Ethical Behaviour, Hong Kong Business Executives

And The Chinese Business Environment

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A dissertation submitted in the fulfilment of the requirements for the degree of

Doctor of Business Administration

July 2015
Statement of originality

This dissertation contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. I made consent to this copy of my dissertation, when deposited in the University Library**, being made available for loan and photocopying subject to the provisions of the Copyright Act 1968.

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Abstract

In recent years, ethical behaviour and leadership have emerged as an important area of practice and study in relatively developed economies. Ethical leadership has been found to influence the behaviour and performance of others with positive impact in firms and companies. However, much less is known about the influence of the Chinese business context on the dimensions of ethical leadership or whether this is possible in practice.

This study seeks to extend knowledge on the extent to which ethical leadership is or can be practiced by Hong Kong business executives operating in the People’s Republic of China (PRC). It does so through interviewing four business executives from different industries who have had experience working in both mainland China and in Hong Kong. Ethical leadership is explored in relation to a cultural context which differs in important respects between the mainland and Hong Kong. It focuses on the difficulties the executives thus face and how they seek to resolve these. In addition, this study also reviews the antecedents of the executives in the context of the history that brought about differences between the mainland and Hong Kong. Finally, it is hoped that insights from the study can benefit those now working in the PRC or intending to launch business ventures there.
Acknowledgements and Dedication

I would like to express my sincere gratitude to and to acknowledge those who have supported me while I undertook this dissertation. My gratitude is directed to those who have assisted and supported me, and those who love me, while this dissertation has been in progress.

I would like to acknowledge the assistance and support that I have received from the persons who have participated in the preparation of the research.

First, I would like to give my big hug with big thanks to my intelligent and patient supervisor, Dr. John Fisher for always giving me a wake-up call at the right time. Thank you for your revision, dedication and hard work in guiding me through every difficulty. His understanding and especially his goodwill always reminds me to be strong and get through many hard times. With all my love and trust, I would like to say “Thank you, Dr. John”.

Second, I would like to say a big thank you too to Associate Professor Suzanne Ryan who has never left me behind. I would have given up if she had not been there. Whenever I cannot find anyone, I always find her; thanks for your support, help and best guidance always.

I would also like to express my gratitude to my friends. First, is Dr. Voyce Li from Hong Kong Polytechnic University: thank you for your enlightenment and guidance in writing the thesis. Second, are Dr. Joseph Tong from Centennial College and Dr. Norman Lai for their valuable suggestions and support. I would also like to thank others who have spent their valuable time giving their experience, attitude and insight for my dissertation. Thank you also Dr. Michelle Suen and Mr. Jacky Chan.

I also would like to express my gratitude to the teachers, Prof. John Burgess, Assoc. Prof. Alison Dean, Assoc. Prof. Abul Shamsuddin, Dr. Gian Casimir, Dr. John Dugas, Dr. Marilyn Healy, Dr. John Lewer, Dr. David Meacheam, Dr. Marcus Rodrigues and Dr. Suzanne Ryan, who took my DBA classes.

In addition, I would like to express my gratitude and best wishes to all my classmates, who made for great classes together and who always supported each other. Thanks also to Dr. Anthony Lin, Kant Chong, Ada Tang, Ivan Nga and Jacky Lu for encouragement and goodwill. Thank you to HKMA ’s team staff, Yung Yung and the University of Newcastle ’s team staff
who gave us such excellent courses.

Finally, I dedicate this dissertation to my family members: my grandmother (Mrs. Vilai Limsomboon, my father’s mother) who encouraged and supported me always with my study, although she had no chance to see my graduation; my other grandmother (Mrs. Prasarn Kashemabhong, my mother's mother) for assisting me so much, as without her, I should not have come this far. Thanks also to my aunt and uncle (Ms. Jiraporn, Mr. Jirasak Limsomboon) for their support and encouragement, and to my father, my mother and my brother (Mr. Jirapat, Mrs. Wattanaporn and Mr. Jaturaporn Limsomboon) for their love and support during my study. So many thanks to my husband (Mr. Kithitla Patchayapol) for his understanding, encouragement and support in every way. Finally, I would like to thank all my cousins for their love and trust, especially my aunt and uncle (Mr. Supachok, Mrs Patchara Kashemabhong).
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Chapter 1 Overview

1. Introduction

In the past 20 years, the PRC has been the world's fastest growing economy and the largest destination for FDI (Gaba, 2002). In the year 2012, from January to September, China received FDI of around US$121 billion, being the most important world destination (Bertrand, 2013). Hong Kong supplies a large part of this FDI, and Hong Kong business people and managers oversee its investment to a considerable extent. Little is known as to the extent that they can apply the type of leadership, especially in its ethical dimension, that would be expected in Hong Kong.

This dissertation will be among the first studies to explore the nature and antecedents of ethical leadership as practiced in the PRC. By interviewing Hong Kong executives operating in the PRC, it is hoped that something can be learnt on the extent to which they can follow what would normally be regarded as best practice in a developed economy. Investigation of the problems associated with ethical leadership by Hong Kong business executives operating in the PRC are of interest in their own right as well as illustrating potential problems or issues for other foreign firms operating or investing in the PRC.

1.1 Background to the Research

The research was inspired by the direct experience of the researcher. Her own background, as a child and as a young adult, lay in a Chinese family living and having business operations in China. She could thus presume that she was familiar
with the Chinese cultural context in daily life as well as in business. Further, she had decided to expand her family's business into the PRC in the last five years, as their seemed to be great potential in China as an emerging market. After entering into the Chinese market, however, she found that the cultural aspects of Chinese life she had thought she was familiar with, were not the same as the reality in the PRC itself.

There were many ways in which cultural aspects were perceived and applied differently in the mainland. Among these, perhaps the most visible effect that she could see, was in business ethics and leadership in business relations generally. Unless she changed from her usual perspective in ethical standards and behaviour, her business dealings in the PRC would never have succeeded. On the basis of her own direct experience, she feels the need to urge other business persons to beware of the ethical pitfalls that can confront them in China. These are often not apparent in the course of the usual sort of preparation, which goes before a decision on market entry. However, they can be critical to the success of a venture.

In order to attempt a better understanding of the potential problems, this dissertation seeks to provide a comparison of ethical leadership between Hong Kong and the PRC, and an investigation of leadership by Hong Kong executives on the mainland. Hong Kong is a territory which has same cultural background as the rest of the PRC but its ethics and ethical leadership aspects are quite distinct from those that hold in China. Such an investigation is expected to have a practical outcome. If a foreigner does not understand properly the ethical differences in the PRC, then any projected business operations may not be successful.
From the point of view of the writer, it is not only her direct experience, encountering ethical pitfalls on the Chinese mainland that makes the topic significant. In general, the fields of ethics and ethical leadership loom more largely these days in business and in business studies. The collapse of Enron and the proximate causes of the global financial crisis might also serve to explain why the trend in management studies began in the United States of America (although this has long held the leadership in such studies anyway). Even more recently, governments in the United States have led in a multinational campaign against corporate misbehaviour – inflicting huge fines on companies and causing their leadership to devote a large part of their attention to ensuring ethical behaviour. As *The Economist* (May 9, 2015, p.69) put it: ‘Until a decade ago, giving bribes to win business or speed up transactions was widely seen as a necessary evil, especially in emerging markets’. They could even be claimed as tax deductions in some countries; now they are a looming potential liability.

Concern over business ethics though is not new, even if it now has become so much more important (Vyakaman, 1997). Further, study and research does not necessarily reflect the negative side of the question of business ethics. They begin by asking: ‘what is ethical leadership?’, and proceed to examining ‘How will ethical leadership help an organization manage its people and develop the company?’. This research has often found a positive relationship between ethical leadership and follower outcomes, such as job satisfaction, dedication, effectiveness, and employee
voice (see Brown, 2005, Brown, 2006, Verstraeten, 2008). Ethical leadership can thus have a positive effect on the fortunes of companies and firms.

Public concern over the ethics of business seems to have gained greater visibility with corporate leaders who are seen to take business ethics very seriously. Ethics though is a complex area; there are few definitive rights or wrongs when it comes to business ethics. Business people make difficult decisions each day that demand ethical sensitivity, frequently without clear-cut guide lines and in very grey areas. That is not just because the primary concern of business people is profit or the bottom line. Indeed ethical behaviour, action and communication can serve both an organisation's and the public's best interests and make a vital contribution to the success of long term planning. Further, the benefits of an ethical stance can enable a competitive advantage to be attained as a company distinguishes itself from its competitors and the general business scene (Vyakaman, 1997).

Though, the study of ethical leadership and its potential outcomes began in the United States, it has spread generally to other developed countries. It has been much less pronounced, to date, in the rest of the world, although this is changing rapidly. Quite a number of articles, for example, have appeared in the Journal of Business Ethics, on its nature and incidence in various parts of the developing world, including the People's Republic of China (PRC). In this respect, it is associated with the interest of management students and researchers in the relationship between culture and performance across the world. In this respect, China looms as of
especially interest, in view both of economic performance and also its culture, rich as this is in historical depth.

The PRC has had a remarkable economic performance in recent decades; after the decision of its leadership to `open up' to the world in the 1970s, and with its entry into the World Trade Organization in 2001 marking an important symbol of intent. China has become ever more integrated into the global economy and, with average GDP growth rates of over 10% per annum for two decades, is now acknowledged as one of the most important players in the world economy. Between 2000 and 2003, it accounted for one third of global economic growth measured at purchasing power parity (PPP), more than twice as much as the United States. China is (still – even if India is due to overtake soon) the largest country in the world, with a population of 1.3 billion people.

Presently, the leadership of the Chinese Communist Party remains formally committed to a program of `socialist modernization'; however it also clearly committed to maintaining and extending its role in the world economy. Throughout its rich 5000 year history, China has witnessed drastic public leadership transformations from imperial, semi-colonial, semi-feudal, and semi-capitalist to Communist leadership (Pittinsky,2005). Its rich history, as well as its present seemingly contradictory stance, incorporating socialist rhetoric and capitalist behaviour, have major implications, which are not at all clear, for the state of business ethics within the PRC.
China is presently on course to become the largest economy in the world, probably overtaking the United States within at least the next two decades. For many commentators and historians, when it does so, it will merely be regaining its traditional position of leadership in the world. From the fifth century BC (the era of the Warring States) until the eighteenth century, China led the world in economic sophistication and technological advancement. Its history is also marked by a distinctive pattern of philosophy and China was also the scene of sophisticated commercial and business activity. The one necessarily impacted on the other in a way that has implications for Chinese business leadership today.

Over the past twenty-five years of economic reform, China has been successfully transformed from a supposedly planned economy to an increasingly competitive market economy. Although the PRC’s profound economic, political, and social transformations have captured the world’s attention, it still has a complex set of problems, such as domestic and international tensions over democratization, legitimization, and corruption (Lu, 2009). These all bear on the question of ethical leadership, whether in business or elsewhere.

A further theme of contemporary importance lies in the actuality of or potential for ethical leadership as this is affected by the increase in business operations undertaken by foreign companies in the PRC (Thompson, 2003). In the past thirty years, there has been a massive influx of foreign capital and investment into the PRC; this has also meant that Western management ideas and practices have also flowed into the Chinese territory, influencing Chinese
leadership behaviour. Western leadership ideas can collaborate or clash with traditional Chinese leadership philosophy; their interaction can potentially spark new leadership ideas and give rise to new leadership practices.

In this respect, an investigation of ethical leadership in the PRC is of interest, not only in relation to leadership in the Chinese context but also to the study of how global organizations operate in the PRC (Lin, 2008). One particular aspect of importance would be to improve knowledge on whether the positive relationship between ethical leadership and follower outcomes, as mentioned earlier, holds in a Chinese business context (Cheung, 2008). This question is a large one and is not addressed in this dissertation. Rather, the focus here is on executives from Hong Kong operating in the PRC, the ethical problems they encounter and the strategies they have adopted in seeking success in the context of mainland China.

The cultural and political systems of the PRC are quite distinct from those of most developed countries. Among the latter must be included Hong Kong, even though it is formally a part of the PRC. In fact, this is the major reason why Hong Kong was chosen for the purposes of the research undertaken in this dissertation; although PRC and Hong Kong share a common cultural heritage, their development since World War II has differed greatly. Hong Kong has a developed economy and, even before the Handover of 1997, has had a close relationship, centring on business operations, with the PRC. Especially, after that date, Hong Kong has had a vital role in Chinese
growth and global commercial operations. China has become the largest recipient of Foreign Direct Investment (FDI) in the world; Hong Kong is by far the largest source (Gaga, 2002).

1.2 Justification for the dissertation project

In the past two or three decades, ethical leadership has moved to the forefront of management research, reflecting trends in the wider community among other themes. On the one hand, there has been an increasing demand for transparency in business dealings from both the public and governments in Western countries. There have also been a number of highly publicized incidents of business misconduct in virtually every major industrial economy. These scandals have played a critical role in increasing public, business, and academic awareness of issues of business ethics.

In recent years, ethical behaviour and leadership have emerged as an important area of practice and study in relatively developed economies. Ethical leadership has been found to influence the behaviour and performance of others in firms and companies, with positive impacts on job satisfaction, dedication, effectiveness, and employee voice. However, much less is known about the influence of the Chinese business context on the dimensions of ethical leadership or whether this is in fact possible in practice. This study seeks to extend knowledge on the extent to which ethical leadership is or can be practiced by Hong Kong business executives operating in the PRC.

This dissertation has been designed to explore aspects of such implications
through looking at the experience of Hong Kong executives operating in China. The possible insights gained from this exercise will be particularly useful to other managers, not necessarily ethnically Chinese, operating in the PRC. The different ways in which Guanxi affects business practice, and whether Confucian philosophy still has resonance, is a part of this investigation (Li, 2009). Any findings will have to be tentative, given that research on organizations in China, their behaviour and practice, is still at an early stage (Li, 2015).

The heart of the dissertation comes from interviews with Hong Kong executives in four organisations, executives who are managers of Hong Kong business companies that operate in the PRC. These executives are from a variety of sectors and industries; the interview transcripts show the differences in leadership style in PRC and in Hong Kong. The first objective in the interview process was to explore the ethical dimensions and antecedents of Hong Kong executives operating in the PRC. The second was to explore the extent to which their experience of operating in the PRC has impacted or changed their leadership styles. A further theme was to gain information on differences in ethical leadership practices when working in the PRC as opposed to working in Hong Kong. Finally, they were asked as to whether this impacted on or changed their leadership style.

The research presented in this dissertation will be among the first of studies to explore the nature and antecedents of ethical leadership as practiced in the PRC. By interviewing Hong Kong executives operating in the PRC or having relationships in the PRC, their experience, it is hoped, will provide some guide to ethical
leadership practice in China. It is also intended to address the implications of differences between Hong Kong and the rest of the PRC for ethical leadership or, indeed, the extent to which the different business contexts influence leadership style. Investigation of the problems associated with ethical leadership by Hong Kong business executives operating in the PRC, are of interest in their own right as well as illustrating issues for other foreign firms operating or investing there. This is despite some very considerable differences between Hong Kong and the rest of the PRC.

From 1997, under the ‘one country two systems’ formula, important institutions of Hong Kong society and economy, especially as applying to business activity, have remained quite distinct (Mathews, 2007). This is because it is a former British colony, which enjoyed high economic growth in this role after the end of the Second World War. Its business world operated and developed under British common law (Cheung, 2008), to the point where many consider this a crucial contribution to its success. Certainly, it is generally accepted that Hong Kong people prefer to be under British law (Kam, 2010).

1.3 Research Questions

The research thus has two aims. The first is to explore the ethical dimensions and antecedents of leadership of Hong Kong executives operating in Hong Kong. The second is to explore the extent to which their experience of operating in the PRC has impacted on or changed their leadership styles.
Thus, the main research questions are:

- What are the antecedents that influence the ethical leadership of Hong Kong business executives?

- How does the Chinese business context influence the dimensions of ethical leadership by such executives?

For the purpose of the research to answer these research questions properly, the following group of questions were developed to be put to interviewees:

1. What are the antecedents that have influenced the ethical behaviour of Hong Kong business executives?

2. Questions regarding social responsibility.

3. Questions regarding ethical leadership aspect in the PRC and in Hong Kong.

4. Questions regarding the legal system and ethical leadership.

5. The impact of the Chinese business context on ethical leadership by Hong Kong executives.

6. A question on 'leadership style' in mainland China and in Hong Kong

7. Recommendations from the executives

1.4 Research Methodology

This research is an exploratory in nature. Within the context of an examination of the cultural context provided in the literature review, it relies on interviews with executives who have managed companies and their operations in
both Hong Kong and mainland China. The research methodology is explained in more detail in chapter three. While the researcher is familiar with a considerable number of CEOs who have operated both in Hong Kong and the PRC, she has reviewed the profiles of potential participants carefully so as to make sure that the CEOs are those it is felt can offer the most valuable insights on differences in ethical leadership between the two. Those chosen were from four organizations and were interviewed using a semi-structured interview schedule. The interview was tape recorded.

The executives were asked to reflect on any differences they had experienced in ethical leadership practices when working in the PRC as opposed to working in Hong Kong, and whether this impacted on or changed their leadership style. The will be analyzed and present how does each executive’s reflection on the differences in their ethical leadership differently in Hong Kong and mainland China. What common themes emerged in the interview transcripts were noted and commented on in chapter five.

1.5 Major Findings

The presentation of the findings of the dissertation is in chapter four. From the interviews, it would seem that the antecedents of the four executives, from the culture and law of Hong Kong, have profoundly influenced their own ethics and ethical leadership in the mainland and in Hong Kong. Its legal system has developed under British common law, imposed throughout the colonial era (Popovski, 2014). When blended with the local ethical culture, derived in part from a Confucian
tradition, this means that Hong Kong is where truly the east meets the west. The rule of law, buttressed by ICAC (see below), in Hong Kong is has become a strong feature of its culture. Certainly the executives claim ethical training and awareness from life and schooling in this culture has influenced them profoundly.

As will be outlined in more detail later in this dissertation, the position in mainland China, in the rest of the PRC, could not be more different. The PRC has an official legal system, which is supposed to be the context for business operations. However, as all its citizens are well aware, the letter of the law is of minimal importance relative to the commands of the leaders of the Communist Party (of its leaders at various levels, not merely the top). In itself, this is a position with obvious negative implications for ethical considerations in business operations and relationships – an aspect that impacts with evident force on the subject matter of this dissertation. However, there is a further aspect to the operation of Hong Kong executives in mainland China that goes beyond contrasts in the legal systems.

Hong Kong and mainland China share a common historical culture, aspects of which are directly relevant to business operations and relationships. ‘Guanxi’ is a peculiarly Chinese term for the relationships which are characteristic of Chinese society, wherever it is to be found; it has rules but these are informal and flexible, and based on reciprocity differing according to the nature of the relationship (Langenberg, 2007). It is also associated with the most famous of Chinese philosophical traditions: that usually seen as beginning with Confucius, a figure of the era of the Warring States, and a tradition that gained official primacy in the
Chinese empire from the Han dynasty onwards.

A stress on family relationships, and of authority within the family, is associated both with Confucianism and with Guanxi (Li, 2009). They are both part of a tradition, which affects business relationships in the whole of the PRC but, given the very different legal and political context in Hong Kong and the PRC, the outcomes will be expected to vary markedly and to have different implications for leadership styles and ethical leadership. Such implications are found clearly in the evidence of the interviewee executives.

The study also suggests that there are different leadership styles in the PRC and in Hong Kong. Executives are more autocratic when they work in the mainland while they are more inclusive when they deal with Hong Kong staff. Each executive showed their concern over ethics in the PRC, and spoke of their problems in dealing with the situation there. Thus, this study can provide a ‘wake up call’ for others either operating in mainland China or considering this.
Chapter 2  Literature Review

2  Introduction

Given the nature of this dissertation, this literature review will begin with an examination of some of the major issues relating to ethical behaviour in business. Section 2.1 provides a background review of business ethics and its related concepts. Within this context, sub-topic 2.1.1 expands on business ethics in relation to law and corporate social responsibility (CSR). Sub-topic 2.1.2 examines the field of ethics in relation to morality and integrity. Section 2.2 has its focus on the study of leadership. Its first section, sub-topic 2.2.1 seeks to explore leadership styles in order to provide a theoretical background for an understanding of the outline and review of the interviews, which are at the core of this dissertation. Sub-topic 2.2.3 expands on leadership in a modern global context. Section 2.3 examines ethical leadership, firstly, in sub-topic 2.3.1, in relation to chief executive officers (CEO) generally, and then, in sub-topic 2.3.2, expands into the field of ethical leadership in multination corporations (MNCs). Finally, sub-topic 2.3.3 examines ethical leadership in small and medium enterprises (SMEs).

There follows an attempt to set these concepts in a cultural context through a review of philosophical and other influences on ethical behaviour in business in Hong Kong and the People’s Republic of China (PRC). The next section presents a brief review of the literature relating to the Chinese context. Beginning from the
broad scope of how ethical leadership differs globally, there follows a brief review of ethical leadership in mainland China and Hong Kong.

Section 2.4 is about cross-cultural ethical leadership, beginning, in sub-topic 2.4.1, with global cultural variation in relation to ethical leadership. In sub-topic 2.4.2, culture, law and ethical leadership in the PRC are explored, with a brief examination of Confucianism, Maoism, Economic reform (Dengism), and recent government and ethics policy. Section 2.4.3 looks at challenges to ethical leadership in contemporary mainland China.

Section 2.5 is about Guanxi. Sub-topic 2.5.1 give a definition and a description of the nature of Guanxi, while the next section looks at the pros and cons of Guanxi. Sub-topic 2.5.3 examines Guanxi in relation to a changing Chinese cultural environment. It can be emphasised here that, for the sake of simplicity in comparison, although Hong Kong is part of the PRC, it is usually referred to as a separate entity in this dissertation. Thus, sub-section 2.5.4 looks at Guanxi in the PRC and in Hong Kong while section 2.6 concerns ethics in Hong Kong and China. Section 2.7 provides a brief review about Hong Kong’s British rules and legal system. Finally, in section 2.8, some general implications concerning ethics in Hong Kong and mainland China are set out.

2.1 Business Ethics

The debate on the role of ethics in society goes back thousands of years, certainly back to classical Greece and ancient China. It continues today; some people argue that ethics is what people know by experience; it is practical knowledge not
theoretical knowledge (Ciulla, 1995). Ethics has a close relationship with morality, with the question of what is right or wrong, ethical or unethical. In fact, some use the terms ethics and morality interchangeably in public debates and elsewhere (Fisher, 2004). In so far as this is acceptable then the study of ethics is an examination of what is right and what is wrong, what is good and what is evil. It is concerned with concepts such as virtue, duty, obligation, rights, justice and fairness within human relationships and, especially today, between humans and other living things (Brown, 2006). Especially today, ethics is also seen as needing to be applied to the relationship between humans and the natural world as a whole; ethical behaviour is a necessary part of social responsibility.

The role of ethics in business is also an old theme. Thus Adam Smith famously suggested that the purpose of business is to make as much money as possible while conforming to the basic rules of society, both those embodied in the law and those embodied in ethical custom (Ciulla, 1995). In the modern world, Adam Smith’s view is generally accepted, because it makes good business sense. Businesses accept that the law must be obeyed, if only because it is not then there is the likelihood of penalties. However, it is also accepted that the cost of unethical conduct can be substantial. Unethical conduct may lead to losing good customers or good employees, for example. This can cause costs that are as great as those imposed under law (Mcarty, 1988). Thus, while ethical behaviour is not a formal requirement for managers, in the manner in which legal behaviour is, it is suggested that managers seek to fulfil ethical obligations in the same way (Buchholtz, 1999).
As is a central theme in this dissertation, it has been argued that there are also major benefits that flow from ethical behaviour in business (Oates, 2013; Lin, 2014).

Trevino and Nelson (1999) define ethical business behaviour as that which conforms to the principles, norms, and standards that society accepts (Fisher, 2004). There are those who argue that ethics should always be an integral aspect of doing business, although others are less certain. Thus Dunfee (1988) recommends that ethical conduct should be blended with other functions in firms. Ethics is not an isolated phenomenon and should not be treated in isolation (Ciulla, 1995). For example, personal information in a human resource department should be handled ethically, while every department in a firm probably has its own unique ethical requirement (Dunfee, 1988). In this thesis, the definition of business ethics set out by Trevino and Nelson (1999) above is employed because it is a general concept acceptable in all cultures.

2.1.1 Ethics, Law and Corporate Social Responsibility (CSR)

Corporate social responsibility (CSR) is the concept that companies, as a part of society, should voluntarily contribute to optimal social and environmental outcomes in all aspects of their operations (Ikejiaku, 2012). Emphasizing the need for companies to take the initiative with CSR, Holm and Watts give a definition of CSR as ‘the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large’ (Holme, 2000).

It has always been accepted that companies must behave in accordance with the
law, and in accordance with codified principles and regulations that describe how people are required to act (Ikejiaku, 2013). CSR of course goes further, being based on what people ‘should’ do rather than what people ‘must’ do. Further, ethical standard may be confused with legal requirement; the values underlying both derive from the same source (Blodgett, 2011). Ethics and law are different in the broadest sense. Ethics is not law; business people have always been more likely to follow law rather than ethics because a violation of the law leads to penalties while the cost of unethical conduct can be unclear (Mcarty, 1988) However, as Professor Lynn Sharp Paine put it, “What is an ethical problem today may become a legal problem tomorrow” (Paine, 1994). BP’s problems in the Gulf of Mexico provide only one possible example of this and thus the relationship between law and ethics remains a fertile ground for further study and analysis (Blodgett, 2011).

2.1.2 Ethics, Morality and Integrity

Ethics has a close relationship with morality in term of right and wrong, good and bad, ethical or unethical. The terms ethics and morality are arguably interchangeable (Fisher, 2004). An ethical decision-making process should lead to a moral outcome judgment, which is influenced by various factors within an individual (Wang, 2015). It is a process in which individual reasoning determines the morally right from the morally wrong course of action in a given situation. In other words, such a decision making process can be described as moral judgment, moral recognition and moral reasoning (Dedeke, 2015). In fact, ethics is complex in the sense that there are no clear cut guidelines. Business people make decisions that are potentially ethically sensitive each day. Especially when the real concern in
business is profit, the edge between morally right and wrong can be blurred (Vyakaman, 1997).

The concept of ethics and moral are also related to integrity. Integrity is the highest level of moral or ethical behaviour that oneself can accept. It can be thought of as a personal ethic, with the problem that this obviously can vary according to cultural differences. Different communities have different norms and ethics, thus the nature of morality and ethics can be different for individuals in these. Basic moral norms would include the prohibition of arbitrary murder and the need for truth-telling, but even a respect for property may not be a norm. Business moral norms would usually include honouring contracts and exercising fairness (Werhane, 2015).

To sum up: ethics is complex as is business ethics. Business people make difficult decisions each day that demand ethical sensitivity, frequently without clear-cut guidelines. The edge between right and wrong can be blurred, especially when the real concern of business is profit (Vyakaman, 1997).

2.2 Leadership

Leadership studies are concerned with all aspects of leadership – what it is, how and why it works, the relationship between leaders and followers, how leaders leads, why followers follow, etc. (Ciulla, 1995). It is considered to be a difficult concept because it has so many aspects and requires different talents according to circumstances. It is an art rather than a science - the art of helping, guiding and influencing people to act toward achieving a common goal (Oates, 2013).
It is generally agreed that leadership goes beyond the boundaries of management. The role of a manager is narrower than that of a leader, with the emphasis on economic goals (Verstraeten, 2008). As it has been put: managers know how but leaders know why. Or, in another formulation, a manager is more likely to do things right, while a leader will be more likely to do the right thing. One important aspect of leadership is knowing how to motivate people. This also embraces knowing how to transform individual interest into group interest. And it is in this respect that ethical leadership comes up (Oates, 2013).

Leaders are those who strive to create change, large or small. A leader is not necessarily someone in a position of authority. A common distinction between leaders and managers is that a manager aims to promote stability and to enable the organization to run smoothly, whereas the role of a leader is to promote useful change or adaption in certain circumstances. Thus, it might be argued that the definition of leadership also embraces the kind of processes in which the leaders seek to obstruct or to reverse changes initiated by followers, rather than bring about change (Pittinsky, 2005). This could certainly be true in the case of ethical behaviour.

The importance of leadership in promoting ethical conduct in organizations has long been understood. Within a work environment, leaders set the tone for organizational goals and behaviour. Leaders are often in a position to control many outcomes that affect employees, eg. strategies, goal-setting, promotions, appraisals, resources. What leaders promote communicates what they value and motivates employees to act in ways to achieve such rewards. It is not surprising, then that
employees rely on their leaders for guidance when faced with ethical questions or problems. Research supports this contention, and shows that employees tend to conform to the ethical values of their leaders. Furthermore, leaders who are perceived as ethically positive influence productive employee work behaviour, and negatively influence counter-productive work behaviour (Brown, 2010).

Recently, there has been much empirical research concerning the influence of leaders in building ethical work practices and employee behaviour. Early theory and research sought to define ethical leadership through both normative and social scientific (descriptive) approaches. The normative perspective is rooted in philosophy and is concerned with prescribing how individuals ‘ought’ or ‘should’ behave in the workplace. For example, normative scholarship on ethical leadership examines ethical decision-making from particular philosophical frameworks, evaluating the ethicality of particular leaders and considering the degree to which certain styles of leadership are ethical (Brown, 2010). Social scientific research has looked to the relationship between ethical behaviour, its antecedents and its outcomes. Both approaches are relevant to this dissertation.

2.2.1 Leadership Style

Leadership style is a topic of direct relevance in this dissertation, as it is concerned with differences that may relate to the executives whose views are set out and examined in later chapters. Kurt Lewin was a pioneer of leadership research as early as 1939, as was his division of leadership into three styles: authoritarian, democratic and laissez-faire (Cherry, 2006). It should be noted that one style is not
necessarily superior or better than another. Organizations in different situations usually require different leadership style in order to achieve the organization’s goals and objectives (Lester, 1975; Boykins, 2013). Here it is convenient to add ‘bureaucratic’ to Lewin’s three styles, each of which is outlined briefly below.

- **Autocratic Leadership Style;** an authoritative approach is a classical style in which a manager retains as much power and decision making as possible, with little delegation and trust. The followers are expected to obey orders without explanations. Rewards and punishment is well structured (Hughes, 2014). The followers are more dependent than with other types of leadership and there is a clear division between leader followers. Authoritarian leaders make decisions independently with little or no input from the rest of the group (Cherry, 2006).

- **Bureaucratic leadership style or `management’ by the book.** This is used optimally when the situation is clear or certain. Everything is done according to procedure and policy. Power comes from rules enforcement. Bureaucratic leadership is appropriate when work is routine; staff are expected to learn and understand standard procedures once and for all, following them over and over again. Under this style, staff involvement is only in their job, not in interaction with others.

- **‘Democratic’ or participative leadership style;** this is marked by encouraging staff to be a part of decision-making processes. A leader is seen as a coach
who gathers information from staff before making a decision. Followers are allowed to establish their own goals, and are motivated to work toward these. This approach can bring about trust, team work and high moral standards, giving long term loyalty to the company (Hughes, 2014). Although this style allows participation from other members, the leader holds the power of final decision maker (Cherry, 2006). This style is most appropriate when the staff are highly skilled or experienced (Hughes, 2014).

- Laissez-faire leadership or the 'hands-off' style. In this style, a leader provides little or no direction and gives staff as much freedom as possible. They determine goals, make decisions and resolve problems on their own. It works where employees are highly skilled, highly experienced and educated (Hughes, 2014). It should be noted that if it is not properly implemented, participative leadership style can lead to poorly defined roles and lack of motivation (Cherry, 2006).

2.2.2 Leadership in Global context

Leadership is found in every human society, but its components, styles, and effectiveness vary from culture to culture (Mingzheng, 2014). Leadership is a human phenomenon which embedded in culture, culture then affects leadership in ways that are not readily apparent. (Nie, 2015) Thus, leadership styles can vary from nation to nation and culture to culture. Differences in leadership style, employee motivation, and organizational structure can be explained through different cultural lenses. Cultural differences exist not only in terms of leaders’ goals and the limits to their authority but also in the styles and conditions necessary for effective
leadership (Mingzheng, 2014).

To be competitive in global context, leaders today have to be more knowledgeable and competent in leadership across cultures. One of the most important factors which cause a manager to fail at a global level is conflict between their own personal leadership style and local cultural context. Thus, leaders need to adapt to local context and culture in order to successfully operate (Cavarkapa, 2008).

2.3 Ethical Leadership

Ethical leadership can be considered as a style in the same way as charismatic leadership, transformational leadership, authentic leadership and spiritual leadership. Research in the field of ethical leadership has sought to understand the relationships involved, especially with reference to modern corporate scandals (Tumasjan, 2011).

Ethical leadership can be defined as the field where business ethics and leadership merge (Trevino, 1994), and the literature of ethical leadership is related to both of these (Brown, 2006). According to Brown, ethical leadership can be defined as “the demonstration of normative appropriate conduct through personal action and interpersonal relationship, and the promotion of such conduct to followers through two way communication, reinforcement, and decision-making”. In other words, business ethics in leadership is the art of guiding and influencing people toward a common goal in a morally practical way (Oates, 2013).
Good leadership should mean both good ethical behaviour and business competency. Thus, studying the role of ethics in leadership may offer insights into good leadership. Ethics is at the heart of leadership, a crucial part of leadership (Ciulla, 1995). Ethical leaders attempt to ensure that all stakeholders gain from their decisions; they consider not only short term goals but also long term benefits for all (Oates, 2003). Importantly, moral judgement and ethical leadership help reduce uncertainties in management issues in relation to the interests of multiple stakeholders, thus enhancing management values (Lin, 2014). The characteristics of the effective ethical leader are thus vital, something explored further below.

2.3.1 Ethical Leadership and CEOs

The term ethics is very important to CEOs and corporate government generally. ‘Effective ethical leadership is related to the following: honesty, trust, fairness, a socialized charismatic and an absence of abusive supervision’ (Brown, 2005; see also Walumbra 2009). Further, when a leader’s personality traits are seen to be of agreeableness and conscientiousness, this is usually associated with a positive relationship to ethics. Conversely, neuroticism is not compatible with ethical traits. Thus ethical leadership can be related to “employee voice”, because when a leader performs to a high moral standard, employees are observed not to engage in “high interpersonal risk-taking”. In turn, less interpersonal risk-taking leads to high employee voice as employees tend to share information when there is high interpersonal trust. Because ethical leaders show they value honest and
trustful relationships, ethical leadership has a positive relationship with employee trust and employee voice behaviour (Walumbwa, 2009).

Ethical behaviour starts from the top of an organization. Thus, the more senior the leader the more careful they should be in considering their decisions (Oates, 2013; Trevino, 2003). Leaders can emphasise and promote the ethical behaviour of their followers (Brown, 2005). Such communication can be achieved, for example, through business ethics training and workshops, codes of conduct, corporate ombudsmen, tighter financial controls, ethically sensitive decision processes, and leadership by example. Cultivating an ethical organization starts with leaders who are company executives and passes down to their subordinates. The integrity of the leaders, their thinking on what is right and what is wrong, shapes ethical judgment as a whole. It is thus the responsibility of the executive to lead in creating an ethical organization (Carroll, 1987). The available evidence suggests that ethical leadership is more than just a trait of the leader, although it does depend on the leader's perception, character and motives (Trevino, 2003).

Thus, CEOs play an important role as the starting point of ethical conduct in an organization (Walumbwa, 2009). Basically, by setting up goals, strategies and work procedures, leaders can promote ethical conduct in an organization (Pittinsky, 2005). Their powerful moral directives can become key components in establishing an organisation’s culture, thereby defining appropriate moral actions for the members. Similarly, formal statements and pronouncements by an organisational leader who supports ethical behaviour, presumably enhances the likelihood of
ethical behaviour (Vyakaman, 1997).

2.3.2 Ethical Leadership by Multinational Corporations

A Multinational Corporation (MNC) is a company that has capital assets and operates in one or more foreign countries. Their ethical behaviour looms more importantly in contemporary circumstances because of their role in and contribution to the rapid growth of emerging economies such as China which have their own set of ethical standards and practices. This has led to anomalous positions where MNCs, which generally have their own formal set of corporate ethics, apply different ethical standards in different countries. Ethical issues that they can face in various host countries include human rights, labour rights, corruption, and environmental issues (Tan, 2011). Further, not only does a MNC have to consider how to implement its corporate code of ethics but also the degree to which the implications differ and are perceived differently in host countries with very different cultural backgrounds. It is thus important to take culture into account in different countries (Helin, 2008). While the host country benefits most obviously from a MNC’s investment, bringing new technology, employment and better standards of living, its code of ethics (CCE) is also a potentially important benefit (Godiwalla, 2012). Ethical leadership can thus be an important field for an MNC when operating in such countries.

2.3.3 Ethical Leadership and SMEs

Small and medium-sized firms (SMEs) account for the overwhelming majority of businesses in all economies; SME employment accounts for 60% of the
labor force in developing economies. Their ethical dilemmas and how they resolve them have been studied less than those of large firms, but they are often quite distinct (Jamali, 2009). Ethical leadership in SMEs, for example, is distinct because the manager and owner is usually the same person. The personality traits or individual differences of such a figure thus influence disproportionately moral development in the firm or the choices of ethical action to be taken (Vyakaman, 1997).

The ethical dilemmas for SMEs can arise out of entrepreneurial activity, with conflicts arising between personal values and business needs. The deciding factor in social responsibility arises out of the owners’ personality. Thus a code of ethical conduct that is a useful tool for a large firm would be unsuitable for the small firm’s needs on a day-to-day basis. SMEs tend to follow an unwritten code of their own or, in the appropriate circumstances, follow the guidelines laid down by their profession. However, in other respects the issues that arise are the same as for large firms. They reflect the potential tension between ethics and profits and conflicts between private gain and public good. Ethical problems include such features as faulty investment advice; favouritism in promotion; acquiescing in dangerous design flaws; misleading financial reporting and advertising; padding expense accounts; tax evasion; collusion in bidding; insider trading and discrimination against women.

Formal ethics are becoming more important for SMEs, however, as they are required to cope with industrial rules, regulations and codes which set out
minimum requirements for an industry (Vyakaman, 1997). Certainly, this has been the experience of SME owners in Hong Kong and China.

2.4 Cross-Cultural Ethical Leadership

Ethics and ethical behaviour have been an important subject in business and business studies in the West for some time now (Lee, 2009; Werhane, 2015). Such focus and work has been much less pronounced in other regions to date. However, this is changing rapidly, not least because of the high rates of growth, and the prominence of private business activity, in East and South East Asia. In this respect, an important aspect is the potential implications that variations in regional and national cultures can have (Lee, 2009; Velasquez, 2000). Ethical problems can arise, for example, in a whole variety of ways, including egregious corporate malfeasance, exorbitant CEO compensation, fraudulent investment schemes, proliferation of tort suits, and global human rights abuses (Blodgett, 2011).

A critical dimension of global ethics is about how ethics operates across cultures, and how well managers and executives can manage an organization to achieve goals successfully in the face of cultural variation. Cross-cultural conflict is said to happen when well established practices, ethical or otherwise, which have long been embedded in a firm's behaviour, are confronted with a different culture, especially in a dynamically changing environment (Dunfee, 2001).

The nature of society and culture are important environmental factors which shape ethical and unethical behaviour. Distinguishing between the two can be more difficult than initially seems likely. In some aspects of behaviour, an unethical
practice in one country could be considered ethical standard practice in another. It depends on social norms and behaviours (Fisher, 2004). Further the nature of ethics can be transformed over time. For example, using child labour was long acceptable in the past, but has become increasingly unacceptable at present (Thompson, 2003; Ikejiaku, 2012).

Such differences have emerged as increasingly important in recent times. America and Western Europe were the most important economies in the past but emerging regions and countries such as the PRC are now of equal or near-equal significance in world trade. This has led to a variety of problems in commercial trade relations, including those relating to ethical behaviour. Conflicts easily arise. The question of whose standard should prevail when there is conflicting conduct can be fraught for all parties. International companies may face many obstacles; government systems, culture and environment in a given country may make adaptation difficult if not impossible. Nevertheless, such interactions may promote a move towards global ethical standards and a development of cultural maturity (Michaelson, 2010).

In similar fashion, research and theoretical contributions on leadership were, to a great extent, limited to practice in the West (Littrell, 2002). This has been changing in recent years, in a manner that can possibly promote mutual understanding (Lin, 2008). The literature on cross-cultural business relations, and on leadership outside of the West, has obvious relevance to this dissertation.

2.4.1 Global cultural variation and ethical leadership
A focus on the importance of business ethics in the West can be dated back to about 1970 (Hu, 2014). From this point, the literature on business ethics and related fields such as ethical leadership and CSR has developed strongly. As has already been noted, in this context, the literature has demonstrated the importance of cultural and other differences (Mele, 2008). Even though America and Europe have similar key features, especially their level of development, and share the same background, especially that of religion (Christianity), there remain important differences with major consequences for ethics and ethical norms (Mele, 2008).

It is therefore only to be expected that these are likely to be even more pronounced in regions such as Asia, especially in a developing country such as the PRC (Lu 2006). Many scholars have noted such differences and have tended to attribute them to such historical forces as Confucianism, the most famous of Chinese forms of philosophy (More detail on the nature of Confucianism is presented in Appendix 1). Here it is enough to note that Western scholars have tended to follow Hofstede (Jeffrey, 2004) in seeing Confucianism as an important basis for cultural divergence in East Asia, especially the PRC and other Chinese-dominated societies such as Hong Kong.

In Confucian philosophy, a core objective is a stable, unified and lasting social order, which is derived from civilized behaviour within the social culture. Confucius and his followers argued that humans can and must be trained to realise the good that is in their nature. Trying to force humans to do or not do anything, as through a punitive legal system, may produce perverse results. People will tend to do wrong
instead of right. This obviously runs counter to Anglo-American or Western systems, which are firmly based on a legal code, based on realising order by law.

The potential for misunderstanding and conflict that derive from core cultural approaches is thus clear. In the West, ethical codes and behaviour reflect the cognitive, analytical, systematic and reflective application of moral principles to complex conflicting or unclear situations, resulting in formal business ethical conduct. In the East, a Confucian-dominated ethics would stress training and guidance by superiors and not only cover business ethics but also human virtue as a whole. In other words, business ethics in the east is informal, and is passed on by a supervisor to a follower; less formal ethical codes exist. It would represent the application of human virtues in business and commercial life (Hovik, 2007).

Ethics beyond rights is the concept common to Confucius in its emphasis on what we owe to each other (although this mirrors the codes of religions like Christianity and Islam that developed out of Judaism). It is tempting to say that their systems and, for that matter, the Chinese cultures are duty based while Western cultures are rights based. It should be urged that if the ethics of the Chinese have no idea of rights, they equally have no idea of duty. Duties are the correlative of rights. There cannot be one without the other. Both duties and rights are enforceable claims. Nevertheless, the duties Confucians uphold are not enforceable, as compared to western right based precepts, which follow rules, and are enforced according to law (Koehn, 1999).

2.4.2 Culture, law and ethical leadership in the PRC
The PRC has achieved a remarkable economic performance in recent decades, a performance that gives value to the study of Chinese leadership and its interactions with Western business practice and values. A massive influx of foreign capital and investment has been accompanied by Western management ideas and practices, potentially influencing Chinese leadership behaviour. These can either collaborate or clash with traditional Chinese leadership, potentially sparking new leadership ideas and practices (Lin, 2008). At the least, the study of leadership and ethical leadership, and potential differences with the West, are fascinating topics for researchers (Mele, 2008). Investigating modern Chinese business leadership can have important implications for global organizations (Lin, 2008).

As China ‘s power in the world economic rises, ethical leadership and moral judgement in business become more important. This is because moral judgement and ethical leadership can bring about mutual understanding and cooperation between multiple stakeholders (Lin, 2011). With the need for increasing co-operation between Western business and China, ethical leadership can contribute to the development of constructive relationships. Understanding local values can be useful in overcoming cultural barriers, especially those with ethical implications (Nie, 2015).

It must however be emphasised that any investigation of ethical behaviour in business in the PRC faces major difficulties. To see Confucianism as the basis of ethics in Chinese history is a gross over-simplification, while complexity also arises from the bewildering economic and political shifts and reversals in China that have been a feature of its history after 1949 (the only constant feature being rule by the
Communist party). For the purposes of this literature review, a simplistic version of recent stages of cultural development and evolution is set out. Traditional ethics are seen as based on Confucius, but have been shaped or mis-shaped by Maoism and the various versions of Dengism that still hold today in Chinese economic and political life (Lin, 2008; see also Mcdonald, 2011). Here, it is accepted, for the sake of convenience, that Confucius remains a guide for ethical behaviour for leaders in the PRC; that is, that traditional cultural values are as or more important to ethics than those promoted by the Communist Party since 1949 (Hu, 2014).

a. Confucius

As noted above, the Confucian value system is one based on moral precept rather than legal dictate. Ethical behaviour derives from the ethical behaviour of the leader (or the head of the family). Confucius and his major followers essentially disapproved of business activity; profit was considered subordinate to ethical concerns as gaining a profit conflicted with their philosophy. However, as Lee (2009) argues, it can be possible to earn profit in a moral way.

Confucianists seek harmony and it could be argued that this has influenced the modern PRC, as in the Beijing Olympic Games, the slogan of which was ‘One World, One Dream’. However, and despite the Communist Party's contemporary promotion of Confucius Institutes around the world, its general attitude has been hostility (Macdonald, 2011). Especially during the Cultural Revolution, the era of extreme Maoism, the Communist party tried to eliminate Confucian teaching and replace it with Party ethics. In general, after 1949 and the establishment of the
modern PRC, the political system has been marked by upheaval (Szeto, 2012); the end of Maoism in 1976 saw the adoption of economic reform and an ‘opening-up’ to the world, potentially then being open to Western culture values and business ethics (Gao, 2009). This, however, has not happened.

One of the most important elements of Chinese social values is Guanxi which to be examined in this literature review later (Nie, 2015). Guanxi has been historically integrated with Confucianism in the Chinese way of life (Dunfee, 2001). In Chinese society, whether one invokes either Confucianism or Guanxi, family relationships are the root principle and basis for other relationships. The leader should be the father caring for or the teacher to the employees. In return, employees owe him or her loyalty, respect and obedience in the same way, as they should treat their parents (Ho, 2010). ‘Wu-lun’ (Lin, 2011) relates to the critical relationships for Confucians: Father and Son, Husband and Wife, Brother and Brother. These are family relationships that can be expanded to cover organisations and even the country. Such groups are ‘big families’ or ‘Da Jia’.

Guanxi relates to connections within such a family, to relations between employees and superiors (Ho, 2010). They could even be said to have seemingly common objectives in harmony and peace; ‘harmony makes the family prosper’. However, it is evident that they are also possibly at odds; Guanxi can conflict with Confucian ethics; it can lead to blind support for unethical behaviour (Ho, 2010; Langanburg, 2007). It may involve social exchange for mutual benefit but this does not preclude what outsiders would regard as unethical behaviour (Chan, 2008, see also Gu, 2015). In recent times, the most positive aspect of Guanxi was probably
during the Maoist era, when people could only help each other through trusted relationships. However, as during the present era of economic reform, Guanxi is often associated with corruption and bribery (Langanburg, 2007).

It can be argued that Confucian ethics are still dominant in such East Asian societies as Japan, Korea, Taiwan and Hong Kong (Chan, 2008; see also Szeto, 2012). Certainly, Western and Eastern academics have argued, with Hofstede, that Chinese CEOs are heavily influenced by Confucian practice and thinking (McDonald, 2011). They view the development of business ethical practice in the PRC as deriving from three driving forces: Confucianism, Maoism, and foreign business ethics (Szeto, 2012). The second, Maoism, will now be briefly examined.

b. Maoism

Maoism or ‘Mao Zedong thought’ is best defined as Mao Zedong’s refinement of orthodox Marxist doctrine to fit Chinese circumstances. Mao emphasised the peasantry rather an industrial proletariat as the key to class struggle and combined this with a marked personality cult (www.Wikipedia.org). His thought was the basis of communist party policy and action in China from 1950-1970.

The triumph of the Communist Party in 1949 marked a revolution in terms of a new political and economic order and a rejection of the past. This rejection of the past reached its peak during the Cultural Revolution, with traditional Chinese philosophy most under attack when Mao established the Anti-Lin and Anti-Confucius Campaign of 1973–76 (Lin was Lin Biao, Mao’s onetime designated successor, whose attempted coup ended in a mysterious plane crash). The assault
on Confucian ethics, characterized as feudal remnants, saw women called on to ignore feudalist ideas and to fight against gender inequality – striking at the foundations of that most central Chinese institution – the family (Zhang, 2003).

Mao’s emphasis in the Cultural Revolution was on ‘struggle’ and revolution – on changing the old order. Some business commentators claim to find this influence maintained in the strategies of many business leaders in the PRC (Macdonald, 2011). Examples they cite include Ren Zhengfei, known as ‘Telecom Titan’, who has taken Huawei Technologies to global prominence, and Dong Mingzhu of Gree Electric Appliances. Ren for example follows Mao’s strategy of ‘using the countryside to encircle cities’. Criticism and self-criticism are always applied in company business meetings (McDonald, 2011). A feature of Chinese Communism that has survived Mao (and is popular with Xi Jinping), this could reflect his influence.

C. Economic reform (Dengism)

After Maoism and the fall of the ‘Gang of Four’, the focus was on economic achievement, with the fundamental shift demonstrated in Deng’s proclamation that ‘to get rich is glorious’. Profit orientation has become acceptable and business interaction undertaken with enthusiasm with the West. However, this has not meant that Western concepts of legality and contractual duties have become acceptable in China (Szeto, 2012; Hanafin, 2002).

The move away from a supposedly planned economy to a ‘socialist market’ economy raises difficult questions as to the impact on society. Most seriously, the
changes have obviously brought an imbalance in the distribution of wealth among individuals, groups and regions. A number of commentators (see Hanafin, 2002) have complained that the prevailing conditions of economic and social competition are unfair. It is also evident that many, especially Party leaders, have used their positions to acquire wealth by unethical and unlawful means. Moreover, there is the evidence of the growth and spread of negative social phenomena such as passing-off fake and inferior products, prostitution, indifference to those in danger, and the corruption of power. Many commentators argue that this is an inevitable effect of the market economy and directly attributable to market reform.

2.4.3 Challenges to ethical leadership in China

Rapid economic change and growth in the PRC, accompanied by a major influx of foreign direct investment has led to the sort of cross-cultural dilemmas to be expected when entrenched cultural practice faces a rapid changing environment (Dunfee, 2001). Over the past 25 years of economic reform, the PRC has made extraordinary economic progress by shifting from a planned economy to an increasingly competitive market economy, and the country is ever more integrated into the global economy (Pittinsky, 2005). However, it could be argued that business behaviour has not kept pace with this progress – to the point where this may even threaten economic achievement. Nevertheless, the PRC still remains committed to its socialist modernization cause along with its policy to open up to the outside world (Pittinsky, 2005).
There are in fact a multitude of challenges, with ethical behaviour and leadership an important aspect in some of these. One aspect reflects the contrasting bases of ethical systems; the contrast between a Confucian duties based system and a Western right based system possibly being one aspect. This is especially so as it would not be easy to set up and enforce a formal ethical system on the former lines (Koehn, 1999). More fundamentally, further progress in China, whether economic, social or political, would seem to require a legal system that inspired respect and provided a secure basis for interpersonal relations, whether business or otherwise.

As Li (2009) argues, in a rule-based society, it takes a high fixed cost to establish legal infrastructure but transactions are governed at low marginal cost. Such a consideration also incorporates the question of how to protect and advance the interests of stakeholders through formal forms of corporate management and public administration. There is every reason for the PRC to try to improve its legal environment for business operations. Moreover the social environment within the PRC is also changing. People are seeking more ethical behaviour from their rulers, they are more aware of their rights and more able to express their views through the growth of the internet (Dunfee, 2001).

The PRC needs not only technical but also ethical development. One aspect which demonstrates the problem is the lack of faith shown by Chinese people in Chinese goods. Beyond the problems of quality control in Chinese exports are the failure of domestic supplies, as in the case of An Ying Bio technological Development Company and Futian Biotechnological Company. The two companies added
melamine to wheat gluten in order to meet the required level of protein. The two companies then exported contaminated pet food through the channel of non-declared goods, thereby evading quarantine inspection and supervision. It is noteworthy that the two companies are both smaller private enterprises, and both had won awards in China. Each had been lauded as a “Star Enterprise,” an “Honest and Trustworthy Enterprise,” or an “Advanced Quality Management Enterprise,” by the local government authorities in charge of assessing corporate contributions to the community and corporate integrity (Hanafin, 2002).

China has serious issues to face connected with corruption, labour rights, distributive justice, and so on. The government is trying to solve these issues through institutional and administrative means, issuing anti-corruption rules, the new Labour Contract Law, strengthening the inspection, surveillance of safety and quality, and so on (Lu, 2009) Apart from product and service quality problems, another critical ethical challenge in the PRC relates to ‘Guanxi’. As noted above, Guanxi has its dark side; of most concern to the Party leadership is that it can lead to an inefficient allocation of resources. Exchange through Guanxi incurred can involve the wrong place, wrong timing, and wrong people. It can mean, at the least: hiring the wrong person – one incompatible for a position’s tasks, giving a loan to the wrong company, resulting in bad debt, and buying low quality goods rather than competitive quality goods. Most seriously, one group of people benefit over others, especially ordinary people in the PRC (Dunfee, 2001). Guanxi in relation to ethics is discussed in more depth below.
2.5 Guanxi

Guanxi is well known among in Chinese business people. The concept of Guanxi is sometimes thought to be uniquely Chinese (Langenberg, 2007). It is important for anyone who wants to succeed in China to understand the term Guanxi. This is because the concept is central to business dealings with firms, corporations and entrepreneurs in the PRC. As noted above, Guanxi, at its most simple is a relationship-based network system, and is seemingly as old as Chinese society itself (Lin, 2011).

2.5.1 Guanxi: definition, description, and its nature

Though, Guanxi is well known among anyone dealing with Chinese businesspeople, there is no clear definition and there is no direct translation for its meaning. Definitions include: “tight- close knitted network”, “interpersonal connection”, “gate or path” (Dunfee, 2001). The core behavioural trait of Guanxi is that when people get involved in relationship, it creates a continuous obligation to give and take. It is possible to find similar features elsewhere, such as blat in Russia, and bakshish in Arabic societies. However, although features of Western relationships, such as networking, reciprocity and nepotism, also appear similar, they do not have the same dimensions as the Guanxi phenomena (Dunfee, 2001).

Thus, a Guanxi relationship can be seen as dealing with transactions and resources distribution in order to obtain mutual contacts and interaction. It is a general form of networking. The network in Guanxi is the connection between two
independent bodies, connecting with each other in order to undertake individual or social transactions; both sides expect a benefit or at least a trade-off (Lin, 2011). The relations are normally informal in a manner characteristic of commercial activities in China and other Chinese oriented society in East Asia (Lin, 2011).

In Guanxi, it could be argued, people put the benefit from a relationship before true affection (Week, 2013). The networking in Guanxi is based on the unwritten law of reciprocity; one involved in a relationship always expect something in return (Chan, 2002; Lin, 2011). However, it remains powerful; Guanxi relationships are for the long-term, even for life. Anyone ignoring the commitments of reciprocal favour is in danger of losing Mianzi (face) or wrecking social networks to their certain cost (Lin, 2011; see also Chan, 2002). Mianzi is essential to the individual as a source of power and status in Chinese networks (Lin, 2011). However, Guanxi is not created by only a one-time payment; it can take multiple acts leading to reciprocal obligation. These can include home dining, visits to a work place, entertainment and gift giving (Dunfee, 2001).

Further, Guanxi embraces any relationship which contains trust, favour, dependence and adaptation (Wong, 1998). Given the establishment of Guanxi in a relationship, one can ask for favours from the other side - on the understanding they will be repaid in the future. Thus, friendship in China is not only based on affection but also on mutual obligation which can mean mutual favours or a return on the relationships. In China, when one says he has many friends, he means he has much Guanxi (Fam, 2009).
Guanxi is applied to anything that a participant needs to get done. It is a lubricant that helps people to get through life. It is used for benefits that range from enrolling in school or university to getting a bank loan. It bridges an individual’s everyday life to their business activities in the PRC and Chinese societies generally; it is critical for success, especially in the PRC (Langenberg, 2007).

2.5.2 Pros and Cons analysis of Guanxi

Observers argue that Guanxi is an effective basis for successful business where institutions are weak or authority compromised – it can be said to be a replacement or substitute for the rule of law (Dunfee, 2001), as in the case of the PRC during the Cultural Revolution (Chan, 2001). Guanxi can be seen as a glue that holds Chinese society together (Dunfee, 2001).

Although Guanxi involves reciprocal obligation, it cannot be considered as the basis of an ethical system. The reverse may be true. In the PRC, Guanxi is associated with negative organizational practices, with nepotism and corruption (Ho, 2010), because Guanxi is based on reciprocal obligations that are almost impossible to refuse (Chan, 2002). In the Western view, Guanxi is usually related to unethical behaviour. Though westerners view this reciprocal system as bribery, it is acceptable in PRC as a facilitator that make business conduct easier in PRC. An example known to the writer would be the case of a foreign firm approaching a customs officer to make custom clearance process faster.

2.5.3 Changing Chinese culture, environment and Guanxi
Given that Chinese businessmen do not hold to a Western-style ethical framework, it is critical for international firms to understand the attitudes of their potential Chinese employees and business partners toward Guanxi and ethics (Chan, 2002). This is despite the fact that Chinese business practice is also changing in response to its exposure to Western business and ethical modes (Lin, 2011). Today, scholars debate the significance of Guanxi in the era of economic reforms. While some argue that the use of Guanxi is in decline, others argue that it is flexible and adaptable and its use is on the rise, especially in new areas of operations (Week, 2014). Domestic forms of business operations and governance have changed, and there is increasing competition among private firms; those affected most by Western business conduct and culture. However, while there is pressure to conform to international norms and practices (Dunfee, 2001), it is evident that ample scope remains for Guanxi. This is evident from the answers to questions from interviewees in later chapters.

2.5.4 Guanxi in the PRC and in Hong Kong

Under the Maoist form of rule in the PRC, private property and family business were not allowed, potentially leading to the reduction of familism. To the extent that Maoist thought and practice were successful, it could be inferred that those aspects of familism that relate to Mianzi and Guanxi, and to Confucian ethics, would be diminished. It would thus be expected that the nature of Guanxi, and the hold of a Confucian ethical system would be stronger in Chinese societies outside of the PRC. There is some literature that seems to indicate that business in such
societies combines an adherence to Western-style rules with the continued incidence of Guanxi and Confucian ethics (Fam, 2006).

2.6 Ethics in Hong Kong and China

A large part of the interest that derives from a comparison of business phenomena, including ethical systems, in the PRC and Hong Kong is that although both are from the same cultural background, their recent history, over the past seventy years especially, has been very different. Hong Kong was a British colony from the 1840s, while mainland China underwent a Communist revolution in 1949. This has meant that while even before 1949, their political and legal systems were different, after 1949 the divergence became even more marked. The implications for aspects of culture, and especially ethics, are quite profound (Hoivik, 2007).

This is because the differences in socio-cultural developments in the PRC and in Hong Kong after 1949 have a profound impact on the nature of ordinary and business life, including the underlying ethical rules involved. Where public rules are fair and efficient, ethical leadership tends to be governed by reliance on public ordering. In a rule-based society, it requires high fixed costs to establish legal infrastructure but low marginal costs to govern transactions. Ethical leadership relies on the state (legislation, courts, and the police) for public interest protection.

On the other hand, in a country where the public rules are unfair (whatever their nominal nature), the implication for ethical leadership is that it will be governed by private means. In a society where the rule of law is lacking and courts are not independent, people tend to rely on private relations and personal networks.
in order to get things done. Moreover, in terms of the cost of governance, in a relation-based system, where reliance is on personal relations rather than a legal infrastructure, there are low fixed costs and high marginal costs. A Confucian culture is more conducive to reliance on a relation-based system (Li, 2009).

After the Second World War, Hong Kong, as a British colony, began its remarkable growth. Hong Kong's corporate governance system was firmly based on what might be described as the Anglo-American model; although, as will be emphasised below, the colony's culture was rooted in what can be termed a Confucian background. The mode of corporate governance was an important factor in this success, bringing confidence especially to western investors (Miles, 2006).

Although it could be argued that Confucian values conflict with Western values and Western corporate practices, Hong Kong was able to implement the Anglo-American based legal system effectively. This offers a potentially good example for the PRC to follow - if it really desired to implement a system to support an environment conducive to global success (Miles, 2006). In Hong Kong, the two approaches integral to western and eastern culture have interacted over 150 years. Fundamentally, the culture is Chinese but, until the Handover of 1997, it was a British colony with a legal system derived from Britain and with a business life long dominated by western firms. Hong Kong is very much where east meets west, where the philosophical foundations of ethics that exist in both the West and the East have met. Hong Kong has developed so successfully that it must be recognised that the differences do not entail problematic outcomes. Rather, it remains of interest what
sort of adaptations have taken place in both cultures and especially in ethical approaches (Hoivik, 2007).

The sort of problems that can arise between parties coming from different cultural backgrounds are illustrated well in a case study set out by Hoivik (2007). This arose in marketing communications in the form of ‘expo’ invitations couched in a terminology that reflected the form of culture-specific politeness associated with Confucianism. This resulted in a form of words that could and was perceived as ethically inappropriate by a potential Western participant.

The General Director of Your Honoured Company. It is decided that the Zhengzhou Computer Software Show will be held on December 1, 2006 in the Science and Technology Centre. We would like to seek your cooperation and sincerely invite you to participate in this show (Hoivik, 2007).

The way the invitation addressed the receiver as “your honoured company” can be interpreted differently across cultures. Evidently, the PRC manager intended the address to show higher-level respect - following Confucian principles - while the New Zealand manager interpreted “Honoured Company” as an inappropriate salutation.

The sentence ‘seeking for cooperation’ is another example that could be interpreted differently across cultures. On the Chinese side, it is expressing ‘Guanxi’ and interdependence - it shows goodwill and leaves the receiver choices. However, in this case, the evidence shows that the New Zealand manager felt it was a ‘pushing sentence’.
Another example of cross-cultural misunderstanding is given by Hoivik. Frequent telephone call invitations from a PRC business person were interpreted by a western female business person as unethical behaviour amounting to sexual harassment. (Hoivik, 2007). Thus, we can see that in another cultural context, a Confucian ethical approach can be seen as an intrusion on personal space. Cultural differences yield a different perspective relating to privacy and personal space.

2.7 Hong Kong ‘s British rules and legal system

Although Hong Kong has been officially politically a part of the PRC from the time of the ‘Handover’ of what was previously a British colony, it retains certain distinctive characteristics as a result of the latter experience. In the first place, Hong Kong, unlike the rest of the PRC, can be considered to be a developed economy, most obviously in terms of per capita income. Second, although politically a part of the PRC, and hardly fully democratic, its institutions differ considerably from the rest of China (Mathews, 2008). Most importantly, it has retained the legal structure, derived from the British common law, which it acquired as a British colony (Kam 2010). Contracts are made under a legal system, which does not discriminate between the parties as can certainly be the case in the PRC.

Hong Kong has become a fast developing cosmopolitan city, with 98% of the permanent population comprising ethnic Chinese. In a demographic sense, Hong Kong is a Chinese society. Its Chinese heritage has set the elementary behavioural code and the moral fabric for everyday interaction in Hong Kong. In the process of modernization, Hong Kong people have been widely exposed to other cultural
influences, particularly the West (Ho, 2010). And, as noted above, despite the Handover, it has retained a common law system. And it can even be argued that its Chinese heritage, with Confucian morality a prominent part, has led it to take the ethical conduct of business very seriously. Nowhere is this more evident than in the high profile of the Independent Commission Against Corruption (ICAC) in Hong Kong.

ICAC was originally founded to fight corruption but can now be seen as having general responsibility for ethical conduct in Hong Kong. ICAC was found on 15 February 1974 by Governor Murray MacLehose at a time of economic boom. It seems that this had led to an ethos of corruption that penetrated the whole of society and economy in Hong Kong; even firemen wanted money before turning on water. However, the great area of concern was the police force; corruption was rife as the scale of opportunity, as with illegal immigration or drugs gangs, grew with heady economic growth (but not the pay of police officers). It was this lack of trust that led to the establishment of ICAC as independent organization reporting directly to the governor of Hong Kong – or the chief executive after the Handover (www.ICAC.org.hk).

2.8 Hong Kong and China: general ethics implications

In both Hong Kong and the PRC, business relationships are profoundly influenced by Guanxi (Langenberg, 2007). However, such relations are conducted within very different legal structures, with Guanxi arguably of much lesser
importance in Hong Kong. It is important to note that ethics is not determined only by common practice but also by reflected behaviour within a culture.

While Hong Kong has developed under British common law, the rest of the PRC has a written structure of laws, partly based on communist ideology but also on what can only be described as liberal and enlightened precepts (apart, perhaps, for the prominence of capital punishment). The general unsuitability of the legal system as a framework for business activity, however, is less due to any deficiency in the laws themselves, than in their irrelevance whenever the Communist Party leadership has decided on a particular course of action or desirable result.

In this respect, it can be argued that, under the highly variable conditions of communist ideology that the formulation of moral rules and regulations, business ethics and professional morality has not kept pace with economic development in the PRC. Under a so-called socialist economy, it could be argued that morality has been weakened and the sense of social responsibility dimmed (Harvey, 1999). This is of critical importance in business relationships, as will be evident in the evidence presented in the rest of this dissertation.

2.9 Conclusion

In this chapter, the literature which is related to the research topic has been examined, reviewed and synthesized. The review started with exploring the broad scope of ethics, leadership and ethical leadership. Thereafter, the literature specific to cultures in relation to ethical leadership was examined. There followed a brief look at specific features of Chinese culture, and the nature and implications of the different legal systems to be found in Hong Kong and the PRC were also examined.
The literature review has been intended to provide a context to the research topic of this dissertation, and to give the starting point for the development of the research questions. Although the PRC and Hong Kong are formally the same country, and share the same cultural background, their development has been far from identical. For the purpose of this dissertation, they can even be viewed as different territories.

Finally, in the context of this literature review, it must be emphasised that, although there has been a considerable output of research and scholarship on different aspects of Chinese culture, little of this has been directly concerned with ethical leadership and its different implications in the two territories. Thus, this dissertation can be considered original in seeking to give at least a partial insight into the manner in which ethical leadership differs in Hong Kong and in the PRC.
Chapter 3  Methodology

3  Introduction

This chapter has been designed to provide an insight into the particular research method selected for use in this dissertation, with some detail on how the research framework was developed and implemented. It begins with an overview concerning the differences between quantitative and qualitative approaches in methodology, one that is followed by the reasons why a qualitative method is used here. This incorporates the use of in-depth interviews, the rationale for which in the research design is explained later.

The chapter is set out in different parts as follows: section 3.1 presents the differences between quantitative and qualitative method. Section 3.2 provides a justification of the use of a qualitative method, incorporating in-depth interviews. Section 3.3 explains research design. Sub-section 3.3.1 explains the sample. Sub-section 3.3.2 explains how the participants were recruited. Sub-section 3.3.3 provides a description of the participants. Sub-section 3.3.4 outlines an explanation of the use of the specific research instrument used below – the interview – and the schedule employed for this. 3.3.5 declare ethics and safety of the research. 3.3.6 expand the interviewer qualifications and eligibility. Section 3.4 is about data collection. Section 3.5 explains how data is analysed and, finally, the last section 3.6 provides a conclusion to the chapter.
3.1 Quantitative vs Qualitative Method

Research is supposed to be a scientific procedure which is unbiased, reliable, and relevant to a research question (Baker, 2001). Qualitative and quantitative research methods are designed to yield empirical results but their interpretation and objectives are different (Hu, 2011). This is because they are intended to answer different questions. The aim of qualitative research is generally a descriptive model, and is suited to investigating something little known; it is used to develop concepts with an emphasis on meaning together with the experiences and views of participants (Sinuff, 2007). A qualitative approach can provide a rich explanation for a topic which has been researched, usually presenting data in the form of a description or explanation of the phenomena investigated in words (Polit, 2010).

A qualitative approach tends to be used to discover something rather than to validate what has already been investigated (Seawright, 2008). It is also popular in research into potentially sensitive matters (Ambert, 1995). It is suitable for initiating lines of approach in an emerging field of study such as gender and race, because it is more flexible and, hopefully, results in more truthful, ethical and reliable answers (Few, 2003). A qualitative approach can also be used to encourage more interaction between research and respondents (Britten, 1995). Findings are presented in an open manner, usually using a narrative (Bryman, 1984).

Quantitative research is used for hypothesis testing (Gummesson, 2005). Although it is used in a search for specific findings, on the basis of statistical
analysis, it has a narrower scope narrower than a qualitative approach (Ambert, 1995, Bryman, 1984).

The choice of which method to use therefore depends on the nature of each case or inquiry (Seawright, 2008), and is often not clear-cut. It depends on the research question and the nature of the research. Quantitative research is appropriate for concept testing, while a qualitative approach is more appropriate when seeking to explain or explore a concept (Beuckelaer, 2007).

3.2 Justification of qualitative method using in-depth interviews

The research on which this dissertation is based has been intentionally exploratory in nature; it therefore lends itself to a qualitative approach. As emphasized in the previous chapter, although there is a considerable literature on business ethics, ethical leadership and the implications of different cultures for behaviour in business relationships, most of this bears only indirectly on the subject of ethical leadership in the PRC and in Hong Kong. Rather, the literature provides a valuable context to an initial exploration of the subject through qualitative research.

Some topics of potential interest covered here include: the antecedents that lead to differences in ethical behaviour in Mainland China and in Hong Kong. Also of concern is the impact of first-hand experience on Hong Kong executives operating on the mainland, and how this impacts on their behaviour when seeking to achieve business goals in the PRC. The emphasis here then, in covering such topics, is on qualitative rather than quantitative research. The focus is on constructing an outline
as much as an analysis of the views of Hong Kong chief executive officers who have operated in the PRC. In time, this could provide material and a basis for further in-depth studies.

Moreover, it seems that qualitative research is generally regarded as the appropriate method to study ethical leadership. Ethical leadership is a complex field, and a qualitative approach, especially one employing in-depth interviews, can yield rich information for a study. This is because it allows for ‘paradigm shifts’, can yield insights on the role of context, and allows a longitudinal perspective, which other methods cannot (Conger, 1998).

The research for this dissertation is therefore based on a qualitative approach. It seeks to explore, using in-depth semi-structured interviews, how Hong Kong CEOs see the operation of ethical and social responsibility in the PRC and Hong Kong. Further, the form of investigation is appropriate as the objective is to explore not only attitudes but also outcomes during data gathering in the interviews.

3.3 Research Design

Exploring the experience and attitudes of successful business executives is the essential focus of this study. As stated earlier, a qualitative approach gets its results through description, in this case by a researcher gathering data through interviewing (Seawright, 2008). This approach, especially using open-ended questions, provides the chance for an interviewee to describe his or her own experience. It can lead on to aspects being raised that have otherwise not been
explored previously.

At its most simple, interviewing is the method of collecting data from respondents to obtain information on issues of interest. Interviewing is a useful data collection method, especially for exploratory research. The semi-structured interview is appropriate in the sense that it has the potential to elicit in-depth information while still being open enough to identify and enlarge upon any other critical factors that may arise. However, while a semi-structured interview gives room for open-ended questions, it still provides a solid guideline that means an interviewer will not lose the central theme.

A face-to-face interview has many advantages. The researcher has picked this method because it seemed likely to yield the most valuable results, enabling a range of topics to be covered. Moreover, face-to-face interviews give flexibility to the interviewer, who can adapt the questions as necessary, clarifying doubts and ensuring that the responses are properly understood, by repeating or rephrasing the questions (Britten, 1995).

By gathering data in this fashion, the interviewer can also hope to recognize interviewee emotions through their gestures. Personal interviews provide their richest data when the respondents spontaneously offer information, in the sense that their answers do not typically fall within a constricted range of responses (Sekaran, 2009).

Thus, face-to-face interviews are expected to be more effective than telephone or other modes of interview. Further, they not only give access to
personal emotions and gestures, the interviewer can also obtain a more personal perspective from the interviewee (Sekaran, 2009). They can also recognize non-verbal cues from the respondent; any discomfort, stress or problem that the respondent experiences can be detected through frowns, nervous tapping or other body language unconsciously exhibited. It thus gives room for the interviewer to adjust. Finally, in the particular case of interviews for this dissertation, little effort was involved for the interviewee and interviewer to meet each other. All the interviews were arranged in Hong Kong (at the convenience of participants, some of whom spend much of their time in the PRC).

3.3.1 Sample

Sampling in qualitative research does not aim to draw statistical inferences, thus the technique used in this research is generally non-probability sampling. However, in this dissertation, given that the target population was already established, then choices were made on the basis of ‘purposive sampling’, in which subjects are selected on the basis of expertise in the area of investigation (Sekaran, 2009). In this case, the subjects were all CEOs of Hong Kong companies who have had experience working in both the PRC and in Hong Kong. A successful attempt was made to recruit a range of participants from across those business sectors that are heavily involved in China (see description of participants below).
3.3.2 Participant recruitment

Potential participants were first contacted by phone or by email. When a sufficient number had expressed their willingness to give time for an interview, an appointment was made at their convenience as far as possible. After a confirmatory email, the interviewer made a telephone call to organize the appointment with each executive as they are not always in Hong Kong. Confirmation of date and time is very important.

3.3.3 Description of participants

Executive A has worked for four well-known multinational corporations. He was graduated Chemical science and had worked long time in the agricultural chemicals industry. He has held management positions in the People’s Republic and Hong Kong for more than twenty-five years, being based in Beijing, Shanghai and Hong Kong. He has also had a wide exposure to Chinese culture and business practice: he was able to provide considerable insights into particular religious and ethical behavioural traits.

Executive B worked for a multinational precious metals manufacturer; he was a `turnkey' person who established a manufacturing plant and supply chain in the PRC after 1989. The MNC’s home base is in Switzerland, and he founded its mining operation in the PRC, producing precious metals such as silver and gold. Executive B graduated from a School of Engineering in Hong Kong. He is a typical engineer, who has a ‘down-to-earth’ attitude towards his own work and towards
business practice. The information he provided in his interview and his story telling, were characteristically clear-cut. He has had a long experience of operating in the PRC, having originally accepted a job there, just after his graduation. It was the best opportunity for him at that time – and it happened to coincide with the ‘opening-up’ of the Chinese economy. This means that his working experience between Hong Kong and the PRC has lasted for more than twenty years.

Executive C is a CEO who has had dealings in international trade and e-commerce. He has been working at a management level in Hong Kong and the PRC for more than 23 years. Executive C was born in Hong Kong and graduated from business school there before the period of economic opening up in the PRC and the reunification of Hong Kong and China. His age is over fifty and he is the oldest participant among the four. His jobs have involved decision-making, training, marketing strategy, internal management training, business design and knowledge management.

Executive D operates in the motor and parts manufacturing industry, in a firm which has a plant in China and a headquarters in Hong Kong. She has experience dealing with operations, purchasing, and sales management in China and in Hong Kong. Executive D is the youngest participant of the four people. Moreover, although born in Hong Kong, she is the one who has grown up outside Hong Kong and is most familiar with western culture. She moved to Australia when she was twelve, at the time of the reunification of Hong Kong and China. Although in Australia, she lived in a close-knit Hong Kong community, she still experienced
western cultural influences, being educated there and graduating from a business school. She returned to Hong Kong because of her involvement in her family's business, a motor and parts producer, which is run from Hong Kong but with its factory in China. She has been acting in a managerial role for the five years after her return.

The reason why the interviewees choose to work in the PRC can be summarized briefly. Three out of the four executives are the same in gender; they are male and aged 50 – 60 years old. They have worked in Hong Kong and the PRC for more than 20 years, and they have the same background in that they grew up in Hong Kong before moving to the PRC. The main reason that they chose to work across the border is because it was the best opportunity at the time that they started working. As executive B stated:

"It is the best opportunity at that time. I have no choice. More senior people they are in the good position and no one want to go, unless have to accept the opportunity to work in China. Sometime, I woke up and I have to tell myself where I am. I forgot that I am in China."

Executive D is much younger; she graduated from Australia and came back to help her family business in motor manufacturing in the PRC. She put it this way. “People ’s heart are draining but I have no choice. My father and mother are here and they are getting old. What else I can do?” Her father founded a motor factory in the PRC at the time when it was first opening up, before sending her aboard. It was her father's choice at that time, the same as the other executives from the older generation.
3.3.4 Instrument – Interview schedule

The instrument used in these in-depth semi-structured interviews was a schedule containing guideline questions. These guideline questions were comprised of both close-ended and open-ended questions. It is also emphasized in the literature that the interviewer be well trained in order to minimize interviewer bias. This can be apparent in such ways as voice inflection, differences in wording, and interpretation (Mantzoukas, 2008). The interviews were taped and notes were taken.

3.3.5 Ethical considerations

In accordance with section 1.1 to 1.15 of the Australian national statement on ethical conduct in research involving humans, the proposed research required institutional approval. An Ethics Application was submitted to the University of Newcastle Ethic Committee and was successful. Among other provisions, it stated that the permission of interviewees would be requested in advance by seeking signed consent for an interview and audio taping. For privacy and confidential reasons, access to audiotapes and related documents was to be restricted to the researcher and her supervisor. Only the interviewees could otherwise have any form of access. Audio tapes and related documents were to be destroyed one year after research completion. Data would be kept confidential and used only for this research.
3.3.6 Interviewer qualification

For the purposes of the interviews conducted for this dissertation, it should be noted that the interviewer, Miss Woramon Limsomboon, has considerable practical experience. She has spent at least ten years interviewing people in the course of her business activities, making her well qualified for the role of interviewer. Further, she feels she adds to this, confidence, articulateness, and enthusiasm, the qualities needed to establish credibility to conduct CEO interviews. In other respects, she has taken note of useful information for the interview procedures and questions (Sekaran, 2009), including the requirements of the university's health and safety department. She feels that she knows: how to start an interview, how to proceed with the questions, how to motivate respondents to answer, what to look for in the answers, how to close an interview, how to take notes and code the interview responses.

Moreover, Miss Woramon has also read widely on the topics relating to this dissertation. In order to obtain relevant, reliable and valid information from the interviewee, interviewer experience is very important. Thus, in preparation the researcher felt she gained skill enhancement through practice and reading.

3.4 Data collection procedure

In preparing for the interviews, a meeting room was booked, while drinks, audio recorders and notes were made ready. Upon arrival, each executive was invited to sit down in order to make them feel comfortable. After a greeting, they
were asked to sign the consent form and were informed that the interviews were not being held for the prospect of monetary benefit.

On the advice of health and safety officers, Miss Limsomboon, the interviewer, set up the interviewing place to be as comfortable as possible, ensuring that the interviewee was not hungry and could concentrate on the questions. The drinks of the interviewee’s choice were provided, including an open bottle of water. During the interviewing process, the interviewer tried to be as open as possible, so that the interviewee would give responses that were free of bias. Bias can include errors or inaccuracies in the data collected. However, Miss Limsomboon felt that she was able to avoid bias during the interviews by establishing an atmosphere of trust and rapport. She sought actively to be pleasant, sincere, sensitive, and non-evaluative, as this can help to reduce nervous tensions, making each interviewee feel secure to give their opinion freely. A sense of genuine interest in their responses also helps respondents to feel more comfortable with the interviewer.

In order to obtain honest information from the respondents, the introduction to the interview is important. Miss Limbomsoon began by stating clearly the purpose of the interview: that it was to be used for the purpose of her DBA dissertation and that complete confidentiality could be assured. The respondents were also motivated to give honest and truthful answers by explaining that their experience would be valuable not only for her dissertation but also for the better understanding of all researchers and business people, including themselves. The interviewee was asked to sign the consent form only in so far as they felt they
understood these points. The interviewer also assured each interviewee that they could ask to stop the taping or even withdraw from the interview at any time. All this was done to ensure that the interviewee felt free to give truthful and honest answers.

It is also necessary to establish a process that ensures the security of respondents. By explaining before questioning why the interviewee was picked enhances better communication between interviewer and interviewee. During questioning, it is important that the interviewer not be misinterpreted or distorted, neither to encourage or discourage certain types of response through gestures and facial expressions. The interviewer should listen attentively to the interviewee, evincing keen interest in what respondents say, and exercising tact in questioning. Questions may need to be repeated or clarified to avoid bias due to misunderstanding. Paraphrasing some of the answers to ensure their thorough understanding can go a long way in keeping alive the interest of the respondent throughout the interview. When the respondent is not be able to verbalize their perceptions or replies, the interviewer can then repeat the question in a more simple way or explain it further (Sekaran, 2009).

In general, the interviewer felt that she had obtained rich and accurate data from the interviewees. She felt that she had avoided or recognized distorted or incorrect responses, and that the interviewees were comfortable with her. She also felt there was no chance that some interviewees gave answers in a socially acceptable manner rather than indicating their true sentiments. In return, she felt
thankful to every participant she had interviewed. They were very cooperative in answering and gave what she thought were trustworthy answers. In fact, they were enthusiastic in providing the benefit of their opinions and sharing their experiences. As a result, the interviewer gained a complete set of data, which it was easy to organize. The cooperation of the CEOs was much better than the interviewer had expected.

The interviewer was particularly pleased that her note-taking and concentration held up well during the interviews. The importance of note-taking, of written notes as the interviews are taking place, or as soon as the interview is terminated, cannot be stressed too much, even when there is recording by taping (Sekarna, 2009). Note-taking helps the concentration of interviewer and provides a safeguard against the vagaries of memory. It requires, of course, the permission of the interviewees. The interview had been tape recording by interviewee permission. As noted above, this dissertation is designed to throw light on differences in ethical leadership between the PRC and Hong Kong, based on interviews with executives from the latter economy. Originally, it was intended to interview at least four CEOs, with further personnel contacted if any of those four thought it useful to pass on to someone in their organization who could meet the criteria better. In fact, as it turned out, they were actually the best situated to pronounce on ethics in their organization. Thus, there was no need to interview further. The executives all had experience working in both the PRC and in Hong Kong.

The time for an interview, was approximately 60 minutes. The interviews did
not take too long and thus avoided tiring the interviewees.

3.5 Data analysis

Qualitative data deals with meaning, thus, basically the way we analyze qualitative data is by conceptualization. Conceptualization can be done by description and classification. Where as relationship analysis is done through establishment of the connection (Dey, 1993) In this dissertation, the interview script is repeatedly review until pattern data come out, categorized and presented by the mean of description.

3.6 Conclusion

This chapter has set out the reasons why a qualitative research method was chosen for the purposes of this dissertation. The research presented here is exploratory in nature, because it is in a field where little knowledge exists. An additional reason is that the research is dealing with the experiences of business executives in relation to different cultures, which is a potentially sensitive matter. Thus, the most appropriate method for the research is an in-depth interview. Chapter 3 explains the development of the methodology in which used to address research questions. The next chapter will present the results generated by the research questions.
Chapter 4  Analysis and discussion

4  Introduction

This chapter present data and data analysis from in-depth interviews with the four executives. The research questions employed are presented followed by the answers from the four executives. In section 4.1, an overview of the data analysis which was applied in this research is provided. The following sections provide a review of the answers given to specific questions or groups of questions.

Section 4.2 presents the findings for the question on the antecedents that have, in their view, influenced the Hong Kong business executives. Section 4.3 presents the responses to the questions regarding social responsibility. Section 4.4 presents responses to the questions regarding aspects of ethical leadership in the PRC and in Hong Kong. Section 4.5 presents the findings for research questions regarding the different legal systems in the two parts of China for ethical leadership. This is followed up in section 4.6 with an attempt to generate more detailed findings regarding the impact of the Chinese business context on ethical leadership by Hong Kong executives. Section 4.7 presents the response to a question about leadership style in mainland China and in Hong Kong.

In section 4.8, there is a commentary attempting to tie together some of the threads of the themes which have emerged from the answers, and this is followed by tentative recommendations regarding ethical leadership in the
mainland and in Hong Kong. The last section, 4.9, provides the conclusion for the chapter.

4.1 Data Analysis

The research approach in this dissertation has used both content analysis and narrative analysis. Content analysis was used to analyse secondary data, as from websites, books and journals for the literature review. Narrative analysis has been used to elicit and scrutinize the data, which ensued when the interviewees were asked to describe their experiences (Guthrie, 2006). Since qualitative data collection produces large amounts of data, coding is employed so that the data will be reduced, rearranged and integrated. The purpose of coding is to draw meaningful conclusions about the data. Data were repeatedly reviewed to increase understanding, until patterns data were recognizable, discovering connections between isolated points. Then the result was organized in the form of a narrative presentation. The material generated for analysis was more than sufficient as to preclude the need for further or follow-up interviews.

A qualitative method tends to yield a rich result, comprising of opinion, experience, story telling and even recommendations. The four business executives were from different industry sectors so their responses sometimes differed in detail; however it was evident that they shared the same attitudes and behaviour. All executives shared the same background in that they all grew up in Hong Kong, with one partial exception, and have worked both in Hong Kong and in China. Their experiences are from direct contact with people and operations in both Hong Kong
and China; they share the same cultural attributes and, in order to work well in both territories, they have had to adapt to different work cultures and understand different norms, values and habits different in both contexts.

In the section below, the general themes of the questions are set out together with a commentary on the responses, a commentary that is expanded on analytically in the next chapter.

4.2 Question on antecedents that influence Hong Kong business executives.

There are numbers of antecedents that influence the styles of ethical leadership practiced by Hong Kong business executives. These derive from education, primary and secondary as well as tertiary, from corporate training and practice, and from culture in the broadest sense. They have also absorbed basic ethical norms in the normal course of family life. However, as is the usual practice in recent years, this has been supplemented by more formal instruction.

Each executive interviewed, in common with all executives in Hong Kong, had experienced some form of ethical training; it is common practice from school times onwards (although there is anecdotal evidence to suggest that cheating is as common a practice in these schools as it is in mainland China – and has been for centuries). Further, as all interviewees stressed, ethical training in Hong Kong is not only formal, as from education or from explicit instruction within organizations, but also informal, from day to day interaction with people. The interviewees stressed that basic ethical practice is a norm in the culture of Hong Kong.
In addition, MNCs in Hong Kong usually take ethical behaviour very seriously. They have formal codes of conduct, which cover ethical issues in the manner required by the company, as a quotation from Executive A illustrates: “Most of the companies I worked for are multinational companies. They concern about ethic. They have code of conducts. It is a very serious manner. You have to do some interactive questionnaires to show to the company that you are fully understand the standard of company’s ethics.”

This is less the case for small and medium-sized enterprises (SMEs). These put less emphasis on explicit, formal rules and, as Executive D notes, ethical standard is much dependent on the behaviour of management. Her company does not have a formal code of corporate ethical conduct, as would be the case with a MNC, but relies on the leadership setting an example with its own behaviour. Thus, as her father is an ethical business person, then everyone in the company follows him, and behaves in an ethical way.

I think it really depend on corporate environment. Therefore, large international enterprise and SMEs deal with ethic differently. For me who is the owner of business SME, this is not a very important area in our practice. For our corporate culture and for our staff, it really depends on what supervisor they are under. If the supervisor is really focus on ethical behavior then their staff will follow. It depends on how their supervisor acts in order to show staff underneath to train for company and the company image.

It is true to say that ethics in SMEs and in large firms are different because of various ethical dimensions that make for distinctions between small and large firms. This is especially reflected in the ‘jargon’ associated with
MNEs: encompassing concepts such as CSR, quality management, environmental management, ethical management, health and safety etc. Those terms used in a large firm may not be appropriate in a small firm. Large firms in Hong Kong are much more influenced by Western thought and practice in business, although the differences between large and small are also to be found in the West (Spence, 2010).

One theme, which emerged most clearly from the responses of Executive C, was the role of Confucianism. He emphasized the importance of a traditional upbringing, of inculcation with traditional values, arguing that the more an individual was raised according to such values meant that the more ethical they would be.

Chinese people, we have a traditional value, especially town value, Confucius value, police value, this is an embrace in our daily life. This is intrinsic value, when we were born. Let’s say we obtain honest feeling, we love our parents, we have to support our parent life. Up to this point, we have to emphasize, as we are Chinese, we should know about this. This is good for them to comprise with the company because if they are respect to the elders then they will respect to the company. We also emphasize on Chinese traditional culture, that enhance ethics.

Executive C is the oldest among the four, a probable reason why he put his focus more than the others on Confucius when talking about ethics. He gave himself as an example of someone who was raised up according to strong Confucius values; they provided the code according to which he knew what he should do and behave in an appropriate human manner - such as behaving with due obedience and respect to one’s own father and mother; taking care of
them when they get old and being a good husband and a good father
(especially as you want your son to be nice to you).

Interestingly, he strongly insisted that people in the mainland were not
familiar with Confucius or with Confucian values. And since they are not
familiar with these values and because they have no religion either, “we can’t
expect that Mainland Chinese will understand ethics or even think about
ethics.” Moreover, executive C also emphasised the role of age in relation to
ethical behaviour; he said “Chinese mainland they are still young and are
eager to make money, no matter what’s way it is.” This is perhaps too strong a
statement, but it does point to reservations on the usual assumptions, in the
business ethics literature, that all Chinese people, wherever they are, are
deeply imbued with traditional Confucian values.

4.3 Questions regarding social responsibility

The questions regarding social responsibility, legal systems and ethical
leadership in a Chinese business context were designed to gain insight into the
interviewees’ past experience. Questions were deliberately open-ended with sample
explanations provided so as to stimulate the fullest of responses from the
interviewees.

The attitude toward social responsibility in China and in Hong Kong, according
to the interviewees, is starkly different. In Hong Kong, where managers are familiar
with ethics and social responsibility, social responsibility is perceived as a must, but
in mainland China it is perceived as, at best, an extra, which may potentially impact adversely on profit margins. As Executive B put it: “In China your competitor will think about it very different. First, they will think about how to go around, they will not obey the rules, and then they will compare the cost. If I pay some money out, can I get even better, better than I invest in environmental protection.” As for Executive C:

It has global CSR standard, let’s say ISO 2006 etc. Many factories know about this very well because we have to do business with many international company like Wallmart. Then they have requirement of standard to follow. If you don’t follow it you can’t do business with them. Many know this global standard. Actually they know it superficially. I mean, they only know the name, but they don’t know how to implement and, even if they know how to do it they are not willing to do it because it is a cost concern. As I said, most Chinese companies, they are eager to make money, so they would like to save every penny from the cost. Then they may hire an international credit company to inspect their company but they will pay the money to the inspectors or hire some company to decorate the factories so that they can meet the standard of the client but actually this is only decoration; they are not actually do it.

As stated earlier, executive C is the oldest participant. Not only is he the more emphatic on the importance of Confucius, and also age, as a factor in ethical conduct, he also regards younger Hong Kong people, and Chinese immigrant from the mainland, as suspect in regard to their basic values. In his view, any mention of social responsibility in the PRC is only for decoration; it is not an actual concern. He gave an example of a local company on the mainland in this respect. Confronted with accusations of poor treatment of its workforce, it responded in two ways. First, it gave bribes to an official Investigation that was set up in response. Second, it hired a Consultative Company to work on
improving its image – through media operations rather than actual practice. It was successful enough to win awards, which meant that the original company could then forget all about social responsibility. As for Executive A:

“I think it (social responsibility) is interpreted differently in China and in Hong Kong from my understanding. The interpretation of social responsibility in China is an extra. In Hong Kong they see social responsibility, as something they are committed to; it is an obligation for Hong Kong practice. For Chinese, business practice, the less responsibility the better. Thus, social involvement is an extra that they have to put back to the society is unnecessary to them because it is nothing to do with profit margin, nothing to do with financial spreadsheet (sic).”

Thus, there are also echoes of the ritualistic approach which, as was emphasized in an earlier chapter, is associated with Confucianism. This evidently still has some relevance, as has been acknowledged by the Chinese Communist Party, notably in its financing of Confucius Institutes around the world (including Newcastle University). As has been touched on already, the Party continues to seek ways to improve business conduct and reduce corruption without necessarily abandoning its own dominance. Here, it remains to see if, during their managerial careers in the PRC, the interviewees found any lingering or renewed impact of Confucianism.

Executive D agreed.

In China, if a company practices social responsibility, it is for branding, for brand image. It’s for the reputation. At the end they are looking at ROI as well. If it is whether intrinsic ROI, which is being recognized as building the brand image recognized by the networks, by society, by the government. If there is something in the long run or short run, it is a matter of the pocket. It will be that way in China. But if there is nothing of
a financial reward, they will not go ahead wasting a minute to do a task for social responsibility.

As in the example provided by executive D, social responsibility in the PRC is used more as a marketing tool than as a matter of genuine concern. Each executive claimed that they had tried to improve the position in relation to social responsibility in China, but it had not been easy. In essence, they employed different styles of leadership in China and in Hong Kong. There were some common features to this.

They all have to put in extra effort in order to monitor workers in China, reflecting the differences in culture and norms from Hong Kong. Given the basic operational problems they have faced, and the adjustment to the business culture in China, they tend to concentrate on monitoring, teaching and training. This is because the usual assumptions on the workers obeying rules and following procedures do not hold. The executives have had to explain, persuade and motivate the mainland Chinese workers to operate effectively. Especially they have to spend extra effort on monitoring. This is because the workers focus only on the short run: “they just want to finish work and go home. They don’t have long run concern of where the waste will go and they don’t understand. It is just like we give them complex job to do.”

Executive B gives his experience as follows:

In China, people are more complex. In Hong Kong, if you have an employee and you shout at him, you know the normal procedure. We call it a standard operating procedure for all staff eg, every day you have to turn off machine, you have to do something, like step 1 step 2 step 3, but in China, they are acting very differently. Even you told them, this is the
rule I give, this is the procedures but I can tell you most of the time, they will not follow. So we have to spend extra afford in monitoring people.

This view is backed up by comments from executive C: “more effort will be put on PRC staff because the awareness of ethical behavior is a problem in China because economic interests dominate their thinking.” As for Executive D, “I tried to act in a socially responsible way in China but it is very hard. When you are in an environment that this subject is not taken on the table, not even speaking of seriousness. It’s never on the agenda.”

The views above are all from representatives of MNEs. As for executive D, the only representative of an SME, her remarks contained some similarities, but also highlighted one significant feature of operating on the mainland. As she emphasized, her firm had its focus on profit and survival; usually ethics is not on any formal agenda. As to her company’s ethical policies, she gave her view that she followed the law at least, whether in Hong Kong or mainland China. Where her evidence differed was on the problems that could arise from official interference in labour relations.

The law in China changes frequently; she and her mother always have to follow the letter of the law - otherwise, they will incur fines for violation of the law, especially in the case of labour laws. In her view, such a policy has nothing to do with ethics; it is a matter of prudence. Firms like hers are very much at the mercy of government officials, national, provincial or otherwise. It is not sensible to incur their displeasure – although this, of course, is also true for
MNEs. Foreign MNEs have frequently encountered problems with officials for
behaviour which is only normal for local companies.

Thus, from the interviews we can argue that social responsibility in China is
not a real concern for those business people who operate there. This is because it is
not a concern either for the local workers, for the local public or for local or national
governments. For those who are accustomed to better standards of social
responsibility, it is difficult to take up the matter to what they would consider
acceptable in other circumstances. The environment and local people do not
support social responsibility activities.

4.4 Questions regarding ethical leadership aspect in the PRC and in Hong Kong

Every executive mentioned that they handled ethical leadership differently in
China and in Hong Kong, mainly because, given the differences in culture and ethical
standards, attitudes towards ethics and social responsibility are different. Executive
A made this point when arguing that entirely different approaches to business
practice were required. He referred specifically to the relative rankings of Hong
Kong and mainland China in commonly-known ethical world rankings. Hong Kong
usually ranks at least in the top ten for places to do business while mainland China’s
position is well below fiftieth place.

As I said, it is two different systems. Different people, although their
outlook is the same. However, the framework is totally different. You can
find the ranking of ethics in the world. Hong Kong, most of the time, it is
in the top ten or top five, at least top ten. Most of the time, Hong Kong
will be in the top ten or top five in the world standard. However, China
most of the time, is after 50. So we can’t compare Hong Kong with China.
We deal with it differently. In term of production or in term of product quality, we do our best to make our product according to the product specification. We follow the correct way to make the pollution as less as possible, and of course we need to collect back the waste to dump it in official area.

From his point of view, although MNCs which operate in both parts of the PRC usually have formal ethical standards, the implications of this can be very different. The cultural norms and believe in the mainland are different from Hong Kong. Thus:

The executive have to adapt to the local culture in the PRC in order to get the task done. From time to time, it is not ethical conduct as in Hong Kong. For example, he from time to time gives bribe or let’s his local subordinate to give out bribe and he acts, as he doesn’t know. Bribery is unacceptable according to ethical standard in Hong Kong but in the PRC, it is acceptable culture of Guanxi. Giving bribe and receiving bribe are culturally accepted as gift giving in mainland China. Thus, the executive has to adjust his own standard differently in China and in Hong Kong. He can’t directly implement Hong Kong standard practice directly when he works in China.

For Executive C, the contrast was much the same. Chinese firms were solely motivated by the nature of financial return. There was no imperative to do otherwise. His final point raises issues that are tackled in the final section.

It is different. Hong Kong has a long history of being open to the world, and the culture is a mix of oriental and western culture. HK people are more aware of CSR. Even if they don’t know the jargon of CSR but, when we talk about the ethics of a corporate, they can tell you what the corporate has to do to do it right, or the obligations a corporate has. But in China, because it has just opened since 1980, and many companies, their boss are still young, they are eager to make money. They are more eager to pay attention to economic interests. Some of them don’t trust government; they would follow the government regulation selectively.
4.5 Questions regarding the legal system and ethical leadership.

The differences in the legal systems and their enforcement in the PRC and Hong Kong are potentially crucial. As mentioned before, while Hong Kong is governed by the common law, the PRC has gone through many stages of revolution and evolution under communist control. As the executive above notes, there was considerable disquiet over the likely consequences of the ‘Handover’ in 1997. Executive D, for example, was sent to Australia to avoid the prospect of a communist government. The others remain very cautious and always have a ‘plan B’. That is because, under the overall reign of a communist party, normal human rights always likely to be compromised and ethical dilemmas will always potentially exist. It is a commonplace of the literature, in order for ethics to operate well, a strong legal system is a prime necessity (Werhane, 2015). Under the ‘One country Two systems’ arrangement, Hong Kong has maintained a common law system. It is generally agreed that the ‘endurance of ‘the rule of law’ has been a factor in Hong Kong’s continuing economic performance, providing an environment within which individual and organizational rights are secure (Hampton, 2012).

The differences in the legal systems are perhaps the most apparent feature that bears on the potential for ethical leadership between the two systems. Certainly, it was this aspect that the interviewees stressed in comparing their behaviour in China and in Hong Kong. One feature they stressed was the legal clarity that held for Hong Kong. As Executive B put it: “In HK we use the common law. In the common law, if you are not doing anything illegal, then you are safe. But in
China, it is different because they use another type, the continental law. You have to prove that you are innocent, that you are not criminal. That’s a major difference.”

Executive B agreed, summing up the general feeling. “In HK, we have clear instruction. Once you can reach the environmental bureau standard, psychologically we are more safe. We don’t have to worry about anything happening or that I will be arrested. Once I reach the standard, I am safe. But in China, no.” In fact, as he emphasized, there was no shortage of formal regulation in the PRC. “You get everything, you get your permission, you get every license, you get everything, but once you have an accident happen, you have a big trouble.” The nature of the regulation was not the problem. “For environment protection, in China, there can be very strict rules. I will say too much rules and regulations to control a manufacturing site. But even you have plenty of rules, how to enforce the rules is the core issue.”

Further, “It seems you don’t have any protection in China because the rule is too strict and all depends on how the government official interprets it. So you are better to do it things in a way that tries to avoid anything that could happen. Try to minimize the risk.” And, in executive D’s view, “We don’t have really much legal framework specifically, except the government’s legal framework relating to labour cost. But we have to be cautious because the government is constantly changing policy.” The over-regulation and uncertainty do not make for an easy business climate.
From the interviews, it is evident that the legal system in China is still a major problem. Quite apart from the scope for bribery and corruption, it is a fact that, whatever a law may say, what it means is at the discretion of Communist Party officials. As stated earlier, in order for ethics to work well, strong institutions under the rule of law are required (Werhane, 2015). As such, and despite the high profile campaign against corruption presently being conducted by Xi Jinping, it is difficult to see any prospect of improvement in the near future. The present campaign, as previously, seems more about power struggles inside the Communist Party elite than about a serious effort to bring a true rule of law to the PRC.

Two of the other interviewees also stressed the role of the ICAC, an organization which was originally founded to fight corruption and which can now be seen as having responsibility for ethical conduct in Hong Kong (see above for more detail on ICAC). Executive B not only mentioned the ICAC, but thought that enforcement of laws was the easier because people in Hong Kong were largely conditioned to behave properly - mostly. That is because Hong Kong citizens are familiar with the rule of law in a way that people in the PRC are not.

We learn it (ethics) as a cultural back ground. We have some regulation and law, ICAC. The government try to send the message of what we should not do and we learn it when we grow up. It is like behaviour norm and everybody obeys. So even though we don’t have formal training about ethics behaviour, I will say in Hong Kong the standard is quite high. As people say that the society in HK is what we call "we are not rule by law, but we are rule of law" That’s the different. It means even it is no body looking at you, no body, like civilians, you will not do anything illegal. That’s the concept of rule of law in Hong Kong because people are self behave. That’s the different.
Further, and although the Chinese cultural context is the same, as well as there being formal legal systems in Hong Kong and the PRC, there is a major difference in the reality of how these systems operate. For three of the interviewees, this difference was symbolized – as well as enforced – by the role of the Independent Commission Against Corruption (ICAC). As Executive A put it:

Not only on the job training but also culture of Hong Kong. We have ICAC which has been doing quite good job in the history of Hong Kong for more than 30 years. This is one of traditional value of Hong Kong. So most of the students, they were fully trained about ethics, from the school time. Since they were young and then they have school education and there is also government advertisement to emphasize the ethics in the society.

4.6 The impact of the Chinese business context on ethical leadership by Hong Kong executives.

The implications of the different legal systems in the two parts of China for behaviour are evident and were spelled out by the interviewees. According to Executive A, “Hong Kong, as I said, has a traditional culture with ethics built in to it. China ‘s culture is based on bribery, and you have to take bribes. No one blames you when you take a bribe, and no one will blame if you give a bribe. It is a norm in China: ‘No bribery, no business.’”

The interviewees stressed what this meant for the common cultural norm of Guanxi. Although Guanxi was prevalent in both Hong Kong and the PRC, each executive felt they had to adapt their leadership styles, although in different ways,
so as to succeed in either. In particular, they gave their opinions as to how Guanxi worked differently in China and in Hong Kong. As Executive B put it:

If you simply say that is Guanxi. In Hong Kong, it is 50-50. In Hong Kong, we know that Guanxi is important but you have to do what is a must first, what you have to do first. eg, I have to be able to product something in good quality, that is the basic. Then by Guanxi, I can promote my product or service to the people with me. It is mixed, but in China, they don’t care about quality; once I have Guanxi I can sell everything even garbage.

As for Executive B: “As a Chinese in Hong Kong, I have a lot of contacts in China. I also understand the history. And I will say the past in the last decade. It is worth a lot for me to understand why people think like that in China, as compared to foreigners. So I understand why we have very different ethical behaviour. I understand China ethics but it doesn’t mean that I agree.”

One perhaps unexpected feature, according to the interviewees was that they felt that ethical behaviour could differ depending on location in mainland China. However, their views were contradictory. According to Executive C, people in the inland, in the central parts of the mainland, had a higher ethical standard than those located near the coasts. “In the central part of China, they are more conservative, they are more emphasize on human interaction and then they have a very deep concept of Chinese traditional value. Then the moral standard is higher, this is the regional difference.”

However, the others tended to feel the opposite: that the large cities were better than the others. Executive A thought “Like in Shanghai or Beijing could be better than Wuhan or Changsha or Chengdu.” As for Executive B:
China is a huge country so in China, it is very difficult to make people to think they have to do something for the social as a city. The country is too big, and we have a huge differences. People who live in the coastal area, compare to inland, they have higher incomes. People who live inland, their income is so low. You can’t imagine. We are talking about 1000 RMB per year as a farmer, but in a city like Shanghai, people may have 20,000 per month. So it is a huge difference. Huge differences mean people have different behaviour.

Possibly, those firms operating inland are more attuned to traditional values while those on the coast or in the major cities are more aware of what the outside world requires. It is hard to say.

There are also echoes of the ritualistic approach which, as was emphasized in an earlier chapter, is associated with Confucianism. This evidently still has some relevance, as has been acknowledged by the Chinese Communist Party. As has been touched on already, the Party continues to seek ways to improve business conduct and reduce corruption without necessarily abandoning its own dominance. Here, it remains to see if, during their managerial careers in the PRC, the interviewees found any lingering or renewed impact of Confucianism.

4.7 The question about leadership style in Mainland China and in Hong Kong.

As for their treatment of their labour force, the general emphasis was less on ethical considerations or social responsibility than on the difficulties of getting workers in mainland China to perform effectively. The chosen leadership style was generally autocratic. As Executive B put it:
More training, more persuasion, you can’t tell them only, this is one page of operating procedures and then let’s them read and ask them to do it, you have to convince them, why you have to do it. If you are not doing it, you will have big trouble, if you have big trouble, the company will have big trouble, then you lose your job.

Executive D argued:

In HK, you can be both participative and authoritative. Hong Kong I will say, it can be 50/50. If your staff allows you to delegate more, they will carry on more responsibility. Then you can see that they have a lot more potential; you can be less participative and just authorize them to do the work. For China staff, I can say I usually have check points. So my involvement is more participative - about 80-20. In China, 80% participative and 20% authoritative. In Chinese context, nothing is Knowledge Management, so the knowledge transaction is less. They don’t see me as an inspiring leader, they see me as a boss. I am there to give them their salary and I’m there to deliver their job, so nothing really inspirational.

For executive D, the differences in the treatment of staff between Hong Kong were similar. As she noted, she could give sale and marketing jobs to her Hong Kong staff and she never had to look back and resolve any problem. On the other hand, when operating on the mainland, she was always having to give advice to her staff, always setting up timelines and checkpoints, otherwise nothing would ever get done. Executive C noted the same features: “In Hong Kong, they are more eager to finish their work, or achieve the thing by themselves, but in China, they would like you to give more teaching, more training. They want to learn more things.” Even so, according to Executive D: “Hong Kong staffs are more trusting, the reliability is better, the proficiency, the follow up, the client tale, the reaction will be from end to end. If I give them a project to do, I can hand off but if I deploy China staff to look after the project I have to have check point in between.”
Thus, it is significant that Hong Kong managers have been and continue to be employed as executives in the PRC. However, it is probable that this has little to do with their ethical training and upbringing. It is more to do with their superior managerial skills at present. This may change in the future. It has to be remembered that the nature of Chinese business is not just a result of different political and legal systems, but also of a less advanced stage of development – one reason why so many Hong Kong senior executives have been employed there in recent decades. It remains to see what sort of recommendations they would make as to the improvement of business ethics and social responsibility in the PRC in the future.

4.8 Recommendations from the executives.

Despite the difficulties they themselves had encountered, the interviewees felt there was still scope for ethical leadership to be promoted top-down at a corporate level. As already noted, setting up an ethical climate can help much to cultivate ethical behaviour and this can best be achieved by starting with top management. Top management should set a good example for ethical conduct and social responsibility.

As Executive A put it:

I think it should be done in the corporate level, not by single manager. We have to create whole company cultures, rather than departmental cultures. Most of the companies I have served in Hong Kong, they have corporate education, they have a corporate system and we also have reporting channels to report unethical cases to headquarters.

Executive D agreed, citing the position in Hong Kong SMEs. “Though SMEs in Hong Kong have less formal regulation about ethics, they encourage employees and
staff through top-down management. As long as top management is strict on ethical conduct then the staff will follow.” However Executive B was more pessimistic: “Unless you are so rich and can move out from Hong Kong, as a normal person, I would suggest that you should learn to adapt and get along with those differences in China. We have no choice.” As far as he was concerned, the only practical consideration, in view of the need for business success, was simply to get used to unethical conduct and accept it as it is.

Ethical behaviour is a result of the cultural and historical background (Chan, 2001). People in different cultures and different countries have different perceptions and expectations on ethical standard, thus ethical standard will be different. Presently, ethical standards in Asia are low compared to the West (Harvey, 1999). The future is of course always uncertain but there seems little prospect of change for some time.

4.9 Conclusion

The purpose of this chapter was to summarise and present the data that derived from in-depth interviews with four executives who have experienced working both in mainland China and in Hong Kong. The findings have been presented by sections which are dictated by the research questions, and are set out in a narrative manner.

As a general theme to the findings, it is apparent from the interviews that the executives are only too aware that there are major differences in the environment and thus in the potential for ethical leadership between the PRC and Hong Kong. The
emphasis in their answers is on the need to adapt themselves to the cultural
differences and legal systems when they are working in the PRC. For the purpose of
operational efficiency, they all employ Hong Kong staff in responsible positions in
their PRC operations. Moreover, they usually employ different leadership styles
when they work in the two territories. Each executive claimed that they had tried to
improve ethical standards in their mainland operations but that the obstacles were
considerable. To sum up, the contrasts between Hong Kong and the mainland are
forbidding and, given the scope for misunderstanding and hostility, the interviewees
were understandably reluctant to pursue effort in this respect.
Chapter 5  Discussion and Implications

Introduction

The dissertation has been designed to explore the significance of differences in the PRC and in Hong Kong for ethical leadership. Chapter 2 presented a literature review with reference to ethics, business ethics, leadership, ethical leadership as well as some of the cultural affecting ethical behaviour in the region. These are a common long run historical background which includes Confucian philosophy and Guanxi, while the more immediate historical experience, including British rule in Hong Kong and the rule of the Communist Party on the mainland, have also been covered, most significantly with reference to differences in legal systems. This was to provide a context to the topics and the development of research questions. Chapter 3 was concerned with the methodology used in this dissertation, while Chapter 4 presented the findings. This chapter presents a discussion of the findings and concludes with some reference to the potential implications both for further study and, possibly, for business practice. There follows a short review of the limitations of this study and the conclusion for the thesis.

In this chapter then, section 5.1 presents an overall view of the major findings and some discussion of these. Section 5.1.1 is concerned with the existence of differences in ethical leadership between Hong Kong and the PRC, while Section 5.1.2 looks to what may be considered the most important reasons for these. It is
argued that they lie primarily in economic and cultural developments in the PRC after the Cultural Revolution.

While these may appear to have brought the mainland and Hong Kong closer together, in terms of a common commitment to market development, important differences of major significance for ethical leadership remain. Thus Section 5.1.3 examines the ‘rule of law’ in Hong Kong, based as it is on British common law, and the role of ICAC in maintaining ethical standard in Hong Kong. Section 5.1.4 examines what can only be described as the distortion of Guanxi in mainland China, something that, given the nature of the legal system there, leads to widespread unethical conduct.

Section 5.1.5 looks at the implications of these differences for ethical leadership in MNCs and SMEs respectively, with the next section examining how business executives handle them in the PRC and in Hong Kong. 5.1.7 discuss about This has implications, as noted in section 5.1.7 for different leadership styles in the two regions. In the context of the core themes of this dissertation, the most important of these is the problem of bringing about improvement in ethical leadership standards in mainland China, as is noted in section 51.8. This also covers the widespread practice of employing Hong Kong staff for Chinese mainland projects, a practice that is, in part at least, a counter to this problem. Finally, in section 5.1.9, there is a brief review of Communist Party leaders’ awareness of the adverse consequences of poor business practice on the mainland, together with the
ethical dilemmas that arise from this in anti-corruption campaigns. The continuing ambiguity of attitudes towards Confucius is also noted in this respect.

5.1 Discussion of the major findings

The major findings are as listed below, with the detail and discussion presented in sections 5.1.1 – 5.1.9:

1. Differences in ethical leadership between Hong Kong and the PRC do exist;

2. Developments in the PRC after the Cultural Revolution and Hong Kong’s British heritage are important reasons for ethical leadership differing;

3. Hong Kong’s rule of law, following British common law, and ICAC play an important role in maintaining ethical standards in Hong Kong while the PRC remains subject to a system where law derives from political authority rather than legal precept;

4. The misuse of Guanxi in mainland China leads to unethical conduct;

5. Differences in ethical leadership in MNCs and SMEs in the two regions reflect patterns that can be observed elsewhere;

6. The business executives handle ethical leadership differently in the PRC and in Hong Kong;

7. The executives develop a different leadership style when working in the PRC as compared to that practiced in Hong Kong;

8. Improving ethical leadership standards in China is difficult, with a partial response being that they usually bring in Hong Kong staff for Chinese mainland projects;
9. At the national level, Communist Party leaders are aware of the ethical dilemmas that exist on the mainland. They have tried various measures, including anti-corruption campaigns and appeals to Confucian values, but these lack a great deal of credibility;

5.1.1 Differences in ethical leadership between Hong Kong and the PRC

Every executive being interviewed accepted that there were major differences in personal attitudes towards social responsibility, general ethics and moral and ethical leadership in Hong Kong and the PRC. These differences affected directly operational aspects and outcomes on the mainland. This led to concerns over improper handling that could result in project failure and consequent losses. Their experience bears out the importance for foreign firms considering entering the Chinese mainland of acknowledging ethical among other cultural differences, and paying close attention as to how these should be handled.

Further, business organizations should seriously consider leader selection with an emphasis on moral requirements, as an important attribute among others. They might even consider, in addition to other forms of training and business experience, providing moral leadership training and education. It would also be of value to recognize and reward moral behaviour, as a part of creating a culture of corporate moral value and creativity, as Gu (2015) has also argued. Presently, it remains the case that many companies hire Hong Kong managers for their mainland China projects.
5.1.2 Developments in the PRC after the Cultural Revolution and Hong Kong’s British heritage

While the PRC has been communist, at least in name since 1949, Hong Kong is where east has met west for one hundred and fifty years. It is where the philosophical foundations of ethics that exist in both the West and the East have met (Hoivik, 2007). The colony’s culture was rooted in a Confucian background and, although this is potentially at odds with western values and western corporate practices, Hong Kong business has been able to adapt to these – especially the legal system. It therefore provides, theoretically at least, a good example for the PRC to follow in coming to terms with globalization (Miles, 2006). It is thus of interest to see what sort of adaptations have taken place in both cultures and especially in ethical approaches over time in Hong Kong and the PRC (Hoivik, 2007).

The cultural identities of Hong Kong and the PRC are evident in the differences in ethical leadership between the two regions. 98% of the permanent population of Hong Kong is comprised of ethnic Chinese; in a demographic sense, Hong Kong is overwhelmingly a Chinese society (Ho, 2010, Hu, 2014). They share the same cultural heritage in Confucianism and this remains potentially an important philosophical system as a basis for ethical leadership in the PRC and in Hong Kong.

One of the interviewees argued, however, that the differences in ethical standards in Hong Kong and China arose because of neglect of Confucius in the PRC after 1949. And, although the PRC and Hong Kong share the same cultural
background, their recent history, over the past seventy years especially, has been
very different. Even before 1949, their political and legal systems were different;
after 1949 the divergence became even more marked (Hoivik, 2007).

After 1949, the PRC has gone through massive political and economic change
(despite the continuing hold on power of the Communist Party: McDonald, 2011).
These changes have had marked effects. However, while Mao tried hard to eliminate
the concept of Confucianism, seeking loyalty only to the Communist Party,
Confucianism has retained its hold to an extent. It has been passed down over
generations through a family-oriented culture, just like in Hong Kong (Chan, 2008).

The interviewees all stressed that, growing up in Hong Kong, they learnt and
were familiar with Confucianism. Its ethical values were embedded in them since
they were young from their home and school time (this is in the face of anecdotal
evidence that Hong Kong students cheat as much as mainland Chinese students
during their school years). It was also argued that the more an individual was
raised according to such values the more ethical they would be. Confucian values
were embedded in their environment; in family and working life. Its association
with family ties and relationships has given it an enduring place in Chinese society,
possibly most evident in Hong Kong in the four decades after 1949.

The impact on ethical standards in mainland China of Maoism, especially
during the Cultural Revolution, is hard to estimate, although it must have been
profound. Survival, rather than moral dealing, was the chief objective for most.
However, it seems that, despite the Maoist onslaught, Confucian values continued to
be cherished. Executive C asserted that age was a key factor in individual attitudes relating to Confucius. Both in the PRC and in Hong Kong, the younger generation care less about Confucius. This executive also argued that the younger generations were the more likely to be unethical.

This may just be the feeling of an older generation. It could also be the result of the profound changes in culture experienced in recent years in Mainland China. However, if at all accurate, it means that factors such as ethics courses in degrees, graduations and overseas experience, are not critical forces in shaping the ethical behaviour of the individual. The main factor to decide the ethical character of the individual would be age and organizational structure. As long as the managers are younger and work in private firms, they are more competitive and less ethical in their behaviour as compared to those older and working in hybrid or government owned firm. This is certainly the view of Dunfee (2011), a perceptive observer of business operations in the PRC.

5.1.3 Legal systems in Hong Kong and the PRC

It is, however, difficult to accept that the influence of Confucian thought is more than a minor factor in the greatly different ethical standards in China and Hong Kong. It is far more important that Hong Kong follows the Western rule of law. Added to this, and a feature that was emphasised by all the interviewees, was the successful establishment of ICAC – of the Independent Commission Against Corruption (Mao, 2013). The interviewees all saw its performance as a key factor lifting up ethical standards in Hong Kong. The executives also comment that there
remains the question of Guanxi and the operation of ethical standards in Hong Kong and the rest of the PRC.

First, as compared to mainland China, as the interviewees insist, ethical behaviour in Hong Kong does appear strong. Second, as they also emphasise, ICAC is regarded as an extremely effective watchdog on ethical conduct. Its high profile serves as a constant reminder of what people ought to do and what not. Further, the Hong Kong government itself increasingly acts in the interests of social responsibility, promoting not only ethics but also good habits. It has, for example, pursued increasingly rigorous and effective public health policies. These include campaigns to prevent the spread of infections; these include constant alcohol cleaning (at least every half an hour) in every building facility, elevator and escalator, and advertising campaigns promoting flu prevention techniques such as the use of tissues and face masks.

The important point here is that, in the first decades after the Second World War, Hong Kong itself, no matter what the hold of Confucian ethics, was notorious for the levels of corruption in its business world. In this respect, and as an example for the PRC to follow, if it is about to lift up ethical norms to meet the world standard, the lesson would appear to be as much in the institutions established to meet these problems as in the primacy of the common law. All of the interviewees emphasised the role of the Independent Commission Against Corruption in minimising the hold of corrupt practices in Hong Kong. They all agreed that its role had been crucial in reducing corruption and maintaining an ethical order in society
(Mao, 2013). They also thought it important in ethical education: in developing a consciousness of the rule of law through law facilities and the special education of officials.

According to all the interviewees, corruption and bribery are not acceptable habits in Hong Kong. Each executive interviewed, in common with all executives in Hong Kong, have experienced some form of ethical training; it is common practice in which student were trained during their school time (whatever the reservations one can have over its effectiveness). The interviewees insist that, unlike the PRC, ethical behaviour is the norm in Hong Kong, to the point where it can almost be taken for granted in business dealings. An outside observer may be somewhat sceptical, given the reputations of some ’high fliers’ in the Hong Kong business world, especially on its stock market (see recent reports). However, there are two or three points worth making in this respect.

The interviewees for this thesis emphasised that Hong Kong has regulations and law and effective organizations such as ICAC to prevent fraud and promote ethics. They saw this, together with their Confucian heritage, as leading to high ethical standards in Hong Kong. Good behaviour reflects culture as well as an effective legal system. There can be reservations as to the importance of Confucianism in this respect. Less problematic, however, are the defects of legal structures in the PRC. While Hong Kong has developed under British common law, the rest of the PRC has a written structure of laws, partly based on communist ideology. Not only the ideology itself but also deficiencies in the laws themselves,
due to Communist Party interference, make the laws variable and uncertain. Under a so-called socialist economy, it could be argued that morality has been weakened and the sense of social responsibility dimmed (Harvey, 1999).

To take another example of differences, Hong Kong has also instituted a rigorous anti-smoking system of prohibition in buildings and public spaces generally. It has also made it harder and more expensive to buy cigarettes, and increased the prominence of warnings on packets. The PRC is attempting, belatedly, to copy some of these initiatives – but its government faces considerable difficulties in attempting to portray itself as a leader in social responsibility. In the recent past, it has often attempted to `cover up' the extent of the spread of infectious diseases such as SARS and AIDS, thus making effective action the more difficult. Its first attempts to limit smoking are also compromised by the fact that provincial governments have a direct financial interest in cigarette companies.

5.1.4 Guanxi in mainland China

Guanxi is ubiquitous in both Hong Kong and mainland China. The executive interviewees talked about Guanxi, in relating to their mainland experiences, mainly with reference to bribery as a universal practice. In the PRC, they learn how to bribe; or if they are not doing themselves, they will let their subordinates and pretend that they don’t know. The question then arises as to whether the association between Guanxi and bribery – outright corrupt behaviour is inevitable. Executive A, speaking in forthright fashion, argued that this was so. ‘He must accept the way things work in the PRC.’ Thus, in basic operations, he chooses to hire
mainland Chinese for most jobs. It works out fine, more than a Hong Kong operative would because, in such a position as sales person, the mainland Chinese knows local culture better than a Hong Kong sales person. So – where and how does Guanxi fit with corruption?

It is probably because, as executive B argued: “In China, you can sell anything, even rubbish, only if you have Guanxi, but in Hong Kong it is different. You have to produce good product first. Then by Guanxi, you can sell it.” In both Hong Kong and mainland China, Guanxi makes it easier to get a job done. However, in China, Guanxi is everything. As he asserted, he know so many cases where low quality goods or materials had been ordered and used because of Guanxi, with the inevitable bad outcomes. There were even cases of banks giving loans to highly unsuitable persons because of Guanxi. The result was inevitably bad debts.

It is in such cases that Guanxi is most evidently harmful in the PRC. Although bribery is a common business strategy to get things done in the PRC, it should also be stressed that, under the Guanxi relationships holding in the PRC that it is not everyone you can bribe. It depends on whether your relationship with a third party, a business person or an official, has strong Guanxi or not; also on whether the relationship is based on genuine feelings, resulting in unequal treatment, creating imbalances in the individual’s ability to reach resources in the PRC.

It is worth telling a story here, taken from Chen (2001), about the foreigner who learnt all he could about Guanxi and tried to use it for his own benefit. In attempting to get a business venture off the ground, he provided everything he
could think of that the official person, the one needed to ensure success, would think valuable: good wine, nice dinner and expensive gifts. However, his project still failed. The reason was because Guanxi as a basis for relationships is not just a matter of material bribes. It also depends on whether the personal feelings involved are based on genuine reciprocal commitments.

Another telling example of affection in relation to Guanxi is business dealings between Chinese and Indian people. It is generally accepted that Chinese and Indian people do not like each other. One of the executives, who is Indian by ethnicity, claims that he takes documents and procedure very seriously when he works in China. That is because of his evident different ethnicity. He insists: “look at me, only passing through an immigration is already very difficult, I had never think about importing material illegally”

Another example is the case of police; it pays to have good relations with them. When this is so, it makes disputes easier to settle in your own favour. A personal example from the author may be in order here. To quote:

At that time, I had a fight with a contractor who delivery poor service. His service was not the same as his promise then I refused to pay balance. Actually, it is blur case. He already finished his work but not the same as promise. The chance to win is 70 (I am win)- 30 (contractor win) but it turn to be 100 win because the police like me more than the contractor.

Guanxi, is thus of special interest in this respect. It is a common feature of life in both Hong Kong and the PRC, although it can be argued that it became even more fundamental to social relations in the PRC during the ‘Cultural Revolution’ after 1966. In the same spirit, it remains important in the PRC, as compared to Hong
Kong, because of the difficulties and uncertainties involved in individual and societal dealings and communications with the Communist regime (Fam, 2009). It should also be noted that Guanxi was of especial importance to relationships between individuals and families in Hong Kong and mainland China even before the end of Maoist Communism.

Thus, immediately after the Communist takeover in 1949, there was a huge influx of refugees from mainland China to Hong Kong (Mao, 2013), in order to survive. Mostly, the refugees left family members in the mainland, who, over the difficult years of early Communist rule (especially during what is known as `the Great Leap Forward’), looked to them for food, clothing, medicine, etc. At that time, everything going in and out from China was very difficult. However, `the use of Guanxi helped a lot. As executive C explained:

When our grandfather brought things in, he gave border guards and every official involved everything same as our family in the PRC. There was no alternative. They were supposed to wait for the government to come to deliver food, rice and vegetables. If the government took too long, the food might go bad and the family would go hungry. They had to have medicine and the hospital was far away. Under the Maoist system, all production is under government control and all resources are given by the government; everyone must work for government coupons which they use to get food and clothes. Those families who have relatives outside are lucky but it was still impossible to bring things in without Guanxi.

This is an example how people make use of Guanxi to gain resources at the time of shortage.

The other period when Guanxi played a positive role in economic performance was when the PRC first opened the door for foreigners. Many Hong
Kong people who had close relationship with local officials, rushed into the mainland to form a company. Guanxi facilitated the establishment of a works process when the official system was not ready; as Hong Kong business people sought to make use of cheap labour to start up their manufacturing and export businesses. Guanxi gave them a short cut for the sort of document processing that might have taken month or never have got done.

In the PRC, Guanxi might be misused to control or manipulate others and to flout or distort the laws. It remains though, the key to surmounting the uncertainties associated with rules by the Communist Party. For the PRC’s firms, Guanxi is closely tied to life; its development can be regarded as giving a competitive advantage, under uncertainty, in order to face competition and overcome resource shortage. Thus, Guanxi has become a vital source of social capital and commercial activity in the PRC (Lin, 2011). However, it is also associated with negative organizational practices, with nepotism and corruption. Following such precepts may lead to blind support for unethical behaviour at any level of the firm (Ho, 2010; Langanburg, 2007). And this is where its nature differs profoundly between the PRC and Hong Kong.

Business relations are conducted within very different legal structures. Guanxi is arguably of lesser importance in Hong Kong, given its legal system. Executive A said that Guanxi is important but not necessarily a decisive element in Hong Kong business relationships. Quality of product is more important. It is crucial to produce good quality product first. Then with Guanxi you can sell that product
easily. It is important to note that ethics is not determined only by common practice
but also by reflected behaviour within a culture (Lin, 2014). Thus, it can be argued
that, in Chinese societies outside of the PRC, legal codes and ethical instruments are
stronger (Fam, 2006) and preserve more of the traditional Confucian culture. Thus
the use of Guanxi tends to be more ethical than in the PRC (Jeffrey, 2004). In the
PRC, despite the movement away from Maoism, things are quite different.

5.1.5 Differences in ethical leadership in MNCs and SMEs

Ethical behaviour in Hong Kong has also been promoted by the importance of
MNCs in its economy, and of their personnel in its society. MNCs in Hong Kong
usually take ethical behaviour very seriously. Usually, MNC in Hong Kong have codes
of conduct, which cover ethical issues in the manner required by the company.
These codes of conduct provide guidelines for everyone to follow and, most
importantly, help to establish an ethical organizational climate. As Executive A
related, he had worked in MNCs in Hong Kong and in their subsidiaries in China.
Each one had a formal written code of conduct; some companies had a test that he
had to pass before he can begin the job. On the other hand, this is less the case for
small and medium-sized enterprises (SMEs). These put less emphasis on explicit,
formal rules and executive C noted that much depended on the behaviour of
management.

The executive C is an entrepreneur, the owner of a SME firm, which has a
factory producing motors. She agreed that SME usually do not put ethics on the
agenda, and that this was the case in her own family firm. What concerned her family the most was survival and profit. As the chief executive, she is most concerned with day-to-day operations: meeting the rent, paying out expenses, organizing marketing operations etc. etc. Thus, ethics was usually not on any formal agenda - but this did not mean that her firm was unethical in its behaviour.

Her firm does not have a formal ethical code of conduct, or even talk about ethics much in the work place. Usually, it will try to do everything right to the minimum standards required by local government and industrial bodies. However, because the management, which is her family, are not bad people, then ethics is something that flows from the top, which is her family members, downwards. It means that she has already established an ethical environment within which general ethical behaviour has become the norm for the employee.

Until now, ethical issues had never existed for her firm. Her experience echoes that recounted for SMEs in the West: ethics is far from the most important item on the agenda for a SME. Survival and revenue dominate all other issues. SME ethics depend on the owner’s personality traits, and these set the example and the tone of behaviour for subordinates. This is probably much the same for other SME firms in Hong Kong and in mainland China. There are, however, particular problems in China, as the experience of the interviewees reveals.
5.1.6 Differences between the business executives in the PRC and in Hong Kong

Mostly the interviewees suggested that they handled ethical leadership differently in order to get the job done. In China, they suggest that it is not relationships as such that matter; everything is money. The workers come to work for money at the end of the day. Thus, the workers in China do not care much about taking responsibility. Thus, they must give close supervision and all attention must be on teaching how to get the job done. In Hong Kong, the executives agree that they can be ‘hands off’; they can delegate jobs when necessary. Hong Kong worker can take responsibility and they are more capable of independent action than the worker in China. This feature extends into the field of ethical behaviour.

In a sense there is little need for formal training for Hong Kong people in ethics. Hong Kong workers generally are aware of what is moral and ethics; of what to do and what not to do. Whereas in China, they have to explain more; supervisors cannot just give a paper instruction but also have to explain and persuade people to follow. All the interviewees agreed that they have to be more assertive when they work in China; however, on the plus side, hiring Chinese workers, beside the cheaper cost, means that they are aware of local culture, context and people. Thus, in the case of sales and marketing, one executive hired locals to be sales people because they know how to sell goods locally.

Another example arose during a search for shop locations. The executive contacted the Chinese mainland department store in the beginning. After a long
discussion, when coming out from the meeting room, his secretary, who was from the Chinese mainland advised him that, when he got to know these people better, he should give them a gift – and then he would get everything. This was an example of the advantage of hiring local people; they know the culture and context. A further point is that, even within the mainland, and even if the territory and language are the same or close to each other, it does not mean that culture and context are the same. An adaptation to local culture at work is still needed. As one executive put it: ‘not only speak language, you must speak culture’.

5.1.7 Differences in leadership style

From the interviews, the consensus among the participant executives was that the leadership style in the PRC was more ‘hands on’ than in Hong Kong. In the PRC, executives have to monitor staff much more closely and provide the clearest of guidelines. More persuasion, motivation and control is required in the PRC requirement. The case of the executives alluded to immediately above, reflects the truth that a manager must always keep a close eye on their Chinese workers. Such as executive C, she travels frequently between Shenzhen and Hong Kong but, in one week, she and her mother can return to Hong Kong for the weekend only. This leaves her father alone in Shenzhen; he normally stays there permanently, not even coming back to Hong Kong on the weekend – except on very special occasions. Her father is responsible for manufacturing operation, thus his task require him to keep an eye on closely to every details to prevent mistake and facilitate production plan to run on time.
This is a constant source of concern for the SME owner. She is very conscious that, in order to get a job done with Chinese workers, she must be in control at all times. She has to explain to them what they must do and follow up at all stages, asking questions on how they are achieving. Chinese workers can show initiative, but usually in what is at least potentially, an unacceptable way; she sometimes has to convince them not to compromise their own safety. In Hong Kong, such problems do not usually arise. The same executive found that, for Hong Kong workers, meeting with them and job clarification is good enough.

In fact, every executive said that they are using an authoritative leadership style in the PRC, while they are more democratic in Hong Kong. This is because mainland Chinese worker are less competent with technology and work procedures, and especially they are not well trained in both operational and ethical practice. The degree in which Hong Kong staff can understand tasks and all other operational matters, including ethical leadership, are far better than their PRC counterparts. Thus, the executives are more likely to use a democratic leadership style when working in Hong Kong.

Another example, which was given by executive B, is indicative. Executive B, with his background in engineering, was given responsibility for the overall operation in a precious metal factory. He recounted his experience, stressing that he had to keep a close watch on the staff responsible for disposing of waste to ensure that they followed the procedure strictly in the mainland. He said:
In Hong Kong, you just give a procedure, then it is surely that it was strictly follow. Nothing to worry but in the mainland, you have to check weather the mainland staff follow it properly. You have to teach them, persuade them why does the procedure is important and must be follow. You also have to check it from time to time. That’s because if anything went wrong, it is you have to take responsibility, not the staff.

5.1.8 Improving ethical leadership standards in China

Despite the difficulties involved, each executive interviewee said that they had tried to improve social responsibility in their PRC operations. Given the difficulties involved in adjusting themselves to the culture in China, they tended to concentrate on monitoring, teaching and training. Executive A gave an example of the neglect of basic safety procedures, not just at the expense of fellow workers but even of themselves. Executive B had designed his factory to be fully equipped with a waste elimination process. However, when it was fully operational, the workers would not use the necessary machine, preferring to dump waste in the open. This was partly because the workers did not seem to understand how dangerous the chemical waste was to local waterways and the local environment. However, it was also because it was easier and quicker for workers to just dump hazardous materials rather than go through the processes required to render the material safe.

As a result, each executive tried to employ Hong Kong staff for PRC projects. As they said, their Hong Kong personnel show better understanding of what is needed and are eager to finish their work properly as compared to PRC staff. Further, relations with Hong Kong personnel are based more on trust as they are
more reliable and proficient. With Hong Kong staff in key positions, work processes can be the better monitored.

Basically, China is a different world. The executives generally considered themselves successful in adapting to the differences, but this entailed compromises, not least in the area of ethics. They all stated that they tried to improve standards of social responsibility in the PRC, but found this extremely difficult. It is difficult to lift up standards of social responsibility because no one cares.

In the mainland, the situation is chaotic. Everyone cares only for their own interest. In particular, a business person has no choice but to look at the profit margin before social responsibility. Especially, anything concerning ethics and social responsibility is perceived as marketing tools. That if they have to invest in social responsibility, there must be something in return.

Finally, the executives summed up their experiences with ethical behaviour and social responsibility in the PRC. Their chief objective is just to get things done as rightly as possible. As one put it: 'It is just like they are playing a game with another's rules'. However, they would argue that they are acting to improve ethical behaviour in their organisations, at the very least by setting a good example. That is what they can do to begin with. As they suggest, ethical leadership can be promoted so as to impact on other levels. Top management sets a good example for ethical conduct and social responsibility and this is passed on to subordinate. The hope is that this establishes a better ethical organizational climate which later results in ethical norms that everyone gets familiar with and follows.
5.1.9 Ethical dilemmas on the mainland

For the past three decades, since China began its open-door policy, there have been increasing opportunities for Chinese people to make money through business; according to the 2013 Forbes China Rich list, there are 168 billionaires in China. The Chinese people have also benefitted but, it can be argued, that modern Chinese society needs ethical behaviour more than ever before. Rapid growth is strongly associated with a high rise in corruption; and it can be argued that ethical leadership, public as well as private, is crucial for Chinese sustainability and growth. Corruption results in increasing costs, risks, and uncertainty; it has a potentially adverse impact on foreign direct investment (FDI), and thus damages the economy in a variety of ways (Gu, 2015).

As long as ethics are absent from society, it is hard to develop further the country and economy. As for the PRC, in recent years, the Party has allowed something of a rehabilitation of Master Kong, as demonstrated in its financing of Confucius Institutes around the world (including Newcastle University). However it remains ambivalent and here, the emphasis must be on the association of Confucianism with ‘Guanxi’ as much as its importance as an ethical system in its own right. It seems that the present Communist Party leadership is well aware of the benefits that can flow from the better appreciation of ethical behaviour at all levels and throughout society. The new PRC official slogan is ‘Socialist Harmonious Society’ and ‘Shehui Zhuyi Hexie Shehui’ has replaced the former ‘Socialist Rule of Law’ - ‘Shehui Zhuyi Fazhi Guojia’ (Choukroune, 2009). The renewed interest in
Confucianism may reflect the desire to promote ethical behaviour in a way that does not reflect western values (Fam, 2009). At the same time, Hong Kong business offers a model for the successful integration of eastern and western values.

Moreover, the government is well aware that the shortcomings of the legal system are an obstacle to business efficiency and has tried to make it more professional (Choukroune, 2009). One strategy was to attempt to promote ethical behaviour; on 18th October 2001, a code of ethics was published, designed to target judicial corruption. In October 2005, under the second 5 year plan (2006-2010), which highlighted the establishment of a process of centralized national review of capital punishment sentences, the stated objective was to minimize political interfere by strengthening the power of senior judges. None of these measures has been adequate; the Party's desire to interfere remains too strong. The 2014 campaign against corruption illustrates the point. It is being conducted by political fiat not legal investigation and trial; these remain predetermined processes (Harvey, 1999).

5.2 Conclusion

Chapter 5 has presented a discussion of what seem to be nine points of major findings for the purposes of this dissertation. The discussion is based on interview data in the context of the literature surveyed above. It is intended to answer the research questions set out in chapter one.
Chapter 6   Conclusion: implications, limitations and future research

Introduction

This chapter provides the conclusion to the thesis. Section 6.1 provides a summary of its contents and some remarks on these. Section 6.2 presents the recommendations from the executives. Section 6.3 sets out some implications of the research for further study. Section 6.4 notes the limitations of this research. Lastly, section 6.5 is the conclusion to the section.

6.1   Summary conclusion and remarks

This dissertation is designed to throw light on differences in ethical leadership within businesses between the People’s Republic of China and Hong Kong. It is based on interviews with four executives who have experience working in both territories. The executives shared the same background as they all grew up in Hong Kong before it was reunited with the PRC and thus share same attitudes towards cultural differences and the business context in the two.

They were asked for their views on social responsibility, legal systems and ethical leadership in the two locations based on their past experience. In order to succeed in business both in China and in Hong Kong, the executives have had to adapt to different work cultures, understand different norms, values and habits. As one executive gave as an example: in the PRC, he has to accept that bribery is one process in negotiation. ‘It doesn’t mean that I agree but I have to accept it’, he said. Although their responses differ somewhat, they are in general agreement on the
ethical issues that arise. Coming from a similar cultural background, and speaking the same language, they still found major difficulties arising out of the stark differences between Hong Kong and the PRC. This is due to contrasting legal systems and, above all, differences in the Chinese business context even after the end of Maoism. In these circumstances, despite sharing similar cultural traits based on Confucian ethics and incorporating the general practice of Guanxi, they found ethical leadership practices in the two economies very different.

6.2 The executive’s recommendations

Although any findings from this dissertation may be dismissed as being anecdotal, in view of the small number of those interviewed, their experience and views on ethical leadership in the PRC and in Hong Kong, may have some value for others seeking to do business on the mainland. The main theme, frequently emphasised above, would be as follows:

Firstly, it was emphasized that there were major differences in ethical leadership between Hong Kong and the mainland. Ethics is not always on the agenda for market entry decisions but the experience of the interviewees would suggest that it should be a consideration at the very least. Although it is not the main influence on practice, ethical considerations do arise, not least in dealing with a Chinese workforce, and they still can be an obstacle to operational efficiency, if insufficient attention is paid.

Secondly, given an awareness of the ethical dilemmas that can arise on the mainland, the experiences of the interviewees provides something of a guide as to
how to handle them properly. It is useful to know that they handle ethical leadership differently in Hong Kong and in the PRC, and demonstrate different leadership styles when they are working in the two regions. The value of employing Hong Kong staff to work on PRC projects is also evident.

Thirdly, in preparation for a PRC project, foreigners should make themselves as familiar as possible with the local culture, especially with reference to the operation of Guanxi. A knowledge of Chinese history, embracing Confucian philosophy but with a focus of the major changes that have taken place under the rule of the Communist Party, especially after the Cultural Revolution, would also seem to be highly desirable, in terms of a making for a better understanding of behaviour, either individual or organizational, on the mainland.

Fourth, as unethical behaviour can be harmful for society, organizations and individuals, it is appropriate for managers to seek to improve the ethical climate within which they have to operate. The basic and easiest way to create a better ethical environment is by setting a good example for everyone to follow. Thus, it is important for the manager to set a good example for their organization and followers.

6.3 Implications of findings for further study

The modern PRC, with its two systems in one country, in Hong Kong and mainland China, represents a particularly interesting field of study. This is because of the existence of common social and cultural features, and because, after its own
rapid development under and after British rule, Hong Kong business people have played an important role in the rapid growth of the PRC after the end of Maoism. Executives and others from Hong Kong cross the border into China proper, where they find many common social and cultural traits, but a very different political and legal system. This can obviously have major implications for leadership styles and ethical leadership, and this dissertation has been intended to make a contribution towards exploring these differences in the case of Hong Kong executives operating in China.

The experiences recounted by the CEOs have demonstrated that the scope for ethical leadership differs greatly between Hong Kong and the rest of the PRC. Although this is hardly unexpected, it is hoped that some of the themes touched on in this dissertation can be developed more fully in later research. This is because it is evident that ethically aware and responsible leadership can bring gains for business organizations. There have been plenty of findings to this effect in the West. It remains to explore the theme more fully in other regions.

In recent years, research has been extended into such regions, with East Asia prominent because of its rapid economic development. It is not necessary that the ethical leadership model from the west is the best (Deshpande, 2011). Chinese culture especially has its own ethical leadership tradition and, while there has been some research on the ‘Confucian ethic’ and business, it has often been quite superficial (as with Hofstede). The diversity of the Chinese business experience, in
Singapore and Taiwan as well as Hong Kong and the PRC offers considerable scope for comparative study on these lines.

6.4 Limitations and future research

This study takes a qualitative approach to exploring variations in ethical behaviour in the PRC and in Hong Kong, through an examination of how business CEOs handle ethics in the two economies. The research is descriptive rather than theoretical or analytical; the evidence provided by interviews is employed to describe the nature and phenomena of ethical behaviour in the PRC and in Hong Kong. That is, the qualitative approach is employed to discover phenomena rather than verify them; the alternative would require a more rigorous research design, incorporating adequate sampling, measurement, and analysis.

Further research is necessary on this topic to combine the strengths of the quantitative and qualitative approaches. A quantitative approach would enhance the logic employed, making its findings more robust. Such strengthening is necessary in view of the possible limitations of the present qualitative study.

The major finding in this study is that ethical behaviour is much more pronounced in Hong Kong than in the PRC. What is missing is any attempt to evaluate the relative importance of this. Thus one factor repeatedly emphasized in the study is the role of the legal system and of its effective enforcement through ICAC. This would suggest the possibility that Westernization makes the difference, because Hong Kong is more Westernised than is Mainland China (Haila, 2000). Essentially, it can test the cultural fit explanation for ethical leadership success by
examining the ethical standard in the firms in PRC and in Hong Kong. However, and given the traumatic developments in the PRC after 1949, it may be that these have had a markedly negative impact on business ethics there, serving to obviate the ethical standards associated with a Confucian philosophy.

Further research can also examine the specificity of contributions to Chinese leadership styles. It can further relate the contribution of Chinese culture to ethical leadership which involves ‘Confucian functionalism’ and Guanxi. Apart from the verification of the present findings, further research could seek to evaluate how far the findings here can be generalised. Work on the impact of Chinese culture on business relationships is an obvious area for research and comparison.

6.5 Conclusion

This chapter ends the dissertation. A summary of major findings has been followed by suggestions and recommendations for practice – essentially that others should attempt to give ethical leadership when making business decisions. The limitations of the dissertation are also presented. It is hoped that the dissertation succeeds as a pioneering research project on aspects of ethical leadership.
References


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Appendices

Appendix I Confucius

<table>
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<th>Master Kong, founder of Confucius</th>
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| Confucianism is an ethical and philosophical system founded by the man known as 'Master Kong' in the Chinese tradition during what is called 'the era of the Warring States' (551-479 BC). (www.Wikipedia.org/wiki/Confucianism) Master Kong was born in spring and autumn 551 B.C. (Gao, 2009) He was thinker, teacher, and government administrator. "Master Kong" or "K’ung Ch’iu", later better known as K’ung-fu-tzu grew up in a time of turmoil, in a chaotic period. According to modern Chinese historians, who still use Marxist terminology, it was the transition period from feudal in northeastern China (551 BC). He experienced warfare, slave labour and exploitative taxation, and his philosophy was developed to bring about order from chaos (Macdonald, 2011).

Emergence of Confucian thought

As Confucianism emerged in the 4-5 BC, it could be called ‘civil religious’ or ‘diffuse religious’. Master Kong did not intend at that time to found new religion but to teach ‘the good way’, to show how to be a good man (www.Wikipedia.org/wiki/Confucianism). Confucianism traditionally also did not intend to be used in business and the economy - Master Kong did not intend to settle values, norms and practice for the merchant – but for the bureaucrat. He was especially keen on the practice of rituals and the maintenance of hierarchical relationships (Chan, 2008). His disciples and later teachers established his thought as pre-eminent in China, and its dominance was assured by its official adoption during the first Han dynasty. It became one of the transcendent ideals of traditional Chinese society becoming part of the Chinese way of life (www.Wikipedia.org/wiki/Confucianism).

Confucian teaching

Confucianism is collectivist in nature as it is a teaching of role and relationship. Confucian ethics teaches basic humanistic obligations. Confucians assume that if everyone in society performs their role perfectly, then the relationships will be kept in harmony and bring about an ordered society. Confucian ethics involve familial collectivism, based on three moral traits: virtues, wisdom and trustworthiness. Confucius believed that moral traits need to be consciously cultivated, and his golden rule was that people should not do to others, the things that they do not want others to do to them (Ip, 2009). Thus, in Chinese culture, one should identify oneself as a subset of society who is passive to the surrounding community and nature. On the other hand, Westerners identify as individual entities, who are self-reliant, equal, and in personal control of their life (Fam, 2009).
Confucius and the matrix of networks

In Confucianism, the emphasis is on social networks. To be human, we live in a matrix of networks. Thus, it is essential that one should put the social network before personal or organizational benefit (Lee, 2009). Confucian teaching, very roughly, relates to relationships within the family and extends these to social and political systems as a foundation of the good society (www.Wikipedia.org/wiki/Confucianism; Ho, 2010). The process is called “a great learning”, and relates to basic human relationships and acceptable values, norms, and behaviour. In all human relationships there are roles and obligations which participants must follow. Thus, although in the family, the father is the dominant figure, he has obligations to his inferiors, just as they are expected to be obedient to him. If the same pattern of obedience and obligation is pursued in society as a whole, then there will be harmony (www.Wikipedia.org/wiki/Confucianism).

Confucius, role, and relationship

Confucianism emphasised five particular relationships. They were emperor and officers, father and son, brothers and brothers, husband and wife, teacher and student. It teaches what should be done to keep every relationship in harmony. The foundation concepts are etiquette, virtue, and golden rules (Szeto, 2012). The latter, governing society, are a set of pragmatic rules: proper living, respect for authority, desire for harmony, conservatism, contentedness, tolerance of others, order and stability (Fam, 2009). The corresponding attributes are: righteousness, diligence in actions and duties, acting before speaking, prudence in speech and words, action aligning with words, demonstrating filial piety to parents, displaying brotherly respect for brothers, associating with men of moral principles, loving learning, loving others, broadmindedness and non-partisanship, taking virtues seriously, observing the rules of propriety, harbouring good will toward others, accommodating, being dignified but not proud, courage, steadfastness, self-reflectiveness, self-motivation and fair-mindedness (Ip, 2009).

Core element of Confucianism

The core element of Confucianism is the concept of the moral person (Jun Zi); this is at the heart of human morality (Ren Yi Li) and relationships (Guangxi) which should comprise the social structure (harmony). Based on Confucius, a moral person is urged to adopt goals and pursue a life constrained and directed by virtues. A person’s life involve several progressive phases which are rectifying the mind, cultivating the self, taking care of the family, governing the state well and pacifying the world (or nations). From this core element, the Confucius firm can be derived,
characterised by its authority structure, social interaction pattern, decision-making process, leadership, and stakeholder relationships (Ip, 2009).

Confucius and business implications

Though Confucianism was not intended to apply in business, when it comes to business transactions, a Confucian ethic would suggest compromising and flexibility, resulting in harmony. If one is a businessperson who follow Confucius, is one should do what promised even if it means losses (Fam, 2009).

Appendix II  Socialist Market Economic plan

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
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<tbody>
<tr>
<td>1978</td>
<td>The important of implementing and developing a market commodity economy was acknowledged.</td>
</tr>
<tr>
<td>End of 1978 - October 1984</td>
<td>Planning is still playing a major role in the economy but is complemented by market adjustments (Jihua Tiaojie Wei Zhu Shichang Tiaojie Weifu)</td>
</tr>
<tr>
<td>October 1984 - October 1978</td>
<td>Reducing mandatory planning and strengthening market regulations, aiming at being the socialist commodity market.</td>
</tr>
<tr>
<td>October 1987 - early 1989</td>
<td>Although the government has the right to determine market regulation, market is the determination of enterprise directions. (Guojia Tiaojie Shichang, Shichang Yindao Qiye).</td>
</tr>
<tr>
<td>By 1991</td>
<td>The policy has evolved to a combination between state planning and market forces.</td>
</tr>
<tr>
<td>In 1992</td>
<td>In the 14th Congress, the objective PRC economic system to establish socialist market economy was announced.</td>
</tr>
</tbody>
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Appendix III  Journal Zhexue Dongtai

As was mentioned in the journal Zhexue Dongtai (Philosophical trends journal), in April 1997.

1. Does the introduction of market economy have negative or positive effect on public morality? (Huapolun, the slippery slope thesis or Panpolun, the climbing slope thesis)

2. Is economic behaviour different from other forms of social activity? In the form that is generally moral in fundamentals (Erlubeifanlun, the antinomy thesis) or on the contrary, is there general morality applicable to all aspects of social life including the economy (yizhilun, the identity thesis)?

3. Does the market engender its own norms distinct from those articulated in traditional moral philosophy (neiyinlun, the "auto-engendering thesis") or are the moral norms articulated in traditional philosophy applicable to behaviour in the market' (wailianlun, the "external relation thesis")?

Appendix IV  Five Dimensions of Organizational Ethical Climate Type

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<tr>
<th>Five Dimensions of organization ethical climate type.</th>
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<tbody>
<tr>
<td>Caring ethical climate</td>
<td>Emphasises care and kindness in the interaction process between firm and individual, covering also the aspect of employee benefit concerns.</td>
</tr>
<tr>
<td>Instrumental ethical climate</td>
<td>Climate is in which employee pursue their own benefit while enhancing firm benefit at the same time.</td>
</tr>
<tr>
<td>Independence ethical climate</td>
<td>Where employees can develop their own Guanxi. This form of ethical climate is the most promoting Guanxi.</td>
</tr>
<tr>
<td>Law and code</td>
<td>Following its name, employees are expected to follow the law and professional conduct rules. Firm with rules-based ethical climate, which means firm’s rules and operating procedures, are norms, everyone shall follow. In this dimension, laws and rules, employees’ personal Guanxi is weakening, the least promoting individual Guanxi type of organizational climate.</td>
</tr>
</tbody>
</table>
Appendix V  ICAC

ICAC

From 1997, the commissioner of ICAC was appointed by the state council of the people’s republic of China, which was based on recommendation of Chief Executive of Hong Kong. ICAC works a three-pronged approach to fight corruption, which are investigation, preventing and education. ICAC was working very hard to change the attitude of society that bribery is not a common practice in daily life. In the prevention aspect, ICAC promoted a training system in which organizations can prevent corruption. With these measures, corruption in Hong Kong was reduced a lot. For example, complaints against police officers were reduced by 70%, from 1443 in 1974 to 446 in 2007 (www.wikipedia.org).