call for satyagraha, and those who have felt such a call will have no other desire left. When faced with suffering of any kind -loss of wealth or imprisonment- one need not be concerned about the future of one’s family.<sup>35</sup>

Satyagraha’s Brahmacharya however also differs from the classical variants. In the classical ascetic context of brahmacharya, any form of contact with any woman is taboo. It is otherwise in satyagraha. Gandhi himself did not deny the fact that there should be

restrictions on the part of the satyagrahi-brahmachari. However as time passed by, Gandhi believed that the satyagrahi should be freed from the said restrictions. Gandhi viewed that eventually, a satyagrahi's relationship with women should be filial or fraternal. However, having such a relationship with women does not mean that he should aggressively seek their company. However, in cases where a woman seeks the aid of the satyagrahi-brahmachari, in the name of service, the satyagrahi is bound to unhesitatingly give it. Thus the satyagrahi-brahmachari "does not flee from the company of women ... for him the distinction between men and women almost disappears. No one should distort my words to use them in favor of licentiousness."<sup>36</sup>

And not only that. Gandhi even explicitly paid homage to the role of women in the various Satyagraha struggles. Women supported him openly even as early as in South Africa, and even unto his last dying moments. His most constant companion, was a woman: Kasturbai his wife, who even died as a satyagrahi in prison. His mother, Putlibai, also played a major role in his own moral development. According to him, a woman is a living testament of Ahimsa and Tapascharya. On this account, let us cite even just a few instances – among many- of the Mahatma exhorting women:

In this non-violent warfare, their contribution should be much greater than men's. To call women the weaker sex is a libel: it is man's injustice to woman. If by strength is meant brute strength, indeed woman is less brute than man. If by strength is meant moral power, then woman is immeasurably man's superior. Has she not the greater intuition, is she not more self-sacrificing, has she not greater powers of endurance, has she not greater courage? Without her man could not be. If non-violence is the law of our being, the future is with woman...<sup>37</sup> There are limits to the capacity of an individual ... And that reminds me that, in this mission of mine, I can count on the hearty and active cooperation of my sisters who beat all previous records of suffering and sacrifice... Assure me of your cooperation, and you will add tremendously to my strength and to my power of pleading.<sup>38</sup>

## Notes

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4. Ronald Duncan, *The Selected Writings of Mahatma Gandhi* (Boston: Beacon Press, 1957), p. 54.
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6. R.K. Prabhu, *The Mind of Mahatma Gandhi* (Ahmedabad: Navajivan Publishing Press, 1967), p. 21.
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8. *Ibid.*, Vol. 2, Letter to Mrs. R. Armstrong and Mrs. P. R. Howard (The Ashram, Sabarmati, July 9, 1926), p. 160.
9. *Ibid.*, Speech at Meeting ... p. 166.

10. Ibid., Letter to Narandas Gandhi, (After morning prayers, July 22, 1930), p. 163.
11. Ibid., Letter to Mrs. R. Armstrong....
12. Ibid., Letter to Narayan M ..., p. 171.
13. Ibid., Ashram Observances, p. 569.
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19. Ibid., Letter to Vamanrao Joshi, (Pyarelal Chapters, November 7, 1945), p. 176.
20. Ibid.
21. Ibid., Vol. 3, Satyagraha —Not Passive Resistance (Ramchandra Varma, Mahatma Gandhi, about Sept. 2, 1917), p. 45.
22. Gandhi, *Non-violence in Peace and War*, Vol. II, pp. 121–122.
23. Ibid., p. 4.
24. Ibid., p. 202.
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26. Louis Fischer, *The Life of Mahatma Gandhi*, (New York: Harper and Row Publishers, Inc., 1950), pp. 80–81.
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28. Iyer, Vol. 3, What are basic Assumptions? (Harijan, 22 Oct. 1938), p. 76.
29. Duncan, p. 59.
30. Shri Pyarelal, *Mahatma Gandhi, The Last Phase*, Vol. I, Bk. 2 (Ahmedabad: Navajivan Publishing House, 1956), pp. 209–210.
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32. Ibid., pp. 212–213.
33. Ibid., 212–213.
34. Mohandas K. Gandhi, *Collected Works of Mahatma Gandhi*, Vol. IX (Ahmedabad: Navajivan Trust, 1964), pp. 225–226.
35. Ibid., p. 226.
36. Pyarelal, p. 211.
37. D.G. Tendulkar, *Mahatma, Life of Mohandas Karamchand Gandhi*, Vol. III (Publications Division, Ministry of Information and Broadcasting, Government of India, 1952), p. 33.
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**Part III**  
**The Asian Dimension of Teaching**  
**Business Ethics**



# Chapter 9

## Teaching Business Ethics: Challenges and Responses

Antonette Palma-Angeles

### Introduction

**Ethicists** are of two minds about the cause of ethical failures. One side says, immoral decisions stem from “mistakes about its *content* and its *scope* (Price 2006, 19).” In other words, ethical failure is a function of cognition; it stems from the agent’s lack of understanding of the ethical dilemma, stakeholders, available options, and their consequences. The other side believes that unethical decisions happen because agents prioritize their self-interests above anything else, most especially above those of the group for which they are responsible. They have no difficulty distinguishing the good from the bad choices and, yet, willingly choose the latter. In other words, ethical misdeed is volitional.

My 15 years of teaching Business Ethics and Ethics in Government to leaders in the Philippines has led me to believe that there is a third cause that presents a far greater and more urgent challenge than the first two and thus, must be addressed. This third cause is moral numbness. Without sensitivity to the dilemma, no moral reasoning can ensue and no moral courage is required.

In this chapter, I will do two things. First, I will discuss the three challenges confronting the teaching of Business Ethics in the Philippines: moral numbness, an underdeveloped capability for moral reasoning, and the lack of moral courage. This discussion is the focus of this chapter. Second, to teach moral sensitivity and moral reasoning, I will propose a course framework and outline, and some notes on how to handle case studies.

I do not have illusions that the subject can equally address the three. Admittedly, moral courage cannot be taught in an 8-week Business Ethics course, especially not

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in a country where much is needed to combat what critics call endemic corruption. Ethical courage is borne out of a character tested and formed over time and is perhaps sustained only with the help of an enabling environment or support group that will embolden the agent to fight the dominant culture. Obviously, these two elements cannot be simulated in the classroom.

However, moral numbness or insensitivity and the underdeveloped ability for a rational analysis of ethical issues can, to a certain extent, be addressed by a Business Ethics course. But it must veer away from the traditional approach that starts with ethical theories, which the students must apply to (often culturally alien) American cases. This is not to say that Ethics does not have universal principles. Far from it. But the aim of a Business Ethics course should not be merely presenting ethical theories, principles, and concepts. More than anything it should capacitate students with tools necessary to understand their environment, take on their moral dilemmas, and make ethical decisions. Thus, moral sensitivity, reasoning and imagination are the more important lessons to learn. *To accomplish this, the course must start with students' experiences and then introduce the theories and concepts as tools for reflection and analysis.*

It also helps if the course makes students aware of how their peculiar business culture is defined by the national culture and how both influence their own ethical behavior. This approach forces them to confront real life issues in their Ethics class and not treat it as another academic exercise for which they dutifully take exams and earn the grades, but then conveniently forget. More importantly, the personal-experience-and-culturally-rooted approach to the teaching of Business Ethics analysis will address the seeming disconnect between the subject's content and the real issues of widespread unethical practices in government and business.

Finally, the approach will hopefully help students to creatively rise above the widespread cynicism, indifference, and paralysis in the country. Ultimately, students should be able to "*imagine the possible,*" to fashion solutions that they would not have thought possible in a "hopeless situation."

## **The Challenges**

### ***Moral Numbness***

Ethical behavior starts with the ability to feel unease over a dilemma. Why do some not experience that unease? Moral numbness or indifference is the answer. It refers to an agent's inability to see or catch a moral dilemma when it happens. What are its causes?

Undeniably, it is an increasingly morally numb and indifferent culture. Much has been said about how corruption is supposedly endemic in the Philippines. Like a highly resistant disease, it refuses to go away despite highly publicized criticisms from local and international media, multilateral funding agencies, and prominent local academics. The truth is the average Filipino has become immune to unethical behavior among high-ranking business and government officials because many

publicized cases have gone unresolved; few leaders have been sanctioned and imprisoned. Notable exception, of course, is the recently impeached Chief Justice of the Supreme Court, Renato Corona (who infamously led a Supreme Court that voted against President Aquino's proposal of a Truth Commission, that would been tasked with uncovering graft and corruption cases of the former administration).

When publicly accused, it is common for officials to respond with the trite phrase, "My conscience is clean." The Philippine Daily Inquirer ("The Inquirer") in its December 11, 2011 issue quotes ex-President Arroyo as saying on the eve of her detention for corruption charges, "My conscience is clean." The Inquirer similarly reports that ex-Chief Justice Corona, watching his sentencing by the Philippine Senate on May 29, 2012 said, "My conscience is clean."

In saying this, I suspect that they expect to silence critics and end all discussions. I suppose this trite response means, "God knows I am innocent, public opinion and evidence notwithstanding." In the end, this matter is between them and their God.

But doesn't the public have the right to interrogate the actions of their leaders? Leaders need to justify their actions to their stakeholders. This is what the often-mentioned governance principles of accountability and transparency are about.

In a highly publicized objection to the appointment of the former National Economic Development Authority (NEDA) Director Cayetano Paderanga in 2010, Mr. Roberto Romulo, his accuser, published an open letter detailing his objections to the appointment. I expected Former Director Paderanga to pointedly answer each item he was accused of. In an interview on July 2, 2010 over ABS-CBN News Channel (ANC) he said his conscience was clear but did not satisfactorily address each of the issues raised against him by Mr. Romulo. I do not know if the accusations were true, because we were never given the benefit of discussion between the two. However, one would have expected a high level of rational discourse from a NEDA Director. The net effect would have been an educative process for the public and the raising of trust levels for people in government.

In an effort to understand this oft-quoted defense to wrongdoing, I have asked many students about their conception of conscience. Almost always, they say, it is a place where God speaks. While this is not untrue, it could present difficulties. When seen as a direct access to a transcendent being's wishes on how we should decide, there is a temptation to leave moral judgment as a passive listening to a "voice within." As such, it is as a very private matter that outsiders cannot contest.

Consequently, the "my conscience is clean" stock answer aborts discourse and does not encourage moral reasoning and discussion. In the past, Philippine media grew tired of unresolved highly publicize cases. The issues are buried; the unethical business and government leaders go scot-free and are promptly forgotten. The long-term result is that future generations of officials never learn the lesson that their power and offices are not their personal entitlement but a duty to communities. Conversely, the public is indifferent to unethical behavior; there is no moral indignation over obvious wrongdoing. There is a feeling of powerlessness coupled with a cynicism that nothing will ever change. People cope by looking at these unresolved exposes as media "drama" not much different from soap operas. Even sadder is that sometimes these misbehaving role models are admired despite the source of their money. They are emulated.

Without moral indignation and vigilance, one of the most effective corrective to ethical wrongdoing among leaders is gone. Unethical behavior perpetuates. The moral fiber of a people is slowly weakened.

Moral numbness creeps in. *What used to be wrong is no longer wrong.*

### ***Underdeveloped Moral Reasoning***

A dilemma is so-called because competing values make it hard to find the right answer. As we take on more responsibilities and juggle more roles and commitments, our dilemmas become increasingly complex and difficult to resolve. Confronting dilemmas requires careful attention to the facts, people, values, etc. involved and consideration of the many possible solutions. And yet, our normal response to this dilemma is often instinctive. We fall back on feelings, groupthink, and pervasive thought paradigms. The ethical decision, however, should be a product of a rational deliberation process.

Feelings are not bad. Their upsurge cannot be prevented. But what we do with them spells the difference between a morally enlightened and narrowly self-interested decision.

Moral reasoning involves analyzing a case as thoroughly as possible by: (a) articulating the competing values; (b) impartially listing and weighing stakeholder interests; (c) listing and interrogating possible options and their consequences.

Why is our moral reasoning underdeveloped? My answer is moral education.

One may object that we have been informally taught values by our parents and formally by teachers as early as kindergarten. Haven't we been therefore prepared enough for these increasingly complicated moral dilemmas?

Our inability to understand the scope and content of moral dilemmas springs from *an education, which since primary school, stresses rote learning rather than analytical and critical thinking*. Rote learning creates a thought process that cannot think independently. This is disastrous in ethical dilemmas.

Basic education's usual approach to ethics teaching in the Philippines – and I would imagine in many hierarchical societies in Asia – has been generally pedantic. Teachers and parents repeatedly admonish us about inherited dos and don'ts, perhaps thinking that the repetition would drive us ethical.

Eventually our moral education graduates to being theoretical. We are taught the ethical theories or frameworks our university professors studied during their post-graduate studies. These are the substance of their own discourses with their mentors and colleagues. But are they necessarily useful to their young students who are forced to memorize them and are tested on them? The theories are mistakenly expected to work like a template; they apply to any context.

I am convinced we are too theory-focused, judging from the amount of time ethics curricula devoted to the history and nature of ethical theories over the students' ethical quandaries and struggles. Students' moral experiences seem to be of secondary importance. If real life dilemmas are discussed in this approach, I believe they serve primarily as illustrations or validation of the theories in real life.

Additionally, ethics in the tertiary level is too focused on personal and normative morality and does not give enough attention to ethics as practiced in the professions. If professional ethics is discussed, it is often to memorize codes that are so lengthy and often changed that professionals do not bother to remember them.

Without a doubt, ethics taught this way does not prepare young college graduates for the bruising dilemmas they will encounter in the workplace.

Unfortunately, even until today, a good number of ethics teachers are still safely cocooned in their slow changing world of ideas, and do not exert enough effort to understand and keep pace with the dizzyingly fast changing world of the youth and the professions they enter. While their students are redefining the meaning of privacy through electronic social networking or the meaning of intellectual piracy; while the country is talking about how former President Gloria M. Arroyo slowly destroyed institutions; while the debt-ridden economies of the European Union are wrecking havoc on stock markets all over the world; while the world is talking about how the sub-prime market, futures, and options trading precipitated a global economic financial crisis, they persist in not investing time to know what these are and their implications in our lives and the teaching of Ethics. Instead they take shelter in their alternately “globalization is evil” and “business and government are dirty” rhetoric. Ethics teachers have to get out of their ivory towers and “engage the world” in order to help students change it.

Lawrence Kohlberg, the famous Harvard moral development psychologist, says that morality is developmental. We go through stages that progress from self-centeredness to group-centeredness to common-good and universal-centeredness. The standards of right and wrong that govern the earlier stages of our lives are inherited from the multiple communities that we belong to. In the beginning, we mimic these communities’ sense of right and wrong when we decide. However, these influences happen behind our backs. We do not know how exactly they influence us and to what extent.

Without a doubt, not all communities have the same standards. We usually discover this when we meet people from other societies. As we expand our world to include more people, we increasingly distance ourselves from these inherited values and standards. Mature moral agents must evaluate inherited standards to “own” them.

Not everyone graduates to the mature stages of moral development. Some remain in the self-interest stage. Some remain on the interpersonal, community-acceptance stage. Here, being “nice” to loved ones and a friend is highly valued. In a communitarian culture like the Philippines, being nice can be confused with being ethical. But ethical maturity is more than that. It is about rising to a level of living where we are concerned with the interests of the anonymous “others” who are affected by our life decisions. Being ethical is not only about being a good spouse, daughter, or friend. It is about fulfilling a role in a profession. It is about being a good citizen of a country, a region and even the world. It is about being cognizant and fair to those we do not know personally, for whom we do not have any special affection, but who are nonetheless stakeholders in our world.

Clearly, the more morally mature we become, the more develops our ability for abstraction. Ethical development after all is about taking responsibility for an increasingly expanding circle of stakeholders.

Ethics involves a stance that is inherently more distanced than face-to-face relationships embodied in tolerance, respect, and other examples of personal morality. In the jargon of cognitive science, ethics involves an abstract attitude – the capacity to reflect explicitly on the ways in which one does, or does not, fulfill a certain role. (Gardner 2008, 129–130)

Peter Stringer, quoted in Gardner’s book, says

The ethical point of view does ... require us to go beyond a personal point of view to the standpoint of an impartial spectator. Thus looking at things ethically is a way of transcending our inward looking concerns and identifying ourselves with the most objective point of view possible – with, as Sidgwick puts it, “the point of view of the universe.” (Gardner 2008, 144)

Unlike one’s personal life where personal relationships are few and on occasion deliberately chosen, governance is about dealing with numerous publics. Many of these publics are anonymous since the leader cannot possibly be in personal contact with constituents in each of these publics. It is thus not possible for him to have empathy for all these publics. It would be extremely difficult for him to see how a bad decision can impact on their lives, damage the company, and be detrimental to the common good. This is unlike bad decisions in his personal life where those affected are those with whom he has face-to-face encounters. Here he sees the effects of his evil act. He sees how it can destroy people and ruin relationships.

It is imperative not only to develop moral reasoning but also to cultivate *Moral Imagination*, to see the effects of different options on “faceless” stakeholders, the long term effects of these options, and to *imagine the possible* solutions in a seemingly difficult situation.

Ethical maturity is the result of a deliberate process of formation. At the end of this process is a self-propelling moral agent who because he is capable of logical and abstract thinking can reference decisions to universal principles.

As we discussed above, this formation requires mentors and an enabling environment. A culture therefore, which has a pervasive culture of corruption, and whose ethics education is predominantly pedantic and theoretical does not provide the environment that produces enough leaders who will tenaciously push for culture change and enough citizens who will make sure their leaders do.

## *Moral Courage*

Just because a moral dilemma has been subjected to a moral reasoning process, does not mean we will do the right thing. *Knowing the right thing* is not the same as *doing the right thing*. Doing the right thing is particularly difficult in a morally challenging environment.

Collectivism is often written as an Asian trait (Frost 2008:82). This is not necessarily bad. However, it could present challenges when the good opposes the interest of the group. Admittedly, some of the volitional challenges to ethical behavior and leadership in business spring from a “group and network culture” that dominate the way we do business in these parts.

In the Philippines, the circle of loyalty is the family. This is much narrower, compared to say in China. Family extends beyond the core family to include grandparents, aunts, cousins, children of cousins, etc. In the Philippines where government is not always able to provide basic needs and social security, the family takes over as provider of many of those needs. The steadfast commitment of family members protects us from the uncertainties of life. Thus, there is intense loyalty.

Our small groups are integral to our self-definition. Unlike the Western self, which is highly individuated, ours is established only in the context of our relations. We establish our identity by tracing our family's roots and achievements. Harmonious relationships are understandably very important in these small circles. The focus is responsiveness to the individuality of members and the care for their persons. In this ethics of care, bonding, loyalty, forgiveness and reconciliation are important values.

When this loyalty to family and tribe is carried over to the workplace, however, it wrecks havoc on an institution that is built on the principles of rights, fairness, and justice.

The interests of family are pursued at the expense of the good of the majority, e.g., those of the stockholders of a company or the community that are affected by the activities of business.

In this collectivist culture, business leaders are challenged in pushing the interest of the anonymous majority. Countering this sometimes exaggerated strong group loyalties and going against the dominant "group think" requires a Herculean effort and a deep reserve of moral courage.

## A Response

In the next pages, I will describe how I have tried to teach ethical sensitivity and moral reasoning in my MBA Business Ethics class, though my course content and teaching methodology.

First, we must change our goal for teaching the course: it must not prescribe, it must capacitate. Business Ethics or any Ethics class for that matter, is not primarily about teaching ethical theories. As I said above, students should not be made to sit in the classroom to listen to the teacher pontificate on philosophers' responses to the challenges in their times, specially if they each have a wealth of professional experiences. The Ethics teacher cannot go into the classroom assuming she has the magic bullets that will address the class' disparate ethical challenges before she even knows what these are. She must be required to surface these professional experiences and ethical challenges.

Immersed in their world of quick decisions in highly challenging environments, they usually do not have the luxury to step back and reflect not only on immediate decisions but more importantly on their priorities that should be reflected on their decisions.

An Ethics class should push students to dive into their experiences. Teachers should surface their questions. Thus, at the beginning of each term, I try to ask students

their work and industry background. I am always taken aback by the increasingly new functional areas that global business and the fast growing Business Process Outsourcing (BPO) industry have created. In other words, I am often surprised by the many ethical challenges that these professions bring. *How can I purport to have the answer to questions I don't always know? I must start with their question, their experiences, and their challenges.*

The students at the very start of the course must be forced to come to terms not only with their individual dilemmas. They must also uncover company's issues which are often not in the radar of the ordinary middle manager. Surfacing issues for which they not take responsibility but by which they are affected teaches them to get out for their self-interested perspectives. Eventually, it teaches abstract thinking. It forces them to pull out of their immediate, face-to-face encounters with their people.

The same is true for surfacing industry and systemic ethical challenges. Students might complain that these are not within their sphere of influence and therefore should not be given as much time as individual or corporate issues. While I agree that these are not within their sphere of influence and may not have as much an emotional hook on them as individual and corporate challenges. Discussing systemic and industry dilemmas shows students the interrelatedness of an individual issue to a bigger network of players and problems. It teaches them systemic thinking and the important lesson of how individual and corporate actions impact into a network of reactions. So they and their company should not never act only for themselves.

Starting business ethics with individual issues, then gradually moving to corporate and industry issues accomplishes two things: makes students emotionally and personally invested in the course and cultivates abstract thinking.

I also suggest that students be encouraged to scan traditional and new media to bring national and business issues to their awareness. These should be routinely discussed at the beginning of each class. Our society tends to thrive on unverified rumors and opinions that swirl around important issues. By bringing these into the classroom and making students dig facts on these them, students are not only taught ethical sensitivity, they are also taught to use their reason and not dwell on their instincts in tackling these issues.

I make a second suggestion. We said above that business ethics develops from a context. The subject, Business Ethics, must then spend time understanding the national culture that defines the way business is done. Apart from business cases, classroom discussions should spend time on the relation between culture and ethics, between national and corporate cultures.

For instance, Western-educated Filipino leaders are often conflicted in their decision-making because their Western MBAs teach them that to be ethical is to strictly enforce codes of conduct. But as a rule, we don't. We make many exemptions to rule implementation. We are thrust into an office culture where the professional meshes with the personal. For instance, it is normal for a supervisor to be the wedding sponsor of a subordinate or the godfather of a co-worker's child. Confronted with office situations where erring employees are their godchildren or distant relatives, how can they enforce the rules fairly and uniformly?



Those of us who impatiently set aside these cultural traits are punished with being marginalized or being undermined. Prudent ethical decisions necessitate that the moral agent has to start with an appreciation of the peculiar culture that he operates. He must understand it, before she can imagine how she can transform people and office cultures. If she is dismissive and refuses to understand how things are, she will end up frustrated and defeated: unable to craft a solution that is both implementable and still faithful to her ideals.

Thus, the more a Business Ethics class spends time dissecting the cultural elements that prop up a problem, the more empowered students will be to find solutions to seemingly dead end ethical challenges.

In this kind of discussion, the teacher needs to do two things: first, she has to be well-read and informed about the cultural peculiarities of doing business in the Philippines, and second, she must have facilitative skills that make these discussions a sharing of experiences rather than a one-way lecture. MBA students are in the “battle field” of business and would therefore much to say about the studies and insights on business culture brought to their attention.

One thing I always point out to students is our decision-making in the Philippines and other parts of Asia: not consultative and discursive. Many big companies still have a leader-focused, autocratic decision-making process. We consult only to a certain extent but ultimately the leader is expected to be autocratic; he is expected to act like a father, doing what he thinks is best for his “children” (consultative-autocratic as one business leader describes it).

To change corporate cultures, leaders must accept that they have to exercise their leadership mindful of people’s expectations on the roles leaders must play (autocratic, paternalistic) and their own capabilities for change. For instance, citizens often criticize our local chief executives (e.g. mayors and governors) for misallocating budget items; and yet we expect them to give donations to wakes, buy basketball uniforms for the town fiestas (annual celebrations) and provide scholarships for our children. How ready are citizens to change these mindsets?

There are many other cultural traits defining business behavior. The philosopher Hans-Georg Gadamer says these things “happen behind our backs.” If we do not do an accounting, we will never be able to transcend them.

The third suggestion I make is about course methodology that could develop moral reasoning. Cases are necessary to develop moral reasoning. However, we have repeatedly articulated the need for more local cases in order to teach this reasoning process. I suggest that we contend with the current lack of well written, scholarly corporate and industry cases by focusing at least in the short term on student-written cases. These will serve a special purpose. Starting with experiences to which they are emotionally hooked, makes students engage Ethics. These after all are their stories, their problems. Solving them is urgent for them. These dilemmas may not teach them abstract thinking, or that business ethics problems are not just about them and their relationship to colleagues and supervisors, and that they DO affect a wider public or anonymous stakeholders, the company or industry. But personal cases will get them interested enough to develop their reasoning process and to eventually be sensitive to ethical dilemmas to which they are emotionally distant.

Needless to say, we must of course write those corporate and industry cases to develop systemic thinking among students and to bring them to greater levels of abstract reasoning. These cases will teach them to widen their circles of responsibility. In a personalistic culture, they help students see the far-ranging effects of self-and-family interested decisions.

In case analysis, I tend to be very strict with the articulation of facts, stakeholders and their stakes. Culturally, we tend to be careless with details. We do not buckle down to the hard task of gathering and sifting through empirical evidence. Case analysis should not only be about jumping into solution finding which students find more interesting and therefore focus on. Good solutions can only come out through data gathering. I also do many drills on dilemma articulation to develop ethical sensitivity and to drive home the importance of articulating correctly the competing values in a dilemma.

Lastly, I propose that the course addresses thematically three important questions in Ethics:

1. What is the relationship between Ethics and culture?
2. How does one become ethical?
3. How does one make an ethical decision?

I organize my course into two parts: Foundations and Business Ethics. For the first part, I discuss these three questions under the labels, Context, Agent, and Act. It looks like this:

### **Part I: Foundations**

Introduction:

What is Ethics?

Ethical Sensitivity

Ethical analysis

Courage

- A. The Context: Ethics and Society
  1. Universal Values and Cultural Relativism
  2. Filipino and Asian Values?
- B. The Agent: Moral Development
  1. Virtue: We are what we Repeatedly Do
  2. The Stages of Moral Development
  3. Moral Courage: Heteronomous to Autonomous Will
- C. The Act: Model for Ethical Reasoning
  1. Feelings
  2. The Seven-Step Moral Reasoning Process.

For the second part, I discuss concepts and issues that are special to Business Ethics. The second part looks like this:

### **Part II: Business Ethics**

- A. Business Ethics Problems
  - Individual, Organizational, Systemic

- B. The Filipino Manager and Corporate Values
- C. Ethical Frameworks
  - Utilitarian
  - Rights
  - Justice and Fairness etc.
- D. The Individual and the Organization: Mutual Responsibilities
- E. Corporate Governance and Social Responsibility: Theory and Practice

## Summary and Conclusion

In this chapter, I have attempted to do two things. First, and most importantly, I discussed the three challenges confronting the teaching of Business Ethics in the Philippines: moral numbness, an underdeveloped capability for moral reasoning, and the lack of moral courage. Second, I proposed a course framework and outline and the use of case studies as teaching tools in developing moral sensitivity and reasoning.

Moral dilemmas, as I said above, involve values that occur not singly but together in competition with each other. In them, good is not always pitted against evil. Sometimes the choice is between several goods or between two evils. In then end, moral judgments require what Greek philosophers called phronesis, a kind of knowing that has a capture of the ideals but also has a profound understanding of the peculiar demands of each experience. This is what we hope to teach in our students in Business Ethics.

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# Chapter 10

## Reframing Business Ethics in the Management Education Curriculum

Mike J. Thompson

### Prelude

The Cretan Minotaur of Greek mythology was a raging monster with the head of a bull and the body of a man. It represented uncontrollable lusts and powerful egoistic expressions in humankind. King Minos built a huge and complicated underground labyrinth-prison for the deadly Minotaur to dwell in. This maze of chambers was so complex that it was impossible to escape without help. In the tragedies of the 2008 financial crisis, the senior management of Lehman Brothers have been cast as players in *The Devil's Casino*, the title of Vicky Ward's book of the Lehman Brothers story (Ward 2010). The Lehman Minotaur was ultimately destroyed by its egoism and greed with the weak U.S. Securities and Exchange Commission (SEC) playing the part of the weak King Minos feeding the financial flows to satisfy the monster's ravenous appetite. In his account of the Madoff Ponzi scheme, Harry Markopolis describes how "for years" he "observed and experienced the SEC protecting large perpetrators of abuse at the expense of the investors whom the SEC is supposed to protect ... when it comes to large corporations and institutionalised Wall Street, the SEC uses kid gloves..." (Markopolis 2010, p. x).

It is, perhaps, unfair to single out Lehman or Madoff, when the loss of personal and corporate morality may equally be found in other corporate failures and mismanagement of the time: Bear Stearns, AIG, Freddie Mac and Fannie Mae, for example. In the wake of the financial tsunami of 2008, the stories of voracious greed and the abandonment of personal and corporate responsibility of the few in control have been woven into compelling films such as *Wall Street 2*, *Inside Job*, *Too Big To Fail* and *Margin Call*. However, the same human vices that are castigated publicly

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by media and politicians have become increasingly obvious and widespread in the twenty-first century public square compared with the more discreet and limited *modus operandi et vivendi* of politicians and bankers in the twentieth century. In the words of Gary Hamel, “America’s legislators and regulators were just as culpable as its bankers” (2012:19).

Companies work hard at being “good” and offering good rather than bad business practices. Nestlé, for example, has a corporate slogan proclaiming: “Good Food. Good Life” and Google publicly claims that “You can make money without doing evil”<sup>1</sup> The ethics of virtue, of course, is founded on the acceptance that good and bad instincts are found in the human condition: the extent to which we habituate the virtues or the vices is a foundational ethical decision. An awareness and concern about dangers from the vices of human behaviour are, perhaps, a sign of virtuous awareness. Matthew Chapple, CEO of Mead Johnson, China succinctly described this reality in his personal experience to a class of MBA students at CEIBS: “I am not good. But I am not bad. I am both good and bad” (Chapple 2011). The challenge to those of us who have positions of influence or in teaching positions is to cultivate the personal good, the corporate good and the common good.

The extent to which there may be out-dated elements in management education curricula may be debated, but the deeper challenge is the extent to which cultural, human and spiritual resources from societies in the East have been plumbed from the depths of the combined histories of our students and societies. The tools for running a business efficiently are now well-known – Western management education has at least provided that. And, thankfully, we have seen many admirable business leaders emerge and become an inspiration to others. But we have also witnessed too many high profile moral collapses of Minotaurian proportions arising from the significant knock-on effects of the moral failure of senior executives. A feature of the defences put up by witnesses involved in the Wall Street financial crisis of 2008 to the US House Oversight Committee was the mercurial mix of both acknowledgment and disavowal of their responsibility as leaders. A typical reaction by wider society to the defences was provided by journalist Vicky Ward who, after hearing the defence of Dick Fuld, the former CEO of Lehmann brothers and known as “the Gorilla of Wall Street”, wrote: “I thought he was shameless ... I thought it was appalling. He blamed everyone ... He blamed everybody but himself.” (cited in Swaine 2008). But the moral shortcomings of business leaders in the West have been well-matched by some high profile corporate governance failings in the East: Citic Pacific in Hong Kong in 2008 and Gome in China in 2011, for example.

*The Economist* of 18 July 2009 devoted a section to “the state of economics” in which it set out the culpability of financial economists in relying on the efficient markets hypothesis (EMH) and macroeconomists (and some banks) in relying on “dynamic stochastic general equilibrium” models. Its lead article called for financial economists to produce “better theories of why liquid markets suddenly become illiquid and of how to manage the ‘moral hazard’” (*The Economist* 2009, p. 74). Questions of moral leadership and moral hazard and the rekindling of Keynesian “animal spirits” have now found their way into the core of governance debate and

reform. Paulet has summarised the issue by stating that corporate governance in financial institutions has not been applied correctly: “profit was the main objective to the detriment of collective interest. Hence, the objective for the next few decades will be to prove that profitability and ethical factors in financial questions are not antonymic” (Paulet 2011, p. 227).

## Reframing the Teaching of Business Ethics

I suggest that business ethics *qua* a discipline requires “reframing” in order to engage the attention of management and students in management education. By reframing I mean that the very meaning of ethics should be redefined and the epistemological structures of nineteenth and twentieth century ethics should be questioned. During the 1980s and 1990s, Business Ethics emerged as a discipline to provide tools to manage ethical dilemmas. But business ethics is a discipline coloured by what MacIntyre calls “the Enlightenment project” in which formalist and consequentialist approaches to morality have focussed on how one might employ rationality to achieve ‘right actions’ and distributive justice.

Reframing business ethics in the management education curriculum may, for example, challenge the relevance of traditional ethical theories to ethical debate whilst not rejecting their role in the discourse of moral philosophy. One approach to a reframing exercise might be to re-create a relational understanding of ethics bringing together the role of the individual in society especially with the growing acceptance that sustainability requires personal and not only governmental moral commitments. Reframing the semantics of ethics into a more readily accessible language and a moral framework is required in the light of criticisms about its inaccessibility to ordinary people. Popular management writers and speakers, such as Heineman (2008), Hamel (2009, 2012), Gentile (2010) and Adams (2012) are reintroducing a moral vocabulary without reference to traditional ethical theories or arguments, making clear that “moral corrosion has its roots in the low-grade egomania that afflicts us all” (Hamel 2012, p. 19). The grounds for the moral appeal are not explored and references to morality and values are assumed and illustrated by the ethical failures of organisations, systems and individuals with a discourse centred on selfishness, self-interest, hubris and references to human values which include honesty, consideration, care and even compassion.

## Is Utilitarianism Ethical?

Utilitarian and egoist ethical theories underline mainstream arguments in support of the efficient distribution of resources in prevailing business paradigms, but a reframed business ethics manifesto must challenge whether utilitarianism truly promotes ethical decision-making. Is an ethical position viable which argues for

short-term personal gain at the expense of longer-term social tragedy as graphically portrayed by Hardin in his *locus classicus*, “The Tragedy of the Commons” (Hardin 1968)?

Haidt and Joseph, in summarising the prevailing modernist ethical theories, argue that the non-rational sources of the self are simply abandoned by detaching moral judgments from ethical decision-making:

Formalism replaces substantive moral judgement with a logical rationality, while consequentialism replaces it with a calculative rationality. Both approaches privilege parsimony: moral decisions should be made with respect to a foundational principle, such as the categorical imperative or the maximization of utility. Both insist that moral decisions should be governed by reason and logic, not emotion and intuition. And both devalue the particular in favour of the abstract. (Haidt et al. 2008, p. 378)

Whilst this is a fair summary of the nineteenth century formulations it does not reflect the explanations of the non-rational human “sentiments” acknowledged by David Hume and Adam Smith. Hume regarded reason as the “slave of the passions” and describes “the sentiments” as the primal source of moral judgments. A sentiment of approbation deems an act or character trait virtuous, while a sentiment of disapprobation deems an act or character trait vicious. Reason is employed to ensure that one’s sentiments are applied to correct and not faulty data. The sentiments could, of course, promote beneficence, which reason is expected to martial ultimately towards rational self-interest. But this construction is difficult to accept given Smith’s description of beneficence as “the ornament which embellishes, not the foundation which supports the building”, the foundation being justice (cited in Heilbroner 1986, p. 96). The insight for business ethics is the notion of “ornament” in the context of corporate beneficence. Under what manner of circumstances may “ornament” be appropriate? As strategy, as incentivisation for stakeholders, or as bribery? And is justice regarded by business as contingent on utilitarian rationality or is there a more supervening sense of justice? I shall return to these questions. Milbank acquits Smith and Hume from “the contractualist mistake of supposing that the individual subject assents to justice in general because of a deliberate utilitarian calculation that this will be for his best self-interest in the long run.” (Milbank 1990, p. 30). He points to Smith’s assertion that ‘nature’ has made stronger our resentment at a failure of justice than at a failure of benevolence. It is the association of justice with ‘nature’ that is of interest in relation to ethics: that justice is not only an instrumentalised virtue to serve one’s self-interest but is mysteriously connected as Owen Flanagan has observed:

Where we locate justice in the moral order of the individual or society, and the importance we assign to it, is rightly a contextual matter ... Hume pointed out that benevolence, spread widely and deeply enough, can render justice relatively unnecessary even in the worst of times. (Flanagan 1991, p. 110).

Even J. S. Mill’s version of utilitarianism emphasises the virtue inherent in the “Greatest Happiness Principle” with the promotion of happiness being benevolent and not just self-interested. Mill also acknowledges that justice is “a feeling bestowed on us by Nature” but this, he says, is insufficient to admit that “natural

feelings of justice” are “an ultimate criterion of conduct.” (Mill 1991, p. 176). Utility, in consequentialist and Kantian rationality, comes to represent the high view of justice, human intelligence and a capacity for forensic reasoning higher than any other moral impulse, God included.

The Enlightenment did not only offer consequentialist morality; there was also the logical rationality of formalist theories, such as Kant’s ‘categorical imperative’ based on the maxims of “universal law” and the contractualist versions put forward by Locke, Hobbes and Rousseau. Indeed, Taylor suggests that Descartes’ picture of the disengaged subject articulates the understanding of agency that form the grounds upon which Locke and the Enlightenment thinkers proceed: Taylor calls this “the punctual self” (Taylor 1989, p. 160). This idea of agency is built around Locke’s reification of the mind and his explanation of disengagement from any innate sense, of truth and morality which are syntheses of the ideas we originally received from sensation and reflection. Locke constructs the mind as a quasi-object which must not be hindered by non-rational sentiments:

Vague and insignificant forms of speech, and abuse of language, have so long passed for mysteries of science; and hard misapplied words, with little or no meaning, have, by prescription, such a right to be mistaken for deep learning and height of speculation ... they are but the covers of ignorance, and hindrance of true knowledge. (Locke 1975).

Taylor’s thesis is that such an objectifying view of the mind “doesn’t only rule out theories of knowledge which suppose an innate attunement to the truth; it also is directed against moral theories which see us tending by nature towards the good” (Taylor 1989, p. 160). Similarly, neo-Kantian versions of ethical reasoning have been summarised in an elemental way by Wells as:

People have different genes, different upbringings, different traditions, different motives. But they all do pretty much the same actions. By grounding morality in actions, and by chiefly discussing the rightness of actions, a rational debate can continue, and people of all traditions can meet without the constant threat of violence. (Wells 1998, p. 14).

Thus logical rationality largely overshadows notions of substantive moral judgment. But teleological versions of ethics also result in a disengagement with the self through employing calculative rationality based on outcomes rather than the pre-Enlightenment foundations of virtues or religion. In the result, the modernist consensus about the scope of ethical enquiry has been shaped by what Edmund Pincoffs has called “quandary ethics”. He argues that the “structures known as ethical theories are more threats to moral sanity and balance than instruments for their attainment. They have these malign characteristics principally because they are, by nature, reductive.” He challenges the possibility that reductive ethical theories can be ‘applied’ to the resolution of moral problems (Pincoffs 1988). Pincoffs, is among many late twentieth century moral philosophers and ethicists who are profoundly concerned by the extent of moral subjective detachment by the agent in formalist and consequentialist ethical frameworks. Whilst there is no single alternative theory proposed, there is a widespread acceptance of the need for ethical reflection by the moral agent or “in an emotional ‘moral impulse’ towards others” (Crane and Matten 2004, p. 102).



## The Place of Character in Ethical Reflection

The language of character has been re-introduced into ethical reflection as a counter to the modernist impulse for disengagement and Pincoffs makes the distinction starkly:

Moral character and moral judgment are more intimately bound together than theory advocates can allow. Moral judgment is an expression of the character of the person who offers it. (Pincoffs 1988, p. 4)

Taylor peels back the concept of modern disengagement and self-objectification in similar terms:

The whole (strange and ultimately questionable) picture of myself as objectified nature which this modern turn has made familiar to us only became available through that special kind of reflexive stance I am calling disengagement. We had to be trained (and bullied) into making it, not only of course through imbibing doctrines, but much more through all the disciplines of self-control, in the economic, moral, and sexual fields. (Taylor 1989, p. 175).

The point being made here is that ethical reasoning cannot be disengaged from the self even if the decision-maker may not know enough about the facts of a case nor be experienced in tracing the causal effects of a line of action. Disengaged, objectified judgments must result in suspicion if the character of the decision-maker is held in low regard. In business ethics parlance, the question raised is whether it is right to hold ethical issues in an abstract and distant way so that professional behaviour becomes separated from private behaviour. In his classic *Harvard Business Review* article, Albert Carr, says of business people that: “in their office lives they cease to be private citizens, they become game players...” (Carr 1968, p. 4). But, from a sociological analysis, this is simply untrue as Tipton (2002) has shown in his study, *Social Differentiation and Moral Pluralism*. He observes that a mixture of ethical styles and traditions are employed within the actual institutions within which we live.

For in each situation and with each problem, institutionally arranged and enacted as they are, persons frame practical moral questions and answers in search of alternative responses that are intelligible, justifiable, and therefore public in their cultural coherence. To guide my moral decisions, I am seeking criteria that I can communicate coherently and persuasively to others, not rationalizations I can use to mask my arbitrariness. I am seeking moral guidance not just for myself, but for anyone in my situation ....For we cannot make the modes of moral discourse and the moral drama of institutions mean whatever we wish and still make sense to ourselves and others, which is what we must do in order to live as social beings. (Tipton 2002, p. 39)

The coherent criteria that are frequently used in day-to-day business make immediate demands on the character of the actor: justice, toughness, caring, compassion, honesty, fairness and trust are a commonly cited set of virtues expected of corporate managers.<sup>2</sup> The corporate scandals that continue to be reported show the sheer inadequacy of both judicial and rational systems of governance to promote objective ethical decision-making based on corporate maxims of governance.

Using the language of character and virtues also incorporates a moral narrative of self-agency. As Stanley Hauerwas has pointed out, “character is not so much the

qualification but the form of our agency.” (Hauerwas 2001, p. 81). The challenge for business ethics, then, is not so much to determine which framework to use for ethical decision-making, but to enquire as to who the moral agents are becoming in their relations to each other, to stakeholders and to wider society? How may the moral agent strike the balance between self-interest and personal happiness with a concern for the good of others? The enquiry is thus drawn into a discussion about the nature and quality of our moral agency and the narratives and metaphors that may be employed to buttress the varying accounts. One account of it is represented by Ayn Rand’s concept of man as “a heroic being, with his own happiness as the moral purpose of his life, with productive achievement as his noblest activity, and reason as his only absolute” (Rand 1957, p. 1170). Indeed, Robert Jackall concludes from his study on the world of corporate managers that for ambitious managers, the basis of social identity and self-image rests on “unrelenting attentiveness to the social intricacies of one’s organization” in order to further position, career and gain entrance into select groups (Jackall 1988, p. 202). But whilst Rand paints a solitary figure in the form of John Galt renouncing any moral obligation to his fellow men and fighting for “the obligation I owe to myself” (Rand 1957), Jackall’s social psychological portrait shows the individual as requiring group interactivity and intimacy, especially with powerful others, in order to achieve his own ends (Jackall 1988, pp. 202–203).

In such portrayals of modern man Flanagan sees examples of what he regards as liberal theories which he characterises as “the self in which satisfaction of individual wants is the only intrinsic good” and “anything beyond this satisfaction that has value gains its value instrumentally, that is from its ability to contribute causally, either directly or indirectly, to such satisfaction.” (Flanagan 1991, p. 123). Such a self is constructed in economic theory as *homo economicus* who acts in rational and perfect self-interest.

## **Towards a Framework of Moral Judgment**

So what might be the tasks of reframing business ethics in the management education curriculum? The question is posed in a prevailing context in which ethics is often seen as rule-based and externally imposed (Gentile 2010, p. 25). I suggest that there are four platforms for a new framework.

### ***A Recovery of Moral Man***

Firstly, we need to recover Moral Man as a counterbalance to Economic Man. Ethics applied to business frequently has *homo economicus* in view in asking ethical questions that are often debated within the frameworks of quandary ethics or norm-generating

discourse ethics. But, as I have been highlighting, moral dilemmas require engagement by moral agents who shape the debate from their own moral convictions and the nature of their moral agency. The reputation that the discipline of business ethics is difficult to apply, unrealistic to the workplace and disconnected from the exigencies of the commercial reality is, perhaps, due to the lack of attention given to the nature of our moral agency and the character formed by it. Mary Gentile recounts an interview with a partner in a private equity firm who chose to leave the firm rather than to engage in “political tricks or slander”. The partner did not see his decision as a moral or values-based decision, rather it was simply not the kind of person he was. In his account he said that in his experience, “conversation about ethics in business often ring false ... It’s difficult to get a real level of honesty ... There is a big distinction between making the courageous and correct moral decision for oneself, and being in a position to implement something systemic throughout the organization.” (Gentile 2010, pp. 92–100). But for Gentile, the partner’s moral agency was active ultimately expressed in succumbing to his values: “to ‘be me’ as he puts it” (Gentile 2010, p. 100).

Such a moral reflection undermines the reification of *homo economicus* and calls for business ethics *qua* an ethical discipline to account for character and the personalist nature of our moral agency rather than the rational agency trusted by neo-Kantian and utilitarian theorists. The morals of *homo economicus* “must be either utility or utility plus the requirements of freedom, and/or those of rational argument. In any of these formulations, the basis of ethics is seen as something obvious, and there seems no call to examine the understanding of the incomparably higher underlying all this...” (Taylor 2007, p. 591).

The business ethics curriculum requires this kind of moral discourse in which choices are made through moral engagement, through listening to the voice of one’s values, the values that shape our moral agency. In announcing the changes made to the Harvard Business School curriculum in 2010, Chief Marketing Officer Brian Kenny, said: “The changes are aimed to create leaders of competence and character, rather than just connections and credentials” (cited in Middleton and Light 2011). The growing popularity of authentic leadership both at a popular level and at a research level underscores the demand for a way of approaching ethics, sustainability and the common good with the financial demands of business. In her survey of the subject, Ann Cunliffe has found that in leadership studies, “authenticity is seen as improving profits and sustainable growth through self-awareness, self-development, leading through values, being passionate about your purpose, leading with heart and head, and being yourself.” (Cunliffe 2009, p. 93)

### ***Replacing the Language of Ethics with the Language of the Good***

The second platform for the reframing of business ethics in management education is the idea of *the good*. Ethical issues in business could be aided by a framework based on an idea of the good: the good character, the good life, the good company

and the common good. This requires reopening what Taylor describes as the narrowed field of utilitarian and Kantian thinkers:

[T]he widespread take on moral philosophy today, with its exclusive focus on questions of obligatory action, the question of what is the right thing to do ... abandons wider issues of the nature of the good life, of higher ethical motivation, of what we should love. The wider focus is evident in the founding philosophies of Western ethics, in the ancient world. But modern discussion, which tend to concentrate on the range of doctrines descended from Utilitarian thinkers and Kant, have very much narrowed the field. (Taylor 2007, pp. 590–591)

Sandel has cogently argued that the narrative conception of moral agency brings conceptions of the good life into public discourse about justice and rights whereas Kantian and Rawlsian approaches to duties and rights are neutral with respect to competing conceptions of the good life (Sandel 2009, p. 242). Bringing justice together with conceptions of the good life and the common good cannot, Sandel says, be achieved by maximising utility or by securing freedom of choice: “To achieve a just society we have to reason together about the meaning of the good life, and to create a public culture hospitable to the disagreements that will inevitably arise.” (Sandel 2009, p. 261). This is a primary task of teaching responsible leadership in management education and a technical approach to business ethics even one in which virtue ethics is a component requires the broader scale debates on conversations about the role of moral goodness and the good life in questions of justice and ethics.

### *Admitting an Intersubjective Approach to Ethical Discourse*

Thomas Scheff defines intersubjectivity as “the sharing of subjective states by two or more individuals” (Scheff et al. 2006, p. 196). In teaching a business ethics case, the student could be encouraged to identify with the feelings and emotions of the key actors. In an ethical or legal issue the role of compassion or empathy with actors is admitted as a valid means of cultivating the moral imagination. For example, the Babson University business ethics case, “This Whole System Seems Wrong”, places the manager, Felipe Montez, in the dilemma of addressing the plight of exploited young workers in a Chinese technology factory. The case illustrates the personal empathy of Montez towards the factory workers and the emotional-relational dynamic of the ethical dilemma. The case is constructed around the role of the actor and combines both the challenge to assess the rational options and the personal responsibility felt by the actor who is described as feeling guilty and sad but wanting to act prudently and effectively (Gentile and Klepper 2010). Mary Gentile’s “Giving Voice to Values” project is based on the premise that “most of us would like to behave in accordance with our values” (Gentile 2010, p. 3). Cross-cultural research projects have found that there is a coalescence of human values (Kidder 1995; Peterson and Seligman 2004). On the basis of shared values, an intersubjective approach is possible and promotes a relational discourse which enables students to draw from their own experiences and test their own judgments and values.

Intersubjectivity better fits the world of social media and online connectivity in which blogging and interactivity are a more normative approach as illustrated by the online wiki shared platforms demonstrates. Today, CEOs more readily turn to intersubjective approaches in set piece speeches which reflect a team-based approach. The Pew Internet and American Life Project's 2007 Report found that social relationships and the sense of community are not fading away in America but growing, although in nontraditional ways (Rifkin 2009, p. 576). As Rifkin (2009, p. 404) points out, before Kurt Lewin's "T-groups", the idea of strangers airing their feelings about each person's behaviour in a group context was "truly revolutionary". Ricoeur argued that selfhood is fundamentally connected to the 'other' to the extent that a person has non-chosen responsibility towards, the 'other': *Soi même comme un Autre*, "oneself as another", (Ricoeur 1990). This approach is fundamental to phenomenology, an approach used by anthropologists and social scientists to go beyond the objectification of the social situation and to experience another person as a subject rather than just as an object among objects. In so doing, one participates in a shared world instead of one only available to oneself. Intersubjectivity also enables rational processes to be guided: in reviewing evidence from the brain sciences, Wilson states that "[w]ithout the stimulus and guidance of emotion, rational thought slows and disintegrates. The rational mind does not float above the irrational; it cannot free itself to engage in pure reason" (Wilson 1998, p. 113).

### ***Decision-Making Analysis Complemented by Wise Judgment***

Decision science is a central plank to management education in which methods such as decision trees are one flexible method for capturing the structure of a decision problem. Probabilities and risk values are assigned to various inputs and a decision criterion is set. Calculations are made under certain degrees of certainty. However, this kind of objective analysis cannot be readily applied to many management decisions. As Dean Nohria of Harvard Business School said of the changes made to the curricula at Harvard: "We needed to focus on cultivating judgment not basic analytical tools" (cited in Middleton and Light 2011).

The notion of making wise judgments in managerial decision-making has been under-reported in the business world, largely because it does not feature explicitly in leadership studies, organisational behavioural studies or management education and practice generally. Perhaps the subject area is regarded as too ethereal to be applicable or actionable or perhaps the deep concern regarding bias in managerial decision-making is likely to be reflected in suspicion about the perceived subjective nature of wisdom in the business context. In a world of "evidence-based thinking" and "fact-based decision-making", wisdom doesn't seem to fit in mainstream business except, perhaps, informally and "off the record". One example of this usage in managerial decision-making is made when a decision that may have been controversial at the time is later recognised as being wise because events showed it to be so.

British entrepreneur, Alan Sugar, writes of his refusal to accept the recommendations of his board colleagues and a management consultancy to acquire a Swedish inkjet manufacturer in 1993:

At the end of their deliberations, Rogers recommended to me that we spend £10 m acquiring this asset and put Jacob in charge. I told him if he was asking me to make the decision, the answer was no. It was a wise decision. Eventually, the Swedish company went into liquidation and no one bought the technology, which turned out to be total garbage compared to that being developed by Hewlett-Packard and other Japanese companies. (Sugar 2010, p. 366).

Earlier in the professional evaluation of the target company Sugar had been excluded for fear of biasing the rational process of due diligence. At the outset, Sugar assessed the Swedish business and believed its operation and products had no long term viability. The reference to “wise” here stands in contradistinction to the rational decision that was being recommended to him. Sugar’s view was not removed from the facts of the acquisition, rather it was his broader experience and judgment that was brought to bear on the facts that led to a different conclusion.

‘Wise’ is more readily ‘translated’ in common business parlance as ‘smart’ and this ‘translation’ is associated with the readiness to report on a person’s perceived intelligence, educational background and professional standing. But recent studies in wisdom have highlighted the significance of the authentic self with its virtues of self-awareness, integrity and humility. Humility has become a lost art in the field of business ethics and yet is one highly prized amongst recruiters as a mark of character quality. Blair Sheppard, dean of Duke University’s Fuqua School of Business, when interviewed in 2010 about the kind of person that recruiters are looking for reported that they were saying to him: “I need a different kind of person. I need a person who is more of a leader, but humble.” (McKinsey 2010). As I have argued elsewhere, wise judgment is the practice of insight by an individual based on knowledge and perception which results in disinterested and just judgments that are respected by others (Thompson 2011, p. 27).

## Conclusions

Morality, the idea of the good, intersubjectivity, and wisdom are four themes which emerge as calls from contemporary society for a reformation of business leadership in the wake of the financial crisis which began in 2008. Descriptions of egoism, greed and lack of goodness continue to be ascribed towards business leaders in the press, in blogs, books and films. Business ethics in its traditional form did not enter mainstream management education, and in its twentieth century format, failed to impact mainstream business education and practice. The pressures for responsible corporate governance and responsible leadership amongst boards and across all levels of management is now clear. The four platforms for a new framework for a fruitful ethical engagement suggested in this chapter offer an alternative way forward for business ethics in management education and practice.

## Notes

1. Google corporate website: *Ten things we know to be true*. Retrieved from [www.google.com/about/corporate/company/tenthings.html](http://www.google.com/about/corporate/company/tenthings.html)
2. This is the list of virtues for corporate managers suggested by Robert Solomon but are derivatives of virtues proposed by the ancient philosophers and expounded within a Christian context by Thomas Aquinas. See Helen J. Alford and Michael J. Naughton, *Managing As If Faith Mattered: Christian Social Principles in the Modern Organization*, (University of Notre Dame Press, 2001), Chapter 3.

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# Chapter 11

## Implementing Business and Professional Ethics in an Asian Context: Three Steps to Integration

Roderick O'Brien

### Introduction

Ethics is more than simply regulation, and even regulation becomes an uncertain tool across national boundaries. We need to find ways to teach and practice ethics in business which are both local and international, practical and yet without yielding from our values, and capable of speaking to business people and practitioners all over Asia.

### Integrating Our Philosophies and Theologies

I cannot provide you with a statistical survey, but my experience is that many practising and teaching ethicists, even in Asia, are likely to have a prior formation in Western (Graeco-Roman) rather than Eastern philosophies. One result of this is that the teachers are more likely to discuss (for example) virtue with a starting point from Aristotle rather than a starting point from Confucius.

Those who study in Catholic universities like the Ateneo de Manila University will find that Graeco-Roman philosophy has a special place. You usually study Plato to understand Augustine, and you usually study Aristotle to understand Aquinas. But you don't need to study Mencius, or the *Upanishads*. Yet this privileged place for Graeco-Roman philosophy can unfortunately lead to the exclusion or neglect of other philosophies. Only a minority of authorities would give an equal place to non-Western philosophies. If there is a place for Asian philosophies, then it is usually as a supplement to Graeco-Roman philosophy, not as a core subject.

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This is particularly true for those who have taken philosophy as a preparation for studies in theology. Sometimes we have some local knowledge, or a deep cultural experience, of Asian philosophies and ethics, but this is not integrated. We operate in compartments.

I am not suggesting that we discard Graeco-Roman ethics. But we need to ensure in the future that Asian ethics find at least an important place in our work. We can look for the Asian 'moral wisdom' which provides the possibility for a genuine integration of philosophy and theology, of business and professional ethics, and of Asian life and experience.

Even those who study ethics only from a secular standpoint can spend their entire academic careers studying ethics based in western philosophy. At most, there might be a single course, or just a couple of lectures, which provide a glimpse of Asian 'moral wisdom'. Today, we can reverse the neglect of the past.

## **Integrating Our Ethics**

The great sages of our traditions were not narrow people. The interests of a single individual might range from politics to law to aesthetics to agriculture. But the specialisation of our modern university departments and academic or professional journals means that we often think in very small sections of life. I am reminded of the humorous definition of an expert: someone who knows more and more about less and less, until she knows absolutely everything about absolutely nothing at all! In fact the promotion of expertise can sometimes block the development of the broad education needed to be truly an international person.

My own field of research is professional ethics. This is a different label to business ethics or international business ethics. But professional ethics has different journals, different categories, and a different vocabulary. Because the profession which I study is the legal profession, I am in a different field to people who study or implement medical professional ethics or accounting professional ethics or neighbouring fields. It is only occasionally that we look over the fences to see the neighbours. Yet international accounting firms or international law firms already occupy an important segment of international business in their own right. And they relate to international entrepreneurs from the time of formation to the time of winding up.

So my plea today is for an integration of ethics. Surely there is a place for specialisation and for the knowledge of particular occupations. At the same time, it is important that we do not become narrow. Many of us teach or research in universities, and one vision of a university, promoted by John Henry Newman, is that universities can break down boundaries (Newman 1858: 134). Unfortunately, the structure of university departments and schools and academic journals sometimes means that modern universities entrench these boundaries. I would like to see fundamentally the same ethics consistently taught across universities and business, law, and medical schools, and implemented across governments, businesses, and the professions.

Surely ethics is not simply about legal regulation, but some practitioners often try to reduce ethical responsibility to mere compliance with legal regulation. Scholars and practitioners who are working in the field of legal ethics (for example: lawyers and judges) are usually regularly working with the distinction between law and ethics. In practice the boundary between law and ethics is not a distinct border, but rather an area of overlap. Familiarity with this shifting boundary can be a special contribution to our integration across disciplines.

## **Integrating Our Ethics over Time**

One of the issues in implementing international business or international professional ethics in the Asian context is the necessity for a reasonable grasp of Asian ethics. Business ethics does not suddenly become Asian by adding a quotation or two from *the Analects*. Nor does an assignment written by a scholar in China really become international because that scholar adds a text from the Hindu or Christian sacred scriptures. More integration is needed, although this must necessarily be a gradual process.

A particular feature of some ethical writing is to compare apples with oranges, not apples with apples. Thus, to compare the modern developed western business ethics with traditional Confucianism is not reasonable. Yet talking about the ancient traditions can lead us to do this. Surely it is reasonable to compare classics and classics. And it is reasonable to compare (for example) modern Catholic social teaching with modern Confucian social teaching as it is taught in the Republic of Korea. Fortunately, there is a growing body of literature in English and Chinese (and perhaps in other languages) which seeks to make genuine comparisons of classical Chinese and Western ethics (for example, comparisons of Confucius and Aristotle) and relevant comparisons of modern ethics. But these are only a beginning. For readers in English, the *Journal of International Business Ethics*, the *Journal of Business Ethics*, are worth consulting.

One feature which I have noticed is that when ethicists seek to come closer to the Asian traditions, they usually choose only the older, canonical traditions. These are familiar, and canonical texts are available, even in translation. But there are new and fascinating developments across Asia. Permit me to give you one example.

My study of the legal professions in the People's Republic of China has given me insights into the attempt to create a modern socialist spiritual civilization, which would underpin socialist ethics. This is a work in progress, and it is surely very interesting. Perhaps it will fade into obscurity, or perhaps it will make a lasting contribution to ethics in Asia. At this stage, it is difficult to say. Nevertheless, it is currently the official ethic of a country which is both the location for vibrant international business, as well as the source of ever-growing business activity abroad. So I would suggest that socialist ethics could well be included in any research or teaching which examines the implementation of international business ethics in Asia. But so far, I do not know of any university outside the China mainland which teaches

socialist business ethics or professional ethics. Separately, I have provided a list of source materials in English and Chinese on socialist ethics in case you would like to follow up this topic.

Moreover, in recent years the creators of socialist ethics have begun to incorporate selected elements from the Chinese classical traditions. The principal source has been Confucian ethics, although Daoist ethics may be influential in environmental ethics. This blending is bringing some of the richness of traditional 'Asian wisdom' to a modern, secular ethics. And because of the overlap between law and ethics, this development may also contribute to the development of 'rule by law' as well as 'rule by ethics' in China.

It is not essential or even possible for the ethicist to know absolutely everything. But surely the ethicist must have more to hand than a few classics of western or eastern philosophies, religions, and ethics. The task for the ethicist is then to integrate these for modern international business, so that ethics may be truly international and genuinely modern.

## Conclusion

Now I would like to suggest to you the model of an individual who chose to localise himself in Asia. This year, 2010, is the 400th anniversary of the death in Beijing of the missionary from Macerata, Matteo Ricci. Studies of Ricci's life and work abound at this time. And we know that he was able to integrate into his own life a number of what would today be specialised fields. He originally trained in law, then in philosophy, theology, and in natural sciences. He could turn his hand to cartography, musical composition, mathematics, or languages. He immersed himself in Chinese language, and wrote dictionaries. He immersed himself in Chinese philosophy, and translated and commented on the classics. He also worked at understanding the current interpretation of those classics.

Today I wish to mention only one aspect of Ricci's work, his little essay on friendship *Jiaoyou lun*. Recently this work has again been translated into English, and I recommend it to you (Ricci 2009). It is, after all, a book about ethics. Perfect friendship exists between virtuous people who love virtue in each other for its own sake. Perhaps Maxim 16, adapted from Cicero, could serve well as an example:

Each person cannot fully complete every task, for which reason the Lord on High commanded that there be friendship in order that we might render aid to one another. If this Way (*dao*) were eradicated from the world, humankind would surely disintegrate into ruin.

Today, I am delighted to have come from afar, and yet I am sure that I am among friends. Together, we shall seek together the path of virtue in international business ethics. I offer you my chapter, knowing that it is imperfect. The three suggestions which I have made about integration may not seem so good to you. Of course, you are invited to offer me your criticisms, even if they are stern. As Ricci wrote in Maxim 78:

A gift from an enemy is worth less than a beating from a friend.

I look forward to learning from the varieties of Asian experience which will be expressed at this seminar, and again I thank the organisers for the work in making this seminar possible. The unethical practices which we experience across the region stir us to do the best that we can together.

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# Chapter 12

## Why and How to Use Case Studies in Teaching Business Ethics

Dennis P. McCann

There is a growing literature of case studies focused on the impact of cross-cultural challenges in international business ethics. Any multinational business, whether its home offices are in the USA or the EU, or in Tokyo, Manila or Shanghai, is likely to have struggled over questions of setting policy on many such issues, ranging from the employment of women and children, to appropriate occupational safety standards, to the regulation of gift-giving and receiving, to questionable payments and business entertainments, as well as to sexual discrimination and harassment. While such topics routinely appear in business ethics case studies, the problem in teaching them in Asian settings—college classrooms, university seminars, and in-house training programs—is that the cases tend to reflect the cultural values shared by their authors and the people in the situations they describe and analyze. Case studies imported from Western sources therefore not surprisingly also carry with them Western assumptions about common morality, standard business practices, legal institutions and their effectiveness, as well as the social and political environment in which businesses operate.

Acquiring knowledge about such things may be very important for Asians doing business internationally. Such case studies may help them to anticipate the various ways in which their Western business associates, customers, and clients think and act, and their likely responses when they find themselves ethically challenged. Nevertheless, they may also leave Asian students and business practitioners clueless, when they demand to know precisely how such lessons apply in their Asian business experience and the diverse social and cultural environments in which they are operating. If teaching case studies in business ethics is to be anything more than another, perhaps kinder and gentler, round of neocolonialist indoctrination, much greater effort must be directed toward research focused on developing Asian business ethics case studies. Such case studies would go beyond

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preparing students for careers in Western-based multinational corporations, in order to assist them in rediscovering their Asian identities, by addressing Asian concerns, using Asian traditions of moral wisdom, that should enhance rather than retard their effectiveness as Asian business leaders.

If that is the goal of teaching case studies in and for the development of Asian business ethics, the path toward achieving it is likely to be circuitous, lengthy, and similar in many ways to the story of the Buddhist monk Xuanzhang's odyssey to India in search of Enlightenment, as celebrated in the Ming Dynasty classic, *Journey to the West*.<sup>1</sup> Xuanzhang's mission, ostensibly, was to recover the canonical texts of Buddhist scriptures so that these could be translated and disseminated in China. Ironically—and yet predictably so—*Journey to the West* suggests that Xuanzhang's realization of his own Buddha nature occurred as a result of his struggles along the way and what he learned from them. The lesson that I draw from this story is that developing Asian business ethics case studies will require far more than simply importing, or even translating or disseminating, the canonical texts of international—in fact, Western—business ethics. Nevertheless, like Xuanzhang, we may be wise to start with these texts in order to discover what may be useful in them for preparing ourselves to develop a genuinely Asian approach to business ethics.

In what follows, then, I will give a brief sketch of what I've learned from teaching business ethics in the West, primarily in the USA, for 30 years, using case studies as an integral part of my pedagogy. This review is meant to explain what case studies are and to point out their indispensable, yet limited role in teaching business ethics. From that point on, I will focus on a specific case study that I have developed on corporate codes of ethics, based on the experience of the Hong Kong Ethics Development Centre in attempting to promote these locally. I have selected this case study precisely because of its relevance for the development of Asian business ethics. Not surprisingly, there is quite a bit of resistance on the part of Asian managers and students to such codes. They are often regarded as not only worthless, but actually counterproductive when addressing the actual challenges of doing business in Asia. Nevertheless, I will attempt to show that, rather than reject such codes without further ado, the more useful path of development would be to transform them into something truly Asian.

## Using Case Studies in Teaching Business Ethics

Let us begin, then, with a sketch of the role of case studies in international business ethics. A check of standard textbooks indicates that the use of case studies is quite common. Boxed inserts providing case studies for classroom discussion are often found strategically placed in their various chapters. Or appendices may be found at the end of each chapter providing lengthier case studies for similar use. We can even find entire books devoted to case studies, usually arranged according to the various moral issues to be explored in business ethics courses. Sometimes these are marketed as a companion volume to a standard textbook, which while elucidating principles

of business ethics may still need additional examples to show how the principles are to be applied.

If we ask why case studies are so common in business ethics, we may have trouble finding an answer. Case studies are to be found in the other disciplines featured in a business degree program. There are cases in business law, accounting, finance, marketing, etc., so why not also in business ethics? However admirable the desire to integrate business ethics into the business school curriculum, are case studies the best way to do it? A moment's reflection may help clarify the situation. While the fields represented in any standard business school curriculum generally claim to be forms of applied science, the overall result is the formation of another of the liberal arts. Business management is an art, not a science, though clearly it is informed by various findings from the sciences. Case studies—like various forms of apprenticeship—are especially appropriate in the liberal arts, because they offer narratives, that is, thick descriptions of challenging situations, real or imagined, that students are challenged to address as problems to be solved. Success in solving the problem usually depends more on mastering the details of the narrative, and interpreting their practical meaning, rather than simply applying some set of principles learned beforehand. Case studies, then, are a practical demonstration of American pragmatism, understood as a philosophy of progressive education, focusing on the individual's capacity to learn from experience. Since business students are usually lacking in the experience of managing a business, case studies are created from various stories—culled from contemporary accounts in the news media, personal interviews, or other pathways for business research—in order to put them in the shoes of managers who must diagnose a problem and find a workable business solution to it.

There is also a question about the specific nature of business ethics and the role of case studies within it. From a review of the standard textbooks, we know that in recent years business ethics has emerged as a separate field in the academic study of applied ethics or applied moral philosophy. In the English-speaking world, moral philosophy had been closely identified with British analytic philosophy, and generally had remained aloof from anything practical, until John Rawls published *A Theory of Justice* in 1971. Though steeped in the tradition of analytic philosophy, Rawls sought to restore the practical relevance of philosophical ethics, by proposing a way of achieving moral consensus on difficult social questions, as implied by his focus on justice. The first wave of business ethics textbooks appearing in the late 1970s/early 1980s often contained a series of applications of Rawls' theory. If Rawls provided a theoretical model for developing business ethics, the shifting political and cultural climate that brought Margaret Thatcher and Ronald Reagan to the pinnacle of political power in the UK and the USA provided an ideological rationale for it. In the face of the previous decade's emphasis on government imposed standards of social responsibility in business, the Thatcher and Reaganite argument for massive deregulation of markets and corporations lacked credibility so long as people generally remained skeptical of businesses' capacity for self-regulation. Business ethics, willy-nilly, provided a refutation of this skepticism, by demonstrating not only that corporations have cultures that reflect basic moral values, but that they can be relied upon to act morally, if managed properly.



Initially, however, case studies were not yet focused on the formation of a corporate conscience, and instead were used to illustrate the application of principles derived from the study of ethics or moral philosophy. The principles, usually involving a very high level of generality, were developed on the basis of philosophical analysis, and then applied to the specifics of various issues in business ethics. The case studies that allowed the demonstration of their relevance to business or managerial decision-making were usually taken from the news media. A particularly memorable one of these is the Ford Pinto case, based on a controversial article published by *Mother Jones* magazine in 1977.<sup>2</sup> Ford was accused of recklessly endangering the lives of its customers for the sake of maximizing profits. It had designed and marketed the Pinto, a very popular model in the emerging American compact car market, knowing that its gas tank was vulnerable to rupture and explosion in the event of a rear-end collision. Ford's deliberate malfeasance was alleged on the basis of a memo leaked to *Mother Jones*, allegedly showing that Ford's executives followed cost-benefit calculations indicating that it was cheaper to reimburse accident victims than to recall all Pintos and actually fix the problem. Though further investigation showed that this memo had been distorted and taken out of context in order to support the *Mother Jones*' expose, the authors of standard business ethics textbooks used the Ford Pinto case to demonstrate, minimally, the difference between cost-benefit analysis and a responsible application of utilitarian moral principles, and maximally, the need for deontological principles that respect that absolute value of a human life over teleological principles—like utilitarianism—where lives may be at risk when their value is measured against the greatest good for the greatest number.

This particular use of a case study—that is, a case study conceived as a vehicle for illustrating the practical relevance and application of a moral principle derived from other sources like philosophical or theological ethics—hardly exhausts the possibilities for case studies in business ethics. Harvard Business School, for example, had been using case studies in its business courses for years as a means of teaching managerial skills in problem solving. Case studies were useful not primarily for illustrating the application of principles but for discovering what might be a problem and the diverse resources, including moral considerations, which would help to solve it. When a program in business ethics was organized at Harvard, not surprisingly its use of case studies reflected assumptions that had been operative in the School's curriculum for many years. From this program emerged an important textbook, *Policies and Persons: A Casebook in Business Ethics*, authored by Kenneth Goodpaster, John B. Matthews, and Laura Nash (1985).<sup>3</sup>

This groundbreaking effort essentially turned the use of case studies in business ethics on its head. It did not begin with the application of principles but with a process of discovery by which an appeal to principles might emerge from a careful investigation of the facts of the case. In order to qualify as an effective case study, the cases had to be relatively lengthy and open to diverse interpretations. Ideally, students with some background in one or another business discipline might work together in teams or task forces to determine what sorts of expertise might be most relevant in coming toward a solution. As is clear from the introductory material in

the original edition of *Policies and Persons*, moral philosophy was to be introduced on a need to know basis. A few very rudimentary schemes mapping the basic logic of different ethical perspectives was given, in order that students might have a grid for conveniently locating their own moral intuitions and those of their colleagues. Particularly instructive was the presentation of the Ford Pinto case in *Policies and Persons*. Unlike previous treatments, it went beyond the *Mother Jones* article to question what Ford management knew, and when did they know it. Students were given sufficient clues to restore the memo allegedly demonstrating Ford's malfeasance to its original context, as a way of reopening the question of what, if any, moral standards had been violated. In this version of the case, it was clear that Ford had a problem, but not at all clear that the problem was due to a massive failure in business ethics. The focus could shift from blaming Ford executives in particular, or issuing another blanket denunciation of corporate greed and the inherent immorality of capitalism, to actually diagnosing what, if anything, had gone wrong at Ford, and what, if anything, to do about resolving the problem and restoring Ford's tarnished reputation.

Once I discovered the approach to business ethics case studies, pioneered by the Harvard team of Goodpaster, Matthews, and Nash, I routinely set it to work in my courses, both at the undergraduate and at the MBA level, both in the USA and in Asia, where I have occasionally taught business ethics since 1996. One advantage of their approach is that it successfully integrates business ethics into the business curriculum as a whole. Given the origin of business ethics in applied moral philosophy, it is not surprising that standard courses tend to take students away from business and into the seductive and sometimes distracting questions of philosophy. By focusing primarily on the situation and its specific facts, the Harvard approach is preferable precisely because it keeps the focus on managerial decision-making. What is the problem, and what can be done to address it? If the point of a business education is to assist in the development of effective managers and business leaders, business ethics must be taught in such a way that it supports that goal without leading students away from it.

Another important lesson I learned from using case studies is that—as Laura Nash pointed out in her own textbook, *Good Intentions Aside: A Manager's Guide to Resolving Ethical Issues* (1990)—there are two types of ethical problems: Type A: The Acute Dilemma, and Type B: The Acute Rationalization. While both may emerge in the analysis of business ethics case studies, they may require very different responses. Type A problems occur when the situation is ambiguous and the morally correct outcome is not obvious. Such problems may be addressed by introducing students to a moral decision-making model designed to enhance their skills at identifying moral issues and the resources for resolving them, but within the context of the situation presented by the case study narrative.<sup>4</sup> By contrast, Type B problems occur when the basic moral issues are or ought to be clear, but the managers involved lack the will or the authority to do what is right in response. Instead, they rationalize their moral failure, by willfully ignoring certain key facts, or denying responsibility for their actions, or any number of other stratagems designed to evade confronting the nature of the challenge they face. Type B problems, in my experience, are best

addressed by attempting to reorient the imaginations of those involved. Ultimately, such problems suggest the indispensable role of spirituality, including the need we all have of intellectual, moral and religious transformation.<sup>5</sup>

It should be obvious that both Type A and Type B problems occur universally in all human cultures. Nevertheless, their solutions are not likely to be found by focusing on abstract universals. Instead, as I've already noted, case studies must be allowed to grow from and reflect the values and experiences of specific cultures. When such culturally appropriate case studies based on local knowledge are not readily available, teachers—regardless of their own backgrounds—can and ought to show their students how to create their own case studies and present them. I have done this in my courses not only at Hong Kong Baptist University (HKBU) but also in other Asian venues. In each of these settings, students were encouraged to monitor local news media for stories featuring incidents involving business ethics. They reported these incidents in class and then together we selected those that had enough depth or complexity to merit further study. In each venue their selections reflected their specific experiences and concerns. In developing their group presentations they were urged to use the business ethics decision-making model previously presented in class in order to identify the moral problem, and explore possible solutions to it. Their case studies research later was written up and submitted as their final chapter for the course. I can personally testify to the capabilities of our Asian students, who have no difficulty finding their own case studies, once they are properly instructed.

Because the case studies were student generated, they embodied an open-ended discovery process similar to that encouraged by the Harvard case study method and pedagogy. Students did not start with principles and then seek stories to illustrate them. They started with situations that had attracted media attention precisely because the stories reported raised some question about the local community's ethical expectations or standards, and their enforcement or violation. Thus, for example, students from Hong Kong developed a story about the ParknShop supermarket chain, which had been accused of mislabeling fish for sale in order to enhance profits, a scheme that was discovered when customers became sick from eating the mislabeled fish. Once it became clear that the mislabeling was not the result of an honest mistake, and after a week or so of the supermarket chain trying to cover up what had happened, the students had a case study capable of teaching certain fundamental points in business ethics about marketing, product safety, transparency, and accountability. Similarly, another group of students—all classmates from mainland China—developed a case study on the coal mining accidents that had occurred that semester in their homeland.

In order to prepare their case studies, students needed some supervision from their instructor, but above all they needed easy and unfettered access to the Internet and some skill in creating PowerPoint presentations. Students did not need to have a deep background in philosophy, theology or religious studies. The overall approach of the course to ethics was that of critical reflection. Students like all human beings have been making moral decisions for quite some time. While they didn't need to have morality shoved down their throats, they did need to develop

skills in recognizing what they were already doing, and how they thought about it. Thus they were encouraged to analyze the logic of their own reactions to situations they already judged to be moral or immoral. Certain general rules or principles may emerge from their own experience, but their recognition is based on their own reactions rather than imposed upon them by some external authority, particularly a foreign one. Once they see how their own expectations already embody moral experience and knowledge, they can learn to trust these “moral sentiments” and use them to focus their analyses on the moral dimensions of whatever problems they have singled out for further study.

The acquisition of moral knowledge through case study reflection thus is incremental, nonlinear and unsystematic. But since what is learned is grounded in experience and understanding it is more likely to be retained than a systematic outline of principles memorized in order to pass an examination. Over the years I have discovered but one basic pedagogical principle: Nothing is so irrelevant as the answer to an unasked question. Too often, our students are confronted with courses in ethics in which the answers are explained with little understanding of the questions that have shaped them. Proper use of case studies in teaching business ethics allows students to explore morality from the bottom up, starting with their own reactions to what they experience in their own lives. Our pedagogical materials, such as case studies, can and ought to facilitate their learning experience. They are more likely to do so, if the case studies are either culturally appropriate—that is, already based in local knowledge—or allowed to emerge from our students’ own experience of living and working.

## **Corporate Codes of Ethics: A Case Study**

With this teacher’s personal testimony in mind, let us turn now to examine corporate codes of ethics. In light of the resistance that such codes often provoke among Asian managers and students, what can be said for still including them in courses on business ethics? Since policy mistakes in business can be very costly, the question arises whether they could have been avoided on the basis of a corporate code of ethics? There is no clear answer to this question, for such codes can be part of the problem or part of the solution, depending on how they are formulated, and whether they are well integrated into the routines by which the firm conducts its business. In addition to the normal challenges involved in developing a credible and effective code of ethics, there is the further question of what happens when the moral norms and expectations vary significantly from one culture to another, in which the firm has operations. Whose standards should apply? Can codes be developed on a one-size-fits-all basis, or should they be adapted to local conditions?

You may recall, for example, the Toyota sexual harassment case a few years ago, when the firm was successfully sued in the USA for damages amounting to US\$190 million, by a Japanese employee, when she was sexually assaulted by her Japanese boss, both of them working for Toyota in the USA.<sup>6</sup> The lawsuit was settled out of

court for an undisclosed amount of money, but given the embarrassment it caused Toyota, and the prominence of the executives involved, it is reasonable to suppose that the settlement was quite substantial.<sup>7</sup> Newsmedia accounts of this incident suggest that Toyota's management was insufficiently aware of the seriousness with which sexual harassment charges are viewed in the USA, or the severity of the penalties involved, if the charges are proven in a court of law. Could this incident have been prevented by appropriate stipulations in a corporate code of ethics? Perhaps. But, if so, whose cultural standards ought to apply? If Toyota is operating in a foreign country, like the USA, should its management practices in its USA operations conform to moral standards embedded in the business culture of the USA? Should Toyota be forgiven, if it simply assumed that the policies and practices honored at its home offices in Nagoya were sufficient guidance to its managers in a foreign country? The specific incident is particularly perplexing inasmuch as the Senior VP to whom the employee made her sexual harassment complaint apparently mishandled the situation, thus provoking her lawsuit. One might reasonably assume that he should have known better, since he was an American who could have alerted top management to the seriousness of the situation.

I don't intend to resolve the complex legal and moral issues involved in the Toyota case, but to focus on what can be expected from corporate codes of ethics. Can they actually prevent such problems from either arising or being mishandled once they do arise? In exploring corporate codes of ethics and their effectiveness in courses on business ethics, I've found it useful to make case studies of them. Here I will examine the work of the Hong Kong Ethics Development Center (HKEDC),<sup>8</sup> the educational arm of the ICAC, which since 1974 is regarded as having spearheaded Hong Kong's success in minimizing corrupt practices, e.g., bribery, extortion, kickbacks, and other questionable payments, particularly in the public sector. I cite this example because it demonstrates that at least one Asian community, Hong Kong, not only sees the need for such codes, but also has invested significant resources in promoting their development among local businesses. Here are some key quotations from the HKEDC statement:

**Why Should a Company Have a Code of Conduct? (HKEDC)**

An effective code of conduct reduces costs and enhances profits because it reduces incidents of corruption, fraud and other malpractices; it reduces conflict of interest situations; it enhances the trust of your customers, suppliers and contractors; it enhances the credibility of your buyers and salespersons; it enhances the loyalty of your employees and the goodwill of your company; and ultimately, individual companies as well as the Hong Kong business community continue to enjoy a reputation of honesty and fair play.

**What Is a Code of Conduct? (HKEDC)**

In its simplest form, a code of conduct is a written statement of the standard of behavior expected by a company of its management and employees. Some codes are more elaborate. They explain the company's business philosophy and values governing corporate conduct in achieving business goals. There are companies that include in their codes of conduct a detailed set of operating principles for management and staff to follow in dealings with customers, suppliers, contractors, public officials and any parties who have a relationship with the company. The broadest form of codes covers all of the above as well as company's policy regarding social issues which affect the community at large.

**Who Needs a Code of Conduct? (HKEDC)**

A business organisation needs a code of conduct if it is interested in developing long term interest; it regards its reputation a valuable asset; it is determined to prevent corruption, fraud and other malpractices; it regards corporate culture as a vital part of good management; and it sees itself as a responsible employer and a contributive member of the Hong Kong business community.

I would add that a business needs a Code of Ethics if it expects to compete successfully in a globalizing economy. The Code gives assurances to investors and all other stakeholders that the business will conduct its affairs consistent with basic standards of international business ethics. If the business hopes to compete in a globalizing economy, it must present itself in ways that address the legitimate concerns of its foreign investors and other stakeholders.

The HKEDC statement is as revealing in what it doesn't say as in what it does say. Though the rationale is stated in terms that are reassuringly international, the values appealed to—trust, credibility, loyalty, goodwill, and a concern for reputation—are unmistakably, though hardly exclusively Asian. The values may represent the ancient wisdom of Chinese culture, while the formulation of a code of ethics is merely a new means for achieving perennial business goals. The statement defining a code of ethics remains deliberately flexible and open-ended. The purposes of business in Hong Kong are diverse as are the organizational structures and cultures that seek to realize these purposes. Thus the HKEDC gives no set formula for developing a code, but an invitation to explore the possibilities inherent in one's own business model. The answer to the question of who needs a code of business ethics strictly focuses on business considerations. There is nothing in the statement containing the kind of abstract moralizing that, apparently, makes it very difficult for most people in Asia to take such codes seriously.

The HKEDC statement also contains a "Sample Code of Conduct" meant to serve as a template for businesses seeking to develop their own codes. Although this template is no longer a prominent feature of the HKEDC's effort to promote business ethics in Hong Kong, nevertheless, it is instructive, particularly, with regard to the tacit demands for high ethical standards in international business, and the difficulty of reconciling these standards with local business cultures and customary practices. Not surprisingly, given the ICAC's mission, it places heavy emphasis on questions of bribery and other failures of fiduciary responsibility.

The HKEDC claims that a substantial number of the major companies in HK, most all of them involved in international business, now have such Codes. Maybe so. But the Codes may be more a reflection of HK's relatively "clean" business environment, than the cause of it. Most small HK businesses, which compete primarily in local Chinese markets, have yet to be reached by the HKEDC campaigns.

Here is an outline of the HKEDC Sample Code of Conduct:

**Personal Conduct of Directors and Employees**

Bribery, Illegal Gifts and Commissions  
Prevention of Bribery Ordinance  
Soliciting Advantages

- Accepting Advantages
- Offering Advantages
- Entertainment
- Use of Proprietary Information
- Handling of Conflict of Interest Situations
- Misuse of the Company's Assets and Resources
- Loans
- Personal Conduct Outside Hours of Work, including Outside Employment

#### **Relations with Suppliers and Contractors**

- Fair and Open Competition
- Meeting Public Interest and Accountability Standards
- Procurement and Tendering Procedures
- Bribery and Corrupt Practices
- Payment Procedures

#### **Responsibilities to Shareholders and the Financial Community**

- Attractive Return in Terms of Increased Earnings and Long-term Growth
- Honest Disclosure of Information
- True and Fair Accounting Policies and Practices
- Insider Trading

#### **Relations with Customers and Consumers**

- Service to Customers
- Commitment to Offering Quality and Fair Value
- Products Safety and Fitness for Use of Goods
- Expedient Product Recall and Related Practices
- Product Policies
- Pricing Policies

#### **Employment Practices**

- Occupational Health and Safety
- Equality of Employment Opportunity
- Individuality
- Communication
- Development and Remuneration
- Policy and Practice on Alcoholism and Drug Dependence

#### **Responsibilities to the Community**

- Environmental Policy
- Support for Community Activities
- Policy and Practice on Donations
- Charitable Donations
- Political Donations

#### **Monitoring of Compliance and Means of Enforcement**

- Understanding and Compliance of the Code of Conduct
- Violation of the Code of Conduct
- Complaints

As you can tell from this outline, the HKEDC sample Code of Conduct is meant to be comprehensive and is emphatically legal and bureaucratic. That is, it is not the expression of a moral "Vision" or a statement of "Values" or even a list of promises to various stakeholders. Instead, it is closely geared to existing commercial law in Hong Kong, and the internalization of the ICAC's regulatory agenda within the policies and procedures of the businesses themselves. In a word, it is about "Compliance."

To be sure, one question that inevitably arises when businesses seek to heed the advice of agencies like the HKEDC and develop their own Corporate Codes of Ethics is how effective are they in fulfilling these goals? Has business ethics improved because of the development of such codes? The results are mixed, but they are instructive: If the code is merely a public relations ploy, mainly for external use only, they will only increase cynicism about the firm's ethical commitments. If the code emerges from a consultative process in which all the firm's stakeholders can "take ownership" of the project, if its implementation involves the firm's reward system, so that employees see there are real consequences for either adhering to it or ignoring it, it may become a very useful resource for sound business management.

## **The Learning Curve on Corporate Codes of Ethics**

### ***What Lessons Then Are to be Learned by the Study of Such Codes?***

1. Lesson 1: Hypocrisy breeds only more cynicism. If the Codes, or Mission Statements or other public expressions of corporate philosophy are done merely in order to hide the firm's wrongdoing, or to lull its stakeholders into relaxing their vigilance, it will surely undermine business ethics rather than support it. A firm would be better advised to be silent about its "Vision" and "Values" rather than put on a hypocritical display of them.
2. Lesson 2: Adopting a Code may be only the tip of the iceberg, regarding the changes that may come along later. A Code or Mission Statement must be institutionalized, and made a routine part of the company's actual reward system, if it is to be relied upon in a time of crisis. It is a great mistake to think that the work is done once the statement is formulated, adopted, and published in corporate communications.
3. Lesson 3: Similarly, if a Code or Mission Statement is to be a living document with real meaning for all the firm's stakeholders, it must be the result of a consultation process in which all participate. Without properly consulting the rank and file members of the organization who must live by the Code that is adopted, it is not likely to become an integral part of the organization's corporate culture.
4. Lesson 4: It is not obvious how Codes of Ethics may solve the cross-cultural challenges with which we began this case study. If Toyota had been following the HKEDC sample code, it might have avoided the confusion over processing sexual harassment allegations in the USA. The HKEDC template simply requires us to follow the law. That means, whatever is the law in the local jurisdiction where the firm is operating. In theory, the HKEDC template might allow for the possibility of different policies in different cultural settings. The code may be left deliberately vague in order to be inclusive of a diversity of cultural perspectives, but it must provide clear guidance on basic respect for all human beings. Given that



basic respect is a moral value honored in virtually all cultures, the actions of the Toyota executive (amounting to attempted rape, as well as various forms of intimidation) would be impossible to justify or excuse in any cultural setting, once they are properly understood.

## Conclusion

One way to look at Codes of Ethics is developmental. The teaching of business ethics, even in a required course in college or graduate school is no guarantee of sound business practices. Everything depends on basic moral and spiritual formation at home and in the community, on the one hand, and how the ethics learned in school is reinforced by corporate policies wherever one is working in later life. A course in business ethics, even when done by an inspirational and effective teacher, is no substitute when these other elements are seriously deficient.

Nevertheless, a Code of Ethics may have its own role to play in supporting the moral education that an employee has already received, and in the following ways: A business that not only has a Code of Ethics, but also tries to integrate it into its internal reward system and performance appraisal routines, is one that ought to be recognized as a “Good Company.” If I work for a “Good Company,” I may actually find myself becoming a better person. In my experience, working for a well-managed business or organization—even a university might qualify—can actually make me a better person than I would have been, left to my own (de)VICES. Because none of us is likely to be a sage or a saint, we need both guidance and accountability for our actions in carrying out our managerial responsibilities. Both guidance and accountability can be obtained through a well-developed Code of Ethics. If the Code is carefully constructed and generally respected, a manager no longer need face the pressures of moral decision-making alone, relying solely on his or her own sense of what is right and wrong. Judging from what I’ve heard from the businessmen and women I’ve worked with over the years, they will be the first to tell you that it is easier to make the right decision in a difficult situation when you know you have the support of the company behind you.

## Notes

1. For information in English on the Chinese classic, *Journey to the West*, and access to both Chinese version and English translation, see the Wikipedia essay, “Journey to the West,” available online at [http://en.wikipedia.org/wiki/Journey\\_to\\_the\\_West](http://en.wikipedia.org/wiki/Journey_to_the_West). Accessed online 7 June 2012.
2. The article, written by Mark Dowie, “Pinto Madness,” appeared in the September/October, 1977, edition of *Mother Jones*. It is available online at <http://www.motherjones.com/politics/1977/09/pinto-madness>. Accessed 5 June 2012.

3. This book has gone through several editions, the most recent of which appeared in 2005. Of the 59 case studies featured in this edition, 27 are new. Thanks to the work of a new co-author, Henri-Claude de Bettignes, this edition specifically addresses the question of incorporating the wisdom of Asian philosophies, and thus should assist in the development of culturally appropriate case studies in Asian business ethics.
4. The development of moral decision-making models is a familiar exercise in business ethics textbooks. Three of these are usefully summarized in Chapter Three, “If you analyze case studies from different perspectives, you will discover the benefits of fair play,” in Stephan Rothlin’s *Becoming a Top Notch Player: Eighteen Rules of International Business Ethics* (a bilingual—Chinese and English—textbook translated by Zhang Quiwei, and published by Renmin University Press) (Beijing: 2004).
5. Type B problems provide an opportunity for students to discover their own deepest Self, and to embark upon one or another path of self-cultivation, as offered by the various traditions of moral and religious wisdom available in their cultures. My own attempt to point out, for example, the convergences between Christian and Confucian paths of self-cultivation and their relevance to business ethics may be found in an essay, “Business Ethics in the Perspectives of Christian social teaching and Confucian moral philosophy: Two Ships Passing in the Night?,” published in the *Journal of International Business Ethics* (Vol. 3, No. 2, 2010), pp. 16–28.
6. Cf. *Bloomberg Business Week*, report (May 22, 2006), “Trouble At Toyota: Behind the sexual harassment suit roiling the carmaker’s U.S. executive suite,” available online at [http://www.businessweek.com/magazine/content/06\\_21/b3985078.htm](http://www.businessweek.com/magazine/content/06_21/b3985078.htm). Accessed online 5 June 2012.
7. Cf. *New York Times* report (August 5, 2006) by Micheline Maynard, “Automaker Reaches Settlement in Sexual Harassment Suit,” available online at <http://www.nytimes.com/2006/08/05/business/worldbusiness/05harass.html>. Accessed online 5 June 2012.
8. The quotations are taken from the HKEDC pamphlet, “Practical Guide to Corporate Ethics Program” which at one time was included in the library at the HKEDC website. The successor pamphlet containing similar information is “Business Ethics – Your Way to Success (An Information Kit for Business Organizations) (Eng & Chi).” <http://www.icac.org.hk/hkedc/eng/library2.asp>. Accessed online 27 July 2011.

**Part IV**  
**Towards a New Paradigm of Business**  
**Ethics in Asia**

# Chapter 13

## Can Business Schools Lead the Way to a World Worth Living In?

Henri-Claude de Bettignies

*“We are made wise not by the recollection of our past, but by responsibility for our future”.*

George Bernard Shaw

The multiform crisis our planet is experiencing has created an opportunity for business schools to rethink their role in society and their responsibility toward future generations. By challenging their dominant teaching paradigm, by redefining the models they transfer and by redesigning their curriculum, business schools can develop the corps of responsible leaders who are required for the society of tomorrow.

To get this process going we must develop a shared awareness of the multi-causality of our planet’s current crisis, a vision of the kind of society, we want, the imagination to think the process through, a basic agreement on how such a society can be built and, finally, the will to engage the responsibility for moving into action.

The recent work that an international group of scholars, leaders and policy makers<sup>1</sup> produced for the 50+20 Agenda is very explicit, both in blowing the whistle and in recommending action: “We need a new kind of society including a revised economic framework to reassign economics to its appropriate status as a subject of a larger system, not its center. To achieve this we need responsible leadership for a sustainable world”.<sup>2</sup> This paper is a modest contribution to identifying a path toward this goal, via a challenge to the dominant model promoted by most business schools today, and offering proposals to initiate a paradigm shift in management education.

As early as 1972, a report by the Club of Rome warned us that the planet had a finite capacity to support us. Since then much has been accomplished: fewer people

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live in poverty, more children are in schools, and some illnesses have been quasi eradicated in spite of burgeoning population. But now we are eight billion, and will be nine billion within less than two decades. Numerous experts warn us that human activity has already crossed critical boundaries in three areas: climate change, biodiversity loss and alteration of the global nitrogen cycle. Our actions are triggering a series of tipping points, risking irreversible damage to ecosystems and communities. The task of creating a world worth living in is a megaproject that dwarfs anything our society has attempted in the past.

Following comments on the role of business schools today, I will review our present situation, and the predicament we are in, before proposing paths toward responsibility and action.

First things first: why call on business schools? Why should they take the lead in influencing the process of developing a better society for tomorrow? The answer is found in the dominant role that these specialized academies play in shaping the minds of today's leaders, in and around the world of business. They train future leaders through MBA programs, guide middle managers with efficient tools and models, and exert a continuing influence over boardrooms through top executive forums, colloquiums, seminars and workshops. Furthermore, business schools clone themselves by the parthenogenesis of the PhD programs that train following generations of their faculties. Ambitious MBA graduates make quick careers in banking and finance, in consulting, services and industry, while top teams of large corporations (MNCs or not) are increasingly crowded with MBA graduates, offering mother schools the chance to point with pride to the number of their alumni and alumnae seated in chairs of CEO or Chairman. In addition to the enormous number of business leaders and decision-makers that these schools send to private firms large and small, they also produce a steady flow of academic research that promotes dominant management models and influences the thinking of public officials as well as business managers. In short, today's business schools have assumed a significant role in shaping the mindset of movers and shakers at a time when the enterprise is the dominant institution of our society. It is the enterprise that creates value, jobs, products and services, pays taxes, generates R&D knowledge, contributes to community philanthropy, supports education, trains employees, transfers technology across cultures, etc.... This preponderant role gives the corporation and its leaders great powers and dominating influence over society and government alike. (Political contributions are never free of charge; lobbying is not innocent.) Business leaders cannot escape their share of responsibility for the world we are living in; nor can the business schools that have shaped their mindset dodge responsibility for the behavior of the men and women whom they have "programmed" through their education process. It is hardly surprising, then, that the civil society that gave corporations license to operate now complains of their behavior and assigns them responsibility for the multi-crisis we are now facing. Naturally enough, business schools, too, have come under scrutiny during these last years – and criticism is not limited to the media and public opinion. Some lonely voices are beginning to be heard from within their faculties "for being too customer and business focused at the expense of professional orientation and public contribution.... On one hand, the challenge for

management education is achieving re-legitimization, particularly in the wake of corporate scandals and financial and economic crisis. On the other hand, management educators are challenged to fundamentally rethink their fundamental purpose”.<sup>3</sup> Initially, business schools feigned not to understand the legitimacy of the criticisms levied against their “house values”, the mindset they develop and the managerial attitudes and behavior their education tends to promote. Today still, many economists – often those with a leading role in promoting the dominant business school paradigm – refuse to acknowledge the limits and flaws of the neo-liberal model that irrigates the minds of their faculty colleagues.

The training of business leaders has been a flourishing industry for the past 30 years, but one could question whether this industry has produced “responsible leaders”. No statistics are available on the number of MBA graduates in jails around the world, and the various media report only those scandals that bring leaders to court for abusing shareholders and/or clients. But it is clear that the picture would not be pretty if all the commercial stones were turned over for a view of what lay beneath.

## **The Multi-crisis**

The financial crisis and its aftermath epitomize the dysfunction of the dominant model of business practice. The hubris of the banking and finance sectors’ leaders, the sophisticated models of their researchers (business school PhDs), the greed and risk-taking of their traders (business school MBA graduates), the reward system, the reliance upon ultra-high-speed computer technology – all of this coalesced into a witches’ brew that swelled the speculative bubble and then brought it to explosion. The AIG crisis, the Bear Stearns and Lehman Brothers collapses vividly illustrated the hubris of the financial sector, and the deterioration of its image already sullied by cases such as Madoff, Stanford, Enron and the like. More recently, Barclays pitched in to do its part with the LIBOR issue. If one adds the issue of top management and traders, obscene compensation (e.g. in investment banking), the public disclosure of vast treasures hidden in fiscal paradises with the encouragement and complicity of many banks and audit firms, one should not be surprised by the loss of credibility of business and its leaders, particularly in the financial sector.

A stark fact pointed out by the Caux Roundtable<sup>4</sup> is that false assumptions underlay the financial crisis. “Financial markets left on their own self-behave.” The truth is that they do not. “Ongoing returns several times the underlying economic growth are sustainable.” They are not. “Models make it possible to control risks.” In reality, the storm of irrational exuberance swept away transparency and concerns for the underlying risks. The exuberant led the blind in a climate of greed and excess. Regulators monitor financial transactions, but in complex and opaque structures, they often did not fully understand the risks. It is natural for compensation to be linked to performance, but in a climate of greed and narrow self-interest, executives were shielded from the appropriate liability for their decisions...

It is not hard to understand why trust and confidence in the market nose-dived when civil society realized that huge private losses would be funded by public money, and that private gains were internalized while losses were externalized, thanks to the compassionate hand of friends in government. A society that has lost trust in business is in danger. When the lack of transparency in transaction is cultivated through complexity, fine prints, deceptive advertising and other customer-abusive practices, when fiscal fraud and tax evasion become the daily game of the rich, we should not be surprised to find the young generation searching for meaning, while their parents are lost in anomia and uncertainty.

The global financial crisis has been a magnifier of a systemic emergency wherein business malfeasance has linked to ecological, social, geopolitical and civilizational crises. The fall of Lehman Brothers illustrates just how thoroughly the model of ultra-capitalism has failed over the past 30 years: in its impact on climate change and biodiversity; in the monumental gaps it has produced in income differentiation, whereby obscene wealth exists cheek by jowl with extreme poverty, reducing to a cruel joke the ancient ideal of “living together” on our shared planet; through the divorce between the real economy and the speculative economy, at a time when our entire modern civilization is organized around *res economica*. Excess and hubris seem have been kneaded into our society. We are flooded with advertisements that promote desire (to be beautiful, healthy, happy, smelling nice and being well liked) and covetousness (to have, to possess, and to grasp always more). The more we live under the pressure of competition, the faster we run; the more we live under stress, the more we need to be lured by the promise of beauty, serenity, friendship, peace or further possession. We have produced a world of hyper-consumption in which there is a shortage of water, hygiene, housing, etc. Not even to mention jobs.

We do not need to save the planet – it existed before us, it will continue after we are gone. We need to save the human race.

Yes, it is that serious. The financial crisis is in the news these days because of its consequences of slow economic growth, recessionary risks and unemployment. But it is only one of the components of our global crisis of civilization.

Clear-eyed business leaders must begin to see that climate change is increasingly obvious, and the failure of the Copenhagen summit should be high on their list of concerns. Unfortunately, too few of them have taken the long view as both renewable and non-renewable resources are depleted. It is not just oil, water and gas. We see the steady decline of the tropical rain forest, of biodiversity, of ocean resources, and a host of natural resources that our planet holds in finite quantity. Free market ideology, in the form of a fundamentalism of untrammelled commerce, has now percolated throughout the world to its most remote corners. It is generally assumed to be the solution for improving the quality of life on the planet, with the genie of technology as a backup to fix any problems we may create. Unfortunately, the “late” Washington consensus, the one that was supposed to deliver an optimistic plan for development (catch-up processes, trickle-down effects and the like) did not anticipate the dysfunctions it brought about with its growth model. The catch phrase “liberalize, deregulate, privatize” was not without some benefits, but it also had a number of perverse consequences. Mature and developing economies alike continued to take more and more from nature while ignoring environmental depletion and deterioration. Rather than internalizing the true environmental impact of

the race for growth, we have passed this difficult choice on to future generations. Working on the assumption that nature offered a limitless capacity to supply materials and to absorb damage, this consumption-driven capitalism has produced a number of negative consequences that are bound to call its fundamental premises into question.

Beyond climate change and the environmental crisis loom an energy crisis (after the peak oil), and a water crisis (with the coming water wars), but that is not the end of the gloomy story. Less tangible but potentially even more debilitating is the values crisis that is striking particularly hard at the younger generation in search of ideals around which to articulate their life choices. This search for a meaningful life of worthy values is becoming a real preoccupation among Asian youth today, even as the Western, consumption-driven model appears to be dominating life. Amid the frenetic prosperity, more and more voices are beginning to challenge Western influence and the God of money. Keen observers of Asian reality are already questioning the wisdom of cloning the Western model.

The activist Chandran Nair in Hong Kong blows the whistle thus:

But accepting that we must end poverty does not entail embracing fast-track growth. And so Asia's second task is refusing to heed all figures who call for consumption-driven economies, be they government leaders, officials of multilateral institutions such as the World Bank or IMF, policy makers, economists or any others. Their continued advocacy of the win-win proposition of globalization – that open markets and free trade allow fast-track development, which in turn leads to wealth 'trickling down' from the developed world to Asian and then within countries of Asia from richer people to poorer people – is simply wrong. This will not happen. It cannot – because those who benefit from consumption-driven capitalism are not the consumers but business which has an incentive to focus on short-term gains regardless of their long-term cost. The lie at the heart of consumption-driven capitalism is to claim that it delivers the best results – that more people become better off than in any other type of economic system. This claim is a lie because it masks the benefits that flow to corporate interests from continuing to evade the true environmental cost of their activities. Until now, countries have excluded environmental costs, accepting the damage that has ensued as being a necessary part of development. That cannot be allowed to continue. Only by including such costs can we create the incentives to change behavior and so give our world a sustainable future.<sup>5</sup>

In such a context globalization seems akin to a high speed train without a driver, racing through uncharted territory not toward a land of milk and honey but rather the monstrous megalopolis of a hyper-urbanized planet victimized by its own achievements. Along the way, the passengers of this train experience multiple crises ("accidents"), but remain blind to the damage that track and train inflict upon the landscape, care little for inhabitants who have been displaced, left aside in slums and urban ghettos – and in any case have been excluded from the journey. In this context, men and women of power (e.g. managers and business leaders) are called upon to leverage their influence towards the transforming of business, in the goal of turning it to the service of society and future generations. To business schools falls the role of facilitating this transformation, through their education process, their production of knowledge and their function of advocacy. In the time-tested jargon of the trade, they are naturally expected to develop leaders who are not only "responsible", but "globally" responsible.



## Challenging the Dominant Model

Most business schools still keep on peddling the superiority of the neo-liberal paradigm under its different forms as described by Audier,<sup>6</sup> promoting the dominant model of relentless consumption in a society where homo economicus is a rational animal with self-interest guiding his behavior, where the hand of the market eventually produces the Common Good and where nature has a limitless capacity to supply materials and absorb abuse. In such a context, as C. Nair comments,<sup>7</sup> the successful entrepreneur should aim at maximizing shareholder value, via rapid exploitation of his competitive advantage. He should be encouraged to progressively outsource to cost-effective locations where factory workers are like machines, to externalize as many costs as possible while neglecting environmental costs, and to lobby governments for favorable or less regulation, ideally from toothless administrations. His reward would be a satisfied shareholder.

In many business schools today this thinking remains dominant. The Friedman-based model that privileges shareholder value provides the basic set of assumptions upon which core courses of the MBA curriculum and many executive education programs are built, implicitly or explicitly. In spite of the seemingly positive results of the neo-liberal model “to create” wealth – but not “to distribute” it – its limits and numerous dysfunctions are underplayed with the implacable “no alternative” argument. From the conference rooms and amphitheatres of the great majority of world’s 12,000 business schools echoes a predictable series of messages and assumptions that are increasingly questionable, such as:

- A narrow view of man: a rational animal driven by his own interest (inducing a glorification of self-interest, not always “enlightened”).
- The purpose of the firm: maximization of shareholder value (often inducing an “obsession” with the bottom line).
- Regulations: unavoidable constraints of government imposing compliance (to be explored for loopholes and creatively interpreted). Anything not illegal is acceptable.
- The hand of government: should be very light (guided by the appropriate pressure of effective lobbying).
- The hand of the market: “best mechanism for regulating it.”
- Everything has a price, and if it has a market it can be traded” (e.g. body parts, frozen embryos, reputation).
- In order to increase profit, implicit contracts can be broken (e.g. between the employer and the employee).

Clearly, when students, managers and leaders are exposed time and time again to such principles, one should not be surprised by corporate behavior or misbehavior. What is most surprising – and certainly worrying – is that present crisis has not served as a learning tool. After the global financial meltdown we have returned to business almost as usual, notably in the finance and banking professions. A good crisis has been wasted.

## Toward a New Paradigm?

Without falling into doomsday prophesying, we should be willing to acknowledge that environmental problems, biodiversity attrition, accelerating unemployment, natural resources depletion and income distribution gaps are examples of the complex and often interdependent issues that raise serious questions about our current development model. Can we imagine what responsible action should be taken?

Several propositions are most commonly suggested for reducing the current model's dysfunctions: carbon neutrality, CSR activities, the sustainability ideal, encouragement of social entrepreneurs, etc. But is this not simply treating symptoms rather than causes? With consumption exacerbated by advertising's treacherous breath while the financial sector promotes cheap credit to induce people to live beyond their means, we should not be surprised by the dysfunctional aspects of our societies' evolution. The ideology of consumption and the fetishism of "growth" inevitably generate the dramatic consequences mentioned earlier. The car industry can only push further, multiple ownership, the food industry is locked into the seductive logic of cheap junk food, and a million products are designed for built-in obsolescence. The perverse pressure to consume, even in such countries as China or India where emulation of the Western model has taken root, can only lead to a disaster of ecology and quality of life. Cloning Western consumption patterns would require three planets. Alternative models of development must be identified.

When a moral compass is required, laws, codes of conduct, norms, standards and principles cannot provide the full answer. Laws have loopholes, can be quickly obsolete and often are not effectively applied (China is an example). Corporations demonstrate great creativity interpreting, stretching and going around laws. Codes of conduct can be useful in presenting company values, enhancing a sense of belonging to a corporate culture, and for handling certain dilemmas, but translating codes and harmonizing them across cultures is fraught with innumerable difficulties. Norms and standards (e.g. ISO 8000 or ISO 2600) can play a useful role in drawing attention to important rules of safety, responsibility and standard practices, but they are ineffective for changing values at the top. The principles of the Global Compact, the Caux Roundtable and the OECD are laudable for promoting universal practices, and they do contribute to the creation of a level playing field on a planetary level. But, all too often, the voluntary nature of compliance and the absence of audit make them little better than useful PR exercises, largely toothless and quickly forgotten under global strategic and bottom-line pressures. Whistle blowing is a useful process, one to be encouraged – but with great care. Implementation is very sensitive in some countries, and it can easily be misused and generate dysfunctional managerial behavior. Recruiting "ethical employees" by use of recent instruments to measure integrity may not be a reliable exercise, given the doubtful efficacy of these tools. (Further, employee behavior is very context-influenced.) If this approach does not offer particularly effective means for sharpening the moral compass and inducing responsible behavior – all the more difficult to achieve when the firm's compensation system does not pull in that direction – then investment in education and training could be a path to explore. But

is it realistic? Can we teach ethics? Given the population of business school education programs, this long-term goal will not be easy to achieve. Ambitious young MBAs and middle managers will probably have been to a certain extent programmed by the system, their corporate culture, their KPI objectives and their bosses, while top executives laboring under the short-term pressure of financial analysts and shareholders may dismiss as pie in the sky any attempts to strengthen their moral fiber. I believe, however, that it is possible to encourage managers to give voice to their values and to bring them to an understanding of the positive consequences of aligning their behavior with ethical values.

What is needed is a paradigm shift. No shortcuts, no ready-made solution, no quick-lick fix, no one-size-fits-all. This is a difficult process, for it is a matter of some very fundamental redefining: of the purpose of the firm; of the nature of leadership; of managerial relations with all stakeholders; and of the role of the individual within the organization.

We must generate the capacity and will to acknowledge that our development path, which has created abundance in rich countries but scarcity on the planet, cannot be pursued forever. This path takes us to the wall. In refusing to internalize our transaction costs with the environment, we have created a real, palpable threat to our grandchildren's world. To view this crisis as merely an unavoidable series of incidents on our journey is whistling in the graveyard. The awareness of the need to change and return to the sustainability road is, however, growing – even if the political will is still often absent.

A new paradigm may be seen emerging today. It is one where the purpose of the globally responsible business is to create “economic and societal progress in a globally responsible and sustainable way”. In this definition, proposed by P. de Woot,<sup>8</sup> it is the individual who is placed at the center of economic activity. Several global networks (e.g. PRME,<sup>9</sup> GRLI, WBSCSB), and a few corporations in the U.S. and Europe are now implementing this definition, while some others are also exploring how to impart a leadership of wisdom. Of great relevance is the 50+20,<sup>10</sup> work of the Globally Responsible Leadership Initiative (GRLI)<sup>11</sup> and the concepts of the two co-founders of the World Business School Council for Sustainable Business (WBSCSB), Dr. Katrin Muff, Dean, Business School Lausanne and Professor Thomas Dyllick from the University of St. Gallen.

Management education, according to the 50+20 report, should have three fundamental roles:

- Educating and developing globally responsible leaders
- Enabling business organizations to serve the common good
- Engaging in the transformation of business and the economy

Implementation of these lofty objectives is indeed fraught with challenges. It requires a new breed of faculty and eventually a new type of business school, but the report provides directions for action, with examples, for each of the three objectives.<sup>12</sup>

Ideally, this paradigm shift should grow from intellectual and spiritual seeds sown in leading business schools, for, willingly or not, they function as role models

in the management education network. However, as this might be wishful thinking in view of the huge dominance of the neoliberal model that has percolated throughout the education of their faculty, we may have to create new, innovative, institutions or work with a few enlightened deans. It has to start with the deans, as they are the main actors in shaping the evolution of their schools, in setting priorities, in allocating resources, and in developing and monitoring implementation of their strategy.

We need to develop individuals well equipped to cope with a more complex world, to see their role as serving society and the planet, and taking a more holistic and balanced responsibility towards all stakeholders.

We need to challenge the growth frenzy of the past 50 years. It has only demonstrated that no matter how high the earnings, they are never enough. There is always an appetite for more.

We need to disconnect executive compensation from share performance and relate compensation to the holistic value created by the firm.

## **The Challenge of a Paradigm Shift**

We need to go far beyond the teaching of ethics. I write this even though teaching of ethics has been my life for the last 25 years. We need to initiate, encourage, and facilitate a true paradigm shift, to rethink the purpose of the firm, to challenge our models, to question the techniques and tools we teach, to unlearn, to critically assess the mindset that we have promoted through our management education process.

Currently, our education focuses on disciplinary knowledge, narrow functional understanding, and the development of analytical skills which are not conducive to action. We don't teach critical thinking – least of all in China! We emphasize knowing and doing but not being. What we are, in reality, is a good nursery for consultants and investment bankers, a network-building opportunity for managers and future leaders.

This paradigm shift is difficult, but not impossible. We have made ourselves prisoners of a game whose rules are of our own definition – a nicely ironic illustration of the 9 dots problem. We've got to define the problem differently. The issue is not to change the entire field of management education worldwide in one go, but rather to develop centers of excellence that will progressively serve as new role models. But the clock is ticking. We have to move fast.

Strong cooperation will be required among stakeholders in pioneering institutions. The foremost need is an enlightened dean who has seen the handwriting on the wall and is willing to take the risk of espousing the new paradigm and make the effort to coalesce several stakeholders around him/her. The Board must appreciate and value this visionary project, because the full support of governance is imperative. Faculty members, employees and students should not only manifest interest in the process, but be fully committed to the paradigm shift. To give more visibility to these pioneering institutions, accreditation organizations like AACSB and EQUIS

can play a critical role in both curriculum change and faculty recruitment. Farsighted corporate leaders, funding institutions and corporate employers of graduates could do their part to facilitate the movement for change.

Is the West – is Europe – ready to espouse a new paradigm based on the proposition that nothing can grow forever, that our addiction to consumption is lethal for the planet, and that intelligent frugality is the answer?

This new approach to business schooling can come only through a small number of key institutions around the world initiating the paradigm shift process, under the direction of enlightened leaders driven by vision and gifted with strategic courage. The society model they promote will be based on cooperation more than competition, equity more than on growth, frugality more than consumption, on harmony more than conflict, and development of social entrepreneurs rather than greed-driven young technocrats. These leaders will be tasked with reconciling contradictions and balancing dualities. They will promote globalization with equity, consumption with frugality, entrepreneurship with concern for society, and leadership overlain with responsibility and humility. In short, a management that embraces people and is committed to solidarity, compassion, the long term and sustainability. A dramatic change, indeed. It would be naïve to think that sailing to this blue ocean can happen easily and quickly, and that many institutions will share the journey worldwide. We will need to find a pioneers either by creating new institutions or through the action of a few enlightened deans willing to innovate and face the risk of guiding their institutions away from the pack of competitors.

## **Toward Implementation**

In conclusion, we have to re-evaluate the purpose of business schools. It is imperative to develop a vision, shared by stakeholders, of the kind of society we want, of the leaders we need, of the managers required. We need to change the curriculum of a wide range of our programs, maintaining an emphasis on the development of the whole person, the grooming of servant leaders, men and women with a holistic view of the world: people who understand the necessity of creating value for all stakeholders rather than for only one or two. Our new approach to management education should aim at producing men and women of character, guided by a solid inner compass and the critical thinking that allows them to clarify different perspectives into solutions for the messy problems of real life in complex, multi-stakeholder situations.<sup>11</sup>

This new paradigm will bring with it a different approach to management research: more transdisciplinary exchange and fertilization; more concern about its relevance to society and less about its contribution to “academic” publications in peer-review journals; a better balance of scientific rigor and relevance; dedication to making a contribution to society and commitment to the common good; turning away from the current vicious circle of career development based on publish-or-perish research evaluated by academic colleagues.

Here – as I mentioned earlier – the role of the accreditation organizations (e.g. AACSB, EQUIS) is crucial, for their process shapes business schools’ strategies and curriculum content. In view of their huge influence on business school strategies and administrative practices, they could become powerful agents for moving from the current neo-liberal paradigm to one of a more holistic, multi-stakeholder, shared-value model.

It is clear that schools willing to take to the challenging road of paradigm shift should be prepared to face the pressure of leading business school rankings (FT, WSJ, Forbes, etc.), a system rich with perverse effects on institutional strategy and management. The future is for the bold. Institutions obsessed with rankings will content themselves with little incremental improvements here and there, and that’s not enough.

To undertake this long journey of redefinition we need the backbone of a faculty committed to abandoning the current neo-liberal imperialism. Faculties bridging academia and practice hardly exist today – hence the necessity of reviewing PhD programs that groom the staffs of tomorrow. This is the most challenging task of all, a struggle against the self-perpetuating “reproduction” process à la Bourdieu of most PhD and DBA programs. The objective is ambitious. The few schools taking the lead in paradigm shift will be designing their doctoral programs to produce the faculty of tomorrow: keen to develop and share knowledge for an issues-based learning, concerned for the planet and its population alike.

A tall order. But we must be realistic – the clock is ticking, the risks are growing and our epoch’s dizzying speed of change only increases the uncertainties in which we live. We have no choice but to change ourselves and embrace the concept of sustainability for our planet and its entire population. Else we will spin out of control.

This is not just a call for a change of mindset. It means striking out boldly along the road to paradigm shift. It means abandoning Milton Friedman’s “maximization of shareholder value” for a more complex and subtle management of multi-stakeholder benefits, always with a long-term view. Nothing less will lead us to the sustainable enterprise we need. Leadership to manage sustainability will be an increasingly complex task, for it has to harmonize the interdependence of multiple stakeholders. Optimizing competitiveness through social cohesion, the sustainable company will need to generate a good value-proposition for its internal and external stakeholders. It will need to build its reputational capital and trust in order to keep its transaction costs low and insure a continuing, stable license to operate. The task is great, but the reward is a world worth living in.<sup>12</sup>

## Conclusion

In a heterogeneous, multipolar world stitched in a fabric of global interconnectedness, creating a sustainable future for the benefit of all stakeholders will be dauntingly complex work. Business schools will be tasked with forming many of the men

and women of character who will be its principal actors. They will have to develop, as Philippe de Woot has convincingly explained<sup>14</sup>, the new capacities of leadership, entrepreneurship and statesmanship that will be required from executives at the top who have fully internalized CSR2 and sustainability. How can business schools produce this brand of leadership and ensure that their institutions have absorbed the lessons from the crisis? How can they develop decision makers who have internalized their responsibility toward future generations? How can they teach sustainability while considering the perspectives of not only Wall Street and shareholders but the entire multiplicity of stakeholders? We need to prepare more than competent managers; we need wise leaders enriched with statesmanship, deeply knowledgeable of frugality and sustainability. The power of their positions and responsibilities should be enhanced with both humility and the imagination to translate knowledge into action. Then, in the world of nine billion people in which they will be living, the grandchildren of our grandchildren will be grateful to us for having left for them a planet where caring for the other will have made survival possible and happiness reachable. The challenge is there.<sup>13</sup>

In Asia, the challenge will be even greater. The size of the region and of its population, the speed of social transformation, the importing of Western management approaches and tools – all this, combined with the shortage of homegrown faculty, will make the paradigm shift particularly demanding. Fortunately, though, Asia possesses resources that can make the journey less arduous. Certain traditional values can be usefully harnessed, and an undeniable capacity for innovation can be leveraged to buttress the visionary talent of many responsible corporate leaders. The relationship culture also facilitates solidarity and community building and sharing. Cloning the West is a non-starter, but sticking to the past is also risky. Blending multiple sources and assets is likely to be the right path, and innovation the highway. Management education institutions, whether business schools or not, will have to nurture the young talents destined to become the responsible leaders so urgently needed.

## Notes

1. The 50 + 20 Agenda describes a vision for the transformation of management education and participants of the project recognize the need to chart an entirely new course for management education by proposing something revolutionary, daring and altogether new. See: [www.50plus20.org](http://www.50plus20.org)
2. 50 + 20, The 50 + 20 Agenda: Management Education for the world, pp. 5–6.
3. 50 + 20, Op. cit. p. 9.
4. Young, S. B, Director, Caux Round Table, developed clearly the argument, in the Caux Round Table 25th Annual Global Dialogue, (October 23–24, 2010), in Beijing.
5. Nair, C., Consumptionomics: Asia's role in reshaping capitalism and saving the planet, Wiley, 2011, pp. 38–39.

6. Audier, S., *Néolibéralisme, une archéologie intellectuelle*, Paris, 2012, Grasset, 636 p.
7. Nair, C., From Authenticity to Intellectual Honesty: the New Challenge for Business Leaders, *Singapore Management Review*, 2012, Vol. 34, N° 2, pp. 83–86.
8. de Woot, P., Giving back economic activity its ethical and political dimensions, Paper proposed at The Zermatt Summit, June 16–18, 2011.
9. Principles for Responsible Management Education, a Global Compact initiative, in cooperation with the GRLI. See: [www.unprme.org](http://www.unprme.org)
10. For additional information see: [www.50plus20.org](http://www.50plus20.org)
11. Globally Responsible Leadership Initiative (GRLI) is a worldwide partnership of 74 companies, business schools and learning organizations working together to develop a generation of globally responsible leaders. See: [www.grli.org](http://www.grli.org)
12. 50+20 Op. Cit. pp. 13–23
13. de Woot, P., *The Business School of the XXI Century*, 2010, GRLI Papers, 11 p.

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