

TABLE OF CONTENTS

CODES OF CONDUCT FOR OPEN-MINDED DISCUSSION AND RESOLUTION OF ETHICAL ISSUES IN CHINA.....	3
Dean Tjosvold, Robin Snell and Sofia Fang Su	
UNDERSTANDING INTEGRITY ACROSS GENERATIONS IN CHINA: IMPLICATIONS FOR PERSONNEL CHOICES IN CHINESE CORPORATIONS.....	21
Mark R. Bandsuch	
ETHICAL TRAINING FOR LAW STUDENTS IN CHINA: LESSONS FROM OVERSEAS COUNTRIES	39
Richard Wu	
TOWARDS AN ECOLOGY OF CHINA'S LEGAL SYSTEM	48
Nathan Betancourt and Barbara Krug	
INTEGRITY IN MARKETING: CHINESE AND EUROPEAN PERSPECTIVES.....	62
Mike J. Thompson	
INTEGRITY AS MORAL IDEAL AND BUSINESS BENCHMARK.....	70
Gerhold K. Becker	
BOOK REVIEW.....	85

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CODES OF CONDUCT FOR OPEN-MINDED DISCUSSION AND RESOLUTION OF ETHICAL ISSUES IN CHINA

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Abstract: Developing a consensus on ethical rules has been regarded critical to developing an ethical organization. This study proposes that explicit ethical rules are valuable as a foundation for employees to discuss possible ethical violations open-mindedly, and in a manner that they consider fair to one another and conducive to interpersonal relationships and further discussion. In critical incident interviews, 101 Chinese mainland employees described a specific occasion where their ethical values were at issue. Case examples and structural equation analyses indicated that the presence of clearly formulated ethical rules facilitated the open-minded discussion of opposing views, also called constructive controversy, regarding actual ethical issues, that in turn developed interactive justice, strengthened interpersonal relationships, and promoted confidence in future discussions within the organization about ethical issues. These results were interpreted as suggesting that codes of ethics and constructive controversy helped employees to identify common boundaries and to avoid personal antagonism. However, explicit codes and engagement in constructive controversy had no impact on the furtherance of employees' own ethical values, a result that was interpreted as indicating that ethical codes may fail to empower employees to develop and apply their own ethical values if they are imposed top-down.

Keywords: ethical rules, constructive controversy, conflict, China

Ethical Rules for Open-Minded Discussion to Resolve Ethical Issues in Chinese Organizations

Organizations have been advised to develop codes of conduct, ethical mission statements, and other formulations of ethical rules, as their members will continually encounter such ethical issues as harassment and potentially harmful company products (Conference Board, 2002; Lere & Gaumnitz, 2003; Schweitzer et. al., 2004). These explicit rules are expected to reduce ethically questionable behavior and facilitate recovery when ethical violations have occurred. Ideally, these codes empower employees by helping them recognize situations that have moral implications, appreciate ethically acceptable ways of responding, and understand the rationale for consequences for violations. However, little research has investigated how these rules are effectively applied and integrated into organizational life. This study proposes that ethical

rules can help organizational members discuss ethical issues open-mindedly, also called constructive controversy; this kind of discussion, in turn, facilitates effective resolution in terms of substantive ethical impact, interactive justice, strengthened relationships, and the confidence that they can discuss future ethical issues effectively.

This study makes several contributions to the literature. It identifies how constructive controversy complements ethical rules in the handling of ethical issues. It shows how ethical codes do not simply dictate how organizational members should behave, but provide a context and source of guidance for controversial discussions about ethical issues. Ethics codes encourage organization members to engage in discussions with others who are involved, and such discussions may proceed in a manner that builds, rather than weakens, relationships, and fosters, rather than deters, future discussion of ethical issues. The study builds upon previous research by suggesting that constructive controversy is a useful model of communicative discourse that is conducive to the discussion of ethical issues (French & Allbright, 1998).

The study adopted four measures of the effectiveness of a resolution of an ethical issue. First, the resolution should have a positive ethical impact, where people involved conclude that any harm will be kept to a minimum and that a morally acceptable solution will be implemented, and where they believe that they have prevented unethical action and are more committed to preventing or rectifying harm. The second measure concerns interactive justice, where members believe that they were treated in an enhancing manner as they discussed the issue at hand (Bies, 1987; Bies & Moag, 1986; Tyler & Bies, 1990). They perceive that their response to an ethical issue has helped them and others consider each other's viewpoints and to deal with each other in a truthful, considerate, and fair manner. Interactive justice is especially important because it has been found to be an antecedent to other types of justice (Cohen-Charash & Spector, 2001) and to the quality of leader-member exchange (Masterson et. al., 2000). Third, as organizations require people to continue to work together in the future, an effective resolution includes strengthening interpersonal relationships. Fourth, resolutions should also be achieved in ways that make people more confident that they can discuss ethical issues when they encounter them in the future (Argyris, 1985).

Ethical Issues and Rules

Ethical issues arise at work when actual or potential business conduct challenges one or more moral principles concerning right and wrong; they typically entail the occurrence or prospect of one or more of the following: breach of justice, violation of rights, and failure to achieve acceptable results from a utilitarian point of view (Post et. al., 2002). Although ethical issues can be distinguished analytically from ethical dilemmas (Maclagan & Snell, 1992; Toffler, 1986), in practice they are related (Maclagan, 2003). This study uses ethical issues as a generic term to refer to ethical dilemmas as well as issues; employees may at times find that tackling challenges according to their ethical values conflicts with short-term profit, career advancement, and job retention (Jackall, 1988). How people at work respond when they encounter ethical issues has repercussions for various stakeholders, including superiors, subordinates, peers, suppliers, customers, government agencies, activist groups, and society as a whole (Savage et. al., 1991; Weiss, 2003).

Researchers have proposed that ethical rules of what the organization deems just and right can help organizations deal with these ethical issues (Conference Board, 2002; Lere & Gaumnitz, 2003; Schweitzer et. al., 2004). These rules are to guide organizational members' actions by clarifying what is ethically

questionable and by identifying how these ethical issues should be dealt with. These rules can be written and detailed or more implicit and general.

Ethical rules are expected to reduce the incidence of ethical issues as they communicate a clear commitment on the part of the organization that ethically questionable behavior must be avoided. Organizational members face censure, punishment, and even termination if they engage in these behaviors. Rules are also expected to guide organizational members as they work to halt emerging ethical difficulties and to recover from ethical misdeeds. Rules provide a foundation upon which to deal with transgressions, make restitutions, and reduce the probability of future violations.

Managing and Applying Ethical Rules

However, the possession of clear ethical rules by itself seems unlikely to be sufficient to promote effective resolution of ethical issues (Lere & Gaumnitz, 2003). Researchers have identified two kinds of potential difficulties and shortcomings with the use of rules in governing ethical behavior by employees. First, issuance of ethical rules may fail to empower employees to make ethical judgments. Employees may infer instead that dealing with ethical issues is the organization's responsibility, not theirs, that the role of enforcing the rules resides with top managers and that, if the latter do not identify violations, then they are free to conclude that they do not have an ethical issue (Lere & Gaumnitz, 2003). Issuance of ethical rules may similarly communicate to employees that top managers are responsible for developing resolutions to violations. Rules tend to be imposed top-down rather than developed and revised through open dialogue (Snell & Herndon, 2000), contrary to the advice both of theorists (Collins & O'Rourke, 1993) and practitioners (Business Roundtable, 1988). Developing ethical rules by top-down methods may reduce individual responsibility.

A second type of potential shortcoming in the use of ethical rules is that organizational members may try to implement them in rigid ways. Moral development psychologists Piaget (1965) and Kohlberg (1969) identified stages of moral reasoning for understanding how people develop more mature ways of ethical reasoning. Even adults may consider moral principles in an absolutist manner where they must be enforced rigidly. Moral maturity though is characterized by an understanding that moral principles not only have to be applied to fit the circumstances, but they may also conflict with each other. Morality is not realized through simply following rules, but by considering and incorporating moral principles into one's life. Studies have supported Piaget and Kohlberg's proposal that controversial discussions where people confront the limitations of their absolutist applications and appreciate alternative resolutions induce people to develop more principled, ethically mature reasoning capabilities (Johnson et. al., 2006).

According to French and Allbright (1998), philosophers from Plato to Baier have emphasized the need for discussing different positions and for working toward a consensus for a just and lasting resolution. Confucian perspectives also emphasize the role of weighing potentially conflicting moral obligations and resolving how they apply to a particular situation through reasoning and discussion (Cua, 2002; Roetz, 1993). However, while there is near-unanimity among commentators that it is desirable to resolve ethical issues through reasoned discussion and dialogue, doing so appears difficult in practice (French & Allbright, 1998; Nielsen, 1996). This study argues that controversial discussions are critical for the effective application of ethical rules in organizations. Ethical rules are useful not by taking decision-making responsibility away from individuals, but by encouraging them to discuss ethical issues openly with each

other so that they incorporate each other's ideas to resolve issues. The next section discusses the relevance of the research on constructive controversy for ethical decision-making.

Constructive Controversy

Organizational members often have strong feelings and opinions as they encounter ethical issues. This study proposes that constructive controversy, open-minded discussion of opposing perspectives for mutual benefit, is a useful way to characterize productive interaction as organizational members resolve ethical issues effectively (Snell et. al., 2006; Tjosvold, 1998a; Tjosvold et. al., 1998).

Controversy occurs when decision-makers express their opposing ideas, opinions, conclusions, theories, and information that at least temporarily obstructs resolving an issue. Diversity and conflict promote understanding of complex issues and the development of quality solutions (Amason, 1996; Cosier, 1978; Eisenhardt, 1989; Eisenhardt & Bourgeois, 1988; Mason & Mitroff, 1981; Schweiger et. al., 1989; Valacich & Schwenk, 1995). Researchers have proposed various ways to structure controversy, such as devil's advocacy and dialectic inquiry, to aid decision-making (Cosier, 1978; Schweiger et. al., 1986). Diversity within teams, when properly harnessed, is thought to promote dialogue and debate that stimulate innovation (Leonard & Sensiper, 1998; Leonard & Straus, 1997; Nonaka, 1990).

Studies indicate that controversy can help problem solving. Groups comprising persons with different views and outlooks and groups whose leader encouraged expression of minority opinions made high quality decisions (Maier, 1970; Wanous & Youtz, 1986). Recently, researchers have emphasized that conflict over task issues can contribute significantly to group and organizational performance (De Dreu & Van de Vliert, 1997; Jehn, 1997).

Experiments document the dynamics in controversy and, more specifically, how controversy can promote decision-making (Tjosvold, 1998a; Tjosvold & Sun, 2000). Decision-makers in controversy have been found to be open to new and opposing information. Confronted with an opposing opinion, they have felt uncertain about the adequacy of their own position, indicated interest in the opponent's arguments, and asked questions to explore the opposing views. They have shown that they recognized the opposing arguments and understood the reasoning others used to examine the problem and develop the opposing perspective. They have also taken the information seriously, developed a more complex and accurate view of the problem, and incorporated the opposing position into their own thinking and decisions. Conflictful interaction has also resulted in creation of new solutions not originally proposed. Participants in constructive controversy have used information and ideas from others to develop a more complete awareness and appreciation of the complexity of the problem and have arrived at a solution that responds to the complete information.

Experiments have directly investigated the discussion of ethical issues (Tjosvold & Johnson, 1977, 1978; Tjosvold et. al., 1980; Tjosvold et. al., 1981). Discussants who discussed their opposing views openly about a moral dilemma taken from Rest (1986), compared to those who avoided an open discussion, were found to be more interested, ask more questions, and become more knowledgeable about the other's moral reasoning. Indeed, they accurately understood the stage of moral reasoning the person had used and identified the kinds of arguments their opponent would use in a second moral dilemma. However, it is not just open discussion of controversy that is useful. Decision-makers who emphasize solving problems for mutual benefit are able to incorporate opposing ideas and information into high quality decisions, whereas

trying to outdo each other leads to closed-mindedness (Deutsch, 1973; Tjosvold, 1998b). Trying to win the controversy induces defensiveness and rejection of opposing ideas. Constructive controversy occurs when decision-makers discuss their opposing views for mutual benefit.

These studies identify the key components of constructive controversy; namely, participants expressing their own opinions openly, feeling uncertain about the adequacy of their own positions, inquiring about their opponent's arguments, putting themselves in each other's shoes and seeing the problem from other perspectives, taking new and opposing information seriously and demonstrating that they know the other's arguments, incorporating these arguments into their own thinking and decisions, and creating effective solutions that respond to the more complete set of information. Studies overall suggest that open discussion of opposing views for mutual benefit can promote the effective resolution of ethical issues.

The relationships proposed are summarized in the following hypotheses:

Hypothesis 1. To the extent that ethical rules have been developed, organizational members engage in constructive controversy about ethical issues (H1).

Hypothesis 2. To the extent that organizational members engage in constructive controversy about an ethical issue, they develop a morally sound resolution in terms of: (H2a) protection and enhancement of their own ethical values; (H2b) interactive justice; (H2c) strong relationships; and (H2d) confidence in future discussions.

This study tests a model linking ethical rules with constructive controversy and the resolution of ethical issues (see Figure 1). Ethical rules are expected to promote constructive controversy among organizational members who are then able to resolve ethical issues. Ethical rules are useful, not by dictating behavior and making individuals conform, but by encouraging direct, open-minded discussions.

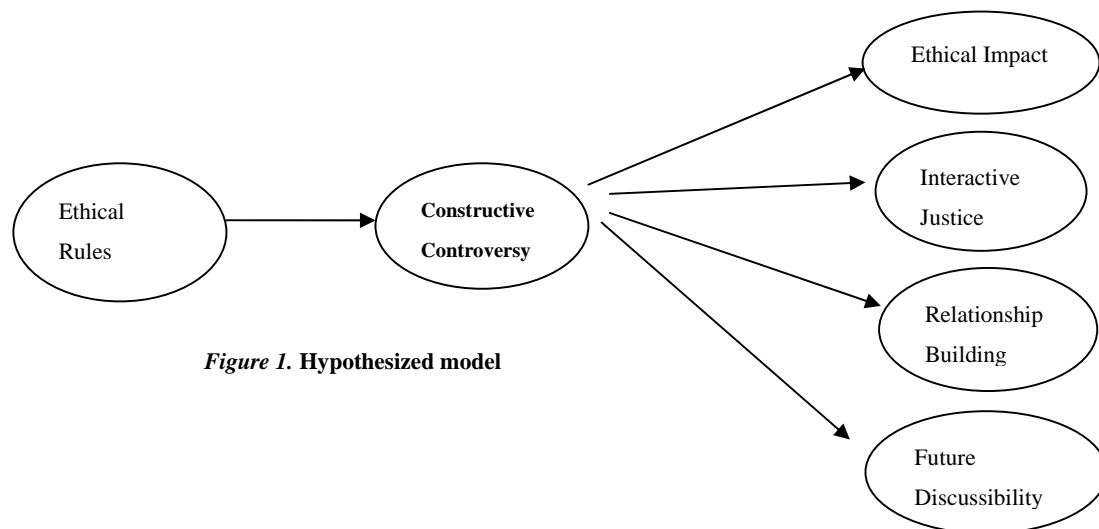


Figure 1. Hypothesized model

Method

Participants

One hundred and twenty employees were approached, of whom 110 completed the interviews and had their questionnaires collected, while ten employees explicitly refused to complete the interviews. Among those refusing, four said that they felt it hard to understand the questions and six were unwilling to disclose their personal information. Of the 110 employees who agreed to proceed through the interview, and whose questionnaires were collected, nine did not provide all the data asked for. The 101 participants who provided complete responses were from organizations in various sectors, specifically: manufacturing; electronic equipment and technology development; agencies of foreign companies; construction and architecture; trading; marine transportation, airline and harbor; storage, wholesale and retail; banking, insurance, securities and investment; real estate; IT, software, telecommunications, radio and television; power stations, power machinery and petroleum exploitation; consultation, accounting and services; health care, social welfare and hospitals; chemistry and medicine; and education, culture and entertainment.

Regarding personal information, 67 were male and 34 were female; 9 were under 25 years old, 57 were 25-30, 17 were 30-35, 6 were 35-40, 10 were 40-50, and 2 were 50-60; 53 were married and 48 were not. In terms of educational attainment, one had not graduated from high school, 6 were high school graduates, 61 were university graduates, and 33 had postgraduate degrees. Thirty-seven were non-managerial employees, 35 were junior managers, 25 were intermediate-level managers, and four were senior managers.

Interview Schedule

The critical incident technique (CIT) (Flanagan, 1954) was used in this study to develop our interview structure. CIT has been considered to be particularly useful when studying complex interpersonal phenomena (Walker & Truly, 1992). This method is thought to help moderate errors compared to when persons are asked to summarize across many incidents as required in most surveys (Schwartz, 1999). The interviews were conducted in Shanghai and each lasted one hour.

Interviewees were informed that the objective of the study was to investigate how people interact with others when dealing with issues that may be inconsistent with the organization's values and rules about right and wrong. Interviewees were asked to describe a recent, significant incident in detail when they worried that their values about what is right might be undermined by what was being proposed, planned, and done or not done at work. They were advised, "For example, you might be concerned about whether information is being kept confidential in accordance with the organization's procedures, whether proper records are being kept, that budgetary authority is being abused, or that customers are not treated in the respectful ways the organization expects". They were told that the example can be one that they thought the result of which was satisfactory or unsatisfactory. Each interviewee reported one incident, for a total of 101 cases. Interviewees were assured that their responses would be kept totally confidential.

After describing the ethical incident in detail, interviewees rated aspects of the context, the process, and the outcomes on specific scales during the rest of the interview. All scales were based on the recalled incident and used a 7-point Likert Scale (from 1 = strongly disagree to 7 = strongly agree).

Measures

Three items in the form of seven-point Likert scales indicated interviewees' perceptions of the clarity of their organization's ethical rules and prohibitions. These items measured the extent to which interviewees perceived that their organization: identifies unethical behaviors that are forbidden; communicates clear expectations about how employees are to act in this kind of situation; and warns that organizational members will be disciplined for unethical actions in this kind of situation. These three items were combined to form the code of conduct or 'ethical rules' variable with a Cronbach alpha reliability of .75.

Interviewees then responded to five items using the seven-point Likert scales about the discussion in which they engaged concerning the ethical issue (Tjosvold et. al., 1986). The interviewees rated the extent they and the other worked together for the benefit of both, expressed their own views freely, considered each other's views open-mindedly, tried to understand each other's concerns, and used each other's ideas. These five items were combined to form the constructive controversy variable with a Cronbach alpha reliability of .86.

A four-item ethical impact scale measured the extent that their interaction with the other had served to protect and enhance their ethical values. Thus, the interviewees evaluated the extent that the interaction had helped them to resolve their ethical dilemma, conclude that what would happen was morally acceptable, anticipated that there was less likelihood that someone would be harmed, and empathize with the people who might have been harmed. This scale had a Cronbach alpha reliability of .70.

A three-item scale developed from Moorman (1991), also comprising seven-point Likert items, measured interactive justice, i.e., the extent to which the interaction helped the interviewees believe that the other is considering their viewpoint, treats them with kindness and consideration, and provides fair interpersonal treatment. The interactive justice scale had a Cronbach alpha of .93.

A four-item future discussibility scale, comprising seven-point Likert items, measured the extent that their interaction with the other had served to encourage future discussion of ethical issues. For example, the interviewees evaluated the extent that the interaction had helped them to be more confident that they could discuss ethical issues constructively with people involved in this incident. This scale had a reliability of .90.

Relationship building was measured by a three-item scale, comprising seven-point Likert items. For example, interviewees rated the extent that the interaction strengthened their relationship with the other person in the incident. This scale had a Cronbach alpha of .79.

Results

Hypotheses Testing and Other Analysis

Correlational analysis was performed first for initial hypothesis testing. For more rigorous testing, structural equation analysis was then used to examine the underlying covariance structure between ethical rules, constructive controversy (open-minded discussion), ethical impact, interactive justice, relationship building and future discussibility. A nested model test, which is commonly adopted in causal model analysis, was used and the Indirect Effects Model that proposed mediating effects was compared to the Direct Effects Model. The Direct Effects Model holds that ethical rules impacts outcomes directly. The Indirect Effects Model holds that open-minded discussion mediates the relationship between the antecedent variables and the outcomes.

Correlational Analyses

The correlations (see Table 1) support the first hypothesis that ethical rules and constructive controversy were positively related ($r = .37, p < .01$). Results were also consistent with other hypotheses that organizational members who engaged in constructive controversy developed a morally ethical impact, interactive justice, relationship building, and future discussibility ($r = .24, p < .05$; $r = .45, p < .01$; $r = .43, p < .01$; $r = .52, p < .01$).

Table 1. Correlations among variables and reliabilities

	Mean	Std. D.	(1)	(2)	(3)	(4)	(5)	(6)
(1) Ethics formulation	4.06	1.31	0.75					
(2) Constructive Controversy	4.02	1.25	.366(**)	0.86				
(3) Ethical Impact	4.17	1.16	.198(*)	.242(*)	0.7			
(4) Relationship Building	4.27	1.27	.213(*)	.426(**)	.467(**)	0.79		
(5) Interactive Justice	4.03	1.28	.204(*)	.451(**)	.261(**)	.654(**)	0.93	
(6) Future Discussibility	3.99	1.41	.293(**)	.516(**)	.347(**)	.655(**)	.502(**)	0.9

** Correlation is significant at the 0.01 level. * Correlation is significant at the 0.05 level.

Notes: a. N=101; b. Values in bracket are reliability (coefficient alpha) estimates; c. ** $p < .01$; * $p < .05$.

Structural Equation Analysis

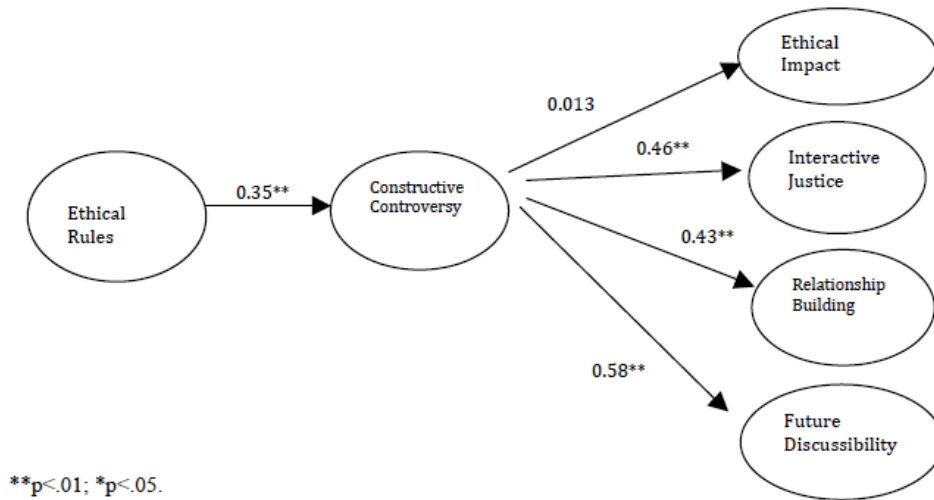
Using the nested model test in causal model analysis, the Indirect Effects Model, which hypothesized that constructive controversy mediates the relationship between the antecedent of ethical rules and the outcomes of ethical impact, interactive justice, relationship building, and future discussibility, was compared with the Direct Effects Model, which proposed a direct relationship between ethical rules and these outcomes.

Table 2. Results of the Nested Model Analyses

Indirect Effects Model a			Direct Effects Model b		
Path from	Path to	Path Coefficient	Path from	Path to	Path Coefficient
Ethical Rules	Constructive Controversy	.35**	Ethical Rules	Ethical Impact	.18
Constructive Controversy	Ethical Impact	.013	Ethical Rules	Interactive Justice	.20
Constructive Controversy	Interactive Justice	.46**	Ethical Rules	Relationship Building	.21
Constructive Controversy	Relationship Building	.43**	Ethical Rules	Future Discussibility	.29
Constructive Controversy	Future Discussibility	.58**			
Model χ^2	2.72		Model χ^2	44.59	
d.f.	4		d.f.	5	
NFI	.98		NFI	.77	
CFI	.99		CFI	.77	

Notes: 1) Hypothesized model, 2) After dropping paths to and from constructive controversy, 3) ** $p < .01$; * $p < .05$

The fit statistics for the hypothesized model and alternative model are displayed in Table 2. The chi-square of the Indirect Effects Model was 2.72 (d.f. = 4) and the chi-square of the Direct Effects Model was 44.59 (d.f. = 5). The hypothesized model thus represented substantial improvements in chi-square over the alternative model. The NFI (.98 versus .77) and CFI (.99 versus .77) fit statistics also indicated that the Indirect Effects Model fitted the data better than the Direct Effects Model. Path coefficients of the accepted model explore the findings more specifically (see Figure 2). Results indicate that ethical rules has significant positive effects on constructive controversy ($\beta = .35$, $p < .05$), thus supporting H1. Constructive controversy has significant effects on three of the four outcomes, namely, interactive justice, relationship building, and future discussibility ($\beta = .46$, $p < .05$; $\beta = .43$, $p < .05$; $\beta = .58$, $p < .05$), thus supporting H2b, H2c and H2d, but not on ethical impact ($\beta = .013$, $p > .05$). H2a was not supported.



	χ^2	df	χ^2 / df	p	NFI	CFI
Hypothesized model	2.73	4	0.68	.605	.98	.99

Figure 2. Path coefficients of the indirect effects model

Summary of Ethical Incidents

Interviewees reported a range of ethical issues. We classified each of the 101 incidents into one of 9 categories, according to the ethical issue that was its main focus. The categories and their frequency (in brackets) were: employees not receiving proper payment, or otherwise being unfairly treated (29 mentions); whether work procedures met company standards (27); whether product/service quality conformed to requirements (20); teamwork and open discussion (7); whether particular expenditures were warranted/reasonable (5); maintaining confidential information (4); (im)proper record-keeping (4); company strategies that may harm the community or otherwise be unethical (4); and information (in)accuracy (one).

Illustrative Cases

The full paper has two cases (A and B), illustrating how the critical incident accounts described considerable variation in terms of perceived clarity of ethical rules and prohibitions, perceived incidence of constructive controversy, and perceived desirability of outcomes in terms of ethical impact, interactive justice, relationship building, and future discussibility. However, they have been deleted to reach the page restrictions.

Discussion

The results of the study provide qualified support for the Indirect Effects model. Those participants who indicated that their organization had clearly-formulated rules concerning ethical behavior tended to report also that they were able to engage in open-minded discussion of various views with others involved in dealing with an ethical issue. Open-minded discussions were, in turn, found to lead to three kinds of effective outcome: interactive justice, strengthened relationships, and confidence that constructive

discussions about ethical issues would take place in the future. Qualified support for the Indirect Effects model but not for the Direct Effects model indicates that constructive controversy supplements ethical rules in enhancing some outcomes of critical incidents involving ethical dilemmas. While identifying and announcing ethical rules are first steps in developing an ethically responsible organization, constructive controversy, which entails skilled, open-minded discussion, is also needed to help organizational members consider ethical issues more effectively (Snell et. al., 2006).

Ethical rules were found to encourage open discussion and debate among organizational members. Knowing that ethical behavior is valued by the organization may lead employees to believe that discussing ethical issues is also appreciated and welcomed, and may thus embolden them to identify ethical problems and voice their views about them. Constructive controversy supported by ethical rules may spread optimism among organization members about their ability to discuss ethical issues in an interactively just manner, since they provide a foundation for working out how ethical issues can be resolved once identified. Future research is needed to explore and document further the dynamics through which rules foster constructive controversy.

In supporting H2b, H2c and H2d, the results are consistent with social psychological theory and research indicating that agreement on the content of norms and other rules promotes social order (Coleman, 1990; Hechter, 1984; Parsons, 1952; Scott, 1971). The combination of agreement about what the rules are and the phenomenon of constructive controversy may seem like a paradox in that organizational members are seen simultaneously to agree and yet also to disagree. Nonetheless, as Piaget (1965) and Kohlberg (1985) have argued, applying ethical rules or principles in practice requires controversial discussion in order that solutions can be developed that resolve contradictions among such rules or principles while also responding to non-moral values, such as the efficient use of resources.

However, as manifested in the lack of support for H2a, ethical rule formulation followed by constructive controversy did not appear to protect and enhance organization members' own ethical values. This particular lack of ethical impact may reflect that, in the great majority of organizations, codes of ethics tend to be imposed top-down rather than developed and revised through constructive controversy involving organizational members (Business Roundtable, 1988; Collins & O'Rourke, 1993; Snell & Herndon, 2000). While constructive controversy that takes place after ethical rules have already been formulated may help to increase understanding among organizational members about what the rules are, and about how behavior may be brought into alignment with rules, it may not empower members to develop new understanding about what the ethical rules should be and why this should be the case.

This line of analysis suggests that, in certain contexts, constructive controversy might guide and facilitate the development of ethical rules, and not merely facilitate common understanding about their application. Further research is needed to explore the proposition that ethical rules that are developed through constructive controversy may be more robust impediments to the escalation of unethical practices than are codes that are imposed top-down.

Limitations

In terms of internal validity, the salient statistics comprise relational constructs that are subject to biases associated with self-reporting, and may only provide partial and inaccurate representations of the incidents that were referred to. Furthermore, arranging for the interviewees to provide full descriptions of a critical

incident, while also rating specific aspects of this incident, may have reduced the scope for distortion or bias, as compared with studies that ask informants for broad generalizations across events (Podsakoff & Organ, 1986; Schwartz, 1999; Sudman et. al., 1996).

While the study faced the possibility of common method variance, commentators have pointed out that this may not be as much of an artifact as is often assumed (Spector, 1987; Avolio et. al., 1991). Furthermore, as shown in Table 1 and reported in the scale validation subsection, a one-factor solution (M4) was tested and was found to be a relatively poor fit with the data. Notwithstanding this, further research studies, between them using a variety of methods, are needed to further test and refine the propositions argued here (Spector & Brannick, 1995). For example, it would be desirable to provide direct experimental verification of the role of ethical rules and constructive controversy in resolving ethical issues.

Practical Implications

The ideas of ethical rules and constructive controversy, although developed in the West, have proved useful in this study for understanding the resolution of ethical issues in China (Deutsch, 1973). In addition to developing theoretical understanding, those hypotheses that have received support from our findings have important practical implications for helping organizational members to manage ethical issues that arise at work.

The results overall suggest that organizations should develop a consensus both on ethical rules and on the value of open-minded discussion of these rules as aids to an ethically responsible organization. They broadly support the suggestion that organizations should develop and distribute codes of ethical conduct, along with exhortation and practical application by top management, and group sessions to discuss these rules. We suggest also that code items themselves should be developed through constructive controversy involving employees at all levels, since ethical codes that are imposed top-down are unlikely to engage employees in developing and applying their own ethical values.

The present study suggests also that constructive controversy facilitates the application of ethical rules. Managers can include constructive controversy in the same vehicles that they use to develop ethical rules so that employees understand that there is consensus for open discussion as well as ethical rules. In addition, employees can be trained on the central skills of constructive controversy, namely, expressing views directly and forcefully, understanding and rephrasing the opposing views, combining diverse ideas into new solutions, and agreeing to high quality alternatives (D. Tjosvold, & M. Tjosvold, 1995). Employees should also recognize the need for constructive controversy and be skilled in its use, so that they can discuss ethical issues open-mindedly for mutual benefit. In this way, they would be prepared to apply ethical rules and promote ethical values in sensitive, practical ways.

Our findings indicate that to the extent that constructive controversy takes place, it is an effective means to tackle ethical issues in mainland China, serving to build relationships, foster interactive justice, and encourage further discussions. The results of the study also support the theorizing that ethical rules encourage open discussion of ethical issues. With a consensus on rules, organizational members have reason to believe that discussing ethical issues will be welcomed and that they will be able to discuss their diverse views openly for mutual benefit to create solutions. Qualitative data also suggests that conditions for constructive controversy would be more favorable if those involved in an issue were to assume that it is appropriate to discuss ethical issues and were to accept that organizational practices are open to challenge,

even if they were initially preferred by a superior. In practical terms, organizations may prevent the escalation of unethical activities by training members to engage in constructive controversy, arranging for them to use this as a means of developing ethical rules, and reminding members about the need for constructive controversy as soon as they detect potential code violations. We interpret the results of our study as suggesting that ethical rules and constructive controversy are important foundations for ethical organizations in China and perhaps other countries as well.

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Appendix

Sample Questionnaire

Ethical Rules

- Our organization specifies the kinds of unethical behaviors that are forbidden in this kind of situation.
- We in this organization know clearly what the organization requires from us in terms of ethical behavior in situations like this.
- Members know that they will face disciplinary action if the organization discovers that they have done something unethical in this kind of situation.

Constructive Controversy

- How much did you and the other work together for the benefit of both of you?
- How much did you and the other express your views fully?
- How much did you and the other consider each other's views open-mindedly?
- How much did you and the other try to understand each other's concerns?
- How much did you and the other try to use each other's ideas?

Ethical Impact

- To what extent did this interaction help you resolve your ethical dilemma?
- To what extent did this interaction help you conclude that what would happen was morally acceptable?
- To what extent did this interaction help you conclude that there was less likelihood that someone would be harmed?
- To what extent did this interaction help you empathize with the people who might have been harmed?

Interactive Justice

- How much did this interaction help you believe that the other will consider your viewpoint?
- How much did this interaction help you believe that the other treats you with kindness and consideration?
- How much did this interaction help you believe that the other provides fair interpersonal treatment?

Relationship Building

- How much did this interaction with the other make you more confident that you could work successfully with him/her in the future?
- To what extent did this interaction strengthen your relationship with the other person?
- To what extent did this interaction make you more trusting of the other person?

Future Discussibility

- The incident made it more likely that I would discuss similar ethical issues in the organization.
- After this incident, I was more confident that I could discuss ethical issues constructively with people involved in this incident.
- As a result of this incident, I and others involved in this situation are more open about discussing issues such as this one.
- As a result of this incident, it has become more acceptable for us to discuss ethical issues.

UNDERSTANDING INTEGRITY ACROSS GENERATIONS IN CHINA: IMPLICATIONS FOR PERSONNEL CHOICES IN CHINESE CORPORATIONS

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Abstract: Superior leadership, ethical decision-making, and integrity are essential qualities for business managers at all levels of an organization, especially in today's quickly-changing global society. This is particularly true in the People's Republic of China (PRC) where relationships and their integrity play a prominent role in all interactions, commercial and otherwise. Multinational corporations devote numerous resources to developing leadership competencies and decision-making skills, which include the ability to navigate the business successfully during influential economic, organizational, and societal changes, like the recent economic crisis, the various business scandals, and the numerous political conflicts. This expectation is even more pronounced upon Chinese companies because their actions impact significantly the global economy. In an effort to learn more about the necessary attributes and skills needed to manage well during this liminal period in the global economy, this paper looks at how generational differences in China shape the leadership styles and decision-making frameworks of successful business leaders. The formative experiences of successful executives, communicated through personal interviews and surveys, lay the groundwork for this paper's eventual recommendations on how to cultivate integrity, social responsibility, and ethical awareness among this new generation of multinational companies, especially across the generational lines of its leadership in the People's Republic of China.

Keywords: Integrity, Taoism, Buddhism, Confucianism, business ethics, China, stakeholder management, generations

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

The formative experiences of successful executives, communicated through personal interviews and surveys,¹ lay the groundwork for this paper's eventual recommendations on how to cultivate integrity, social responsibility, and ethical awareness among this new generation of multinational companies,

especially across the generational lines of its leadership in the People's Republic of China (identified respectively as Loyalists, Revolutionaries, Reformers, and Little Emperors). In brief, different generations of business managers in China have different understandings and perspectives about "integrity" and how it applies to business behavior, business ethics, and corporate social responsibility. Accordingly, individual and institutional ethics can and should be cultivated by businesses through personnel, policies, and programs that account for these different generational perspectives. This multi-generational ethics strategy will improve an organization's integrity, retention, and overall performance, as well as provide macro-economic benefits to the global marketplace.

Integrity in China²

In China, the concept of "integrity" (de) is of great consequence, "perhaps the most significant word, next to dao, in ancient Chinese macro and micro cosmology" (Boodberg, 1979, p. 32). The Hanyu Da Zidian (the "Comprehensive Chinese Character Dictionary") offers twenty definitions for "de" that describe various virtues and moral conduct, of which integrity is highlighted (Mair, 1990, p. 133-135). The notion of "integrity" has played an important role in Chinese culture throughout the nation's history because of the prominent position it occupies in the various philosophical and and/or religious traditions of China - Buddhism, Taoism, and Confucianism among them - and it continues to permeate all aspects of Chinese life, including modern business relationships and activities. China's religious heritage has undergone a recent revival - making this an opportune time to examine the understanding of integrity in the hope of discovering some guiding principles that might serve as a starting point for constructing a corporate strategy for social responsibility and leadership development appropriate for Chinese companies of the 21st Century.

Integrity among Asian Wisdom Traditions

Together, Taoism, the recognized religion of China in the 6th Century BCE, and Confucianism, the official national cult around the 5th Century BCE, laid the ideological framework for the concept of integrity that endures in part to this day in China. For instance, the Taoist notion of de/integrity, as expressed numerous times in the Daodejing and Zhuangzi, reflects an "inner power" or "personal virtue" that is the active manifestation of (or behavior in accordance with) the natural order of the universe (i.e., the Tao or the Way) (Sharot, 2001, p. 78). The de/integrity "signifies the personal qualities" and moral make-up of an individual, which is "determined by the sum total of one's actions, good and bad" (Mair, 1990, p. 134). In Taoism, "integrity" was and is seen as an essential quality to lead or manage other people (Waley, 1958, p. 59-68).

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

international business community's promotion of respect for stakeholder relationships.

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

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

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

Integrity in the West

China's various reforms also "opened it up" to Western philosophies, religions, and their corresponding concepts of integrity. Similar to the Chinese perspective, the Western "concept of integrity is a cluster concept, tying together different qualities of character under the one term" (Cox, La Caze, & Levine, 2008). Adjectival synonyms such as honest, true-to-self, courageous, fair, and principled describe some of the traits associated with integrity in general and moral integrity in particular.

Four fundamental philosophies naturally frame any conversation on Western morality: (1) Ancient Greek philosophy; (2) Judeo-Christian religion; (3) Jurisprudence; and (4) the Scientific Method of discovery. Alatheia, the spirit of truth, was the personification of integrity in Ancient Greek mythology. Socrates taught that "The shortest and surest way to live with honor in the world, is to be in reality what we would appear to be; and if we observe, we shall find, that all human virtues increase and strengthen themselves by the practice of them." The Latin for integrity - *integritas* (meaning intact or whole) – turns truth into the "quality of being complete, undivided, whole and unified." Thus, the adjective integrity may be used equally to describe the sound condition of a physical structure like a building and to describe the soundness and stability of a person's moral character and ethical behavior.

This completeness or wholeness implies a purity of elements (like the quality of bricks or other building materials for an edifice) that include different qualities that comprise a virtuous character (like honesty, loyalty, and compassion). Thus, truth and integrity reflect adhering to one's deepest values, even

when confronted by conflicting desires. Integrity, and its wholeness, manifests itself in relationships, corresponding well with the Chinese concept of “social harmony.”

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

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

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

The similarities between the Western and Eastern concepts of integrity are self-evident. Each appears to try in their own way to balance self-realization with ethical relationships based on fundamental principles rooted in experience and authority. Buddhism seems to focus on self-realization the most, while the Judeo-Christian view, American Jurisprudence, and Confucianism lean more towards social ethics. Taoism and Greek philosophy seem the most adept at balancing or integrating self-discovery with moral behavior in their respective constructs for integrity. The most interesting similarity between the Eastern and Western perspectives on integrity is the comparable questions that each leaves unanswered.

For instance:

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

Integrity and Business Ethics

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

Business ethics is an evolving field whose decision-making and actions include corporate social responsibility, sustainable development, and philanthropy among its many forms. Both the Chinese and American concepts of integrity contain ethical perspectives that are applicable to the various dimensions of business – from the acquisition of natural resources to the distribution of the final product or service (and every activity and relationship in between). The need for integrity and ethics in business has never been greater as made clear by the numerous business scandals that have ushered in a new generation defined by unethical behavior. For example, the subprime mortgage crisis that counts Lehman Brothers, Bear Stearns, and 118 U.S. banks among its casualties in 2009 (after only seventeen banks had collapsed in the previous 9 years), the \$50 Billion Ponzi Scheme perpetrated by Bernie Madoff, and the SEC's failure to prevent either have become the most recent infamous faces attached to the growing body of corporate scandals.

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

Together, these scandals are eroding trust in businesses, economies, and in the integrity of their stakeholder relationships. Customers no longer trust producers, employees no longer trust employers, retailers no longer trust suppliers, investors no longer trust executives, lenders no longer trust entrepreneurs, and society no longer trusts business. The impact of this lack of trust and integrity on business, on the

economy, and on overall society is potentially devastating as the current economic crisis indicates. The solution, in part, requires the rebuilding of integrity among all aspects of business and the renewal of trust among all stakeholder relationships. This paper outlines a corporate ethics strategy designed to cultivate stakeholder integrity and business trust across generational lines in China.

Different Generations and Their Views of Business Ethics and Integrity

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

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

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

The following is a summary sketch of the generations in China,⁷ their formative experiences, their view of business ethics and integrity,⁸ and some visible members.

Table 1. *Generations in China*

Generations in China	<u>Loyalists</u>	<u>Revolutionaries</u>	<u>Reformers</u>	<u>Emperors</u>
	Born before 1948 (> 60 years old)	Born 1949-64 (45-60 years old)	Born 1965-79 (30-45)	Born after 1979 (under 30)
Famous Members	Jiang Zemin He Xiangjian	Xi Jinping Peng Liyuan	Hu Chunhua Pan Shiyi	Liu Xiang Zhang Xin
Formative Experiences	Civil War Sino-Japanese War World War II	PRC Mao Zedong Cultural Revolution	Death of Mao Economic Reforms Open to West Tiananmen Square	One child policy Economic Growth Revive Chinese Culture
View of Ethics and Integrity	Loyalty, Respect Formal Authority Identifiable rules Adherence to institutional precepts Chinese Tradition	Distrustful and questioning of formal authority Apprehension and self-protection	Integration of Chinese culture and tradition with western values Individual rights Adapt Principles and Guidelines	Apolitical Self-interested Neo-Confucian Balance Principles and Rules

Party Loyalists (born before 1945 and currently over 65 years of age) were formed by the numerous conflicts that scarred the Chinese landscape. Its members were born into the Republic of China, itself born out of the Xinhai revolution against the corrupt Qing dynasty of the minority Manchus. The country remained divided during the warlord era (1916-28), the New Culture Movement (@1917-23), and of course the Chinese Civil War (@1927-37, 45-49) which pitted the newly formed communist party against the nationalists. The conflicts were not limited to domestic battles, but included World War I (@1914-1919), the second Sino-Japanese War (@1937-45) which merged into World War II (1939-45), and the Korean War to a lesser degree (@1945).

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

Revolutionaries (born between 1949-60, aged 45-65) were shaped by the early formation of the isolationist attitude of the early People's Republic of China as led by Mao Zedong, its Chairman and President from 1949-1976. Mao's anti-imperialism, anti-feudalism, and anti-bourgeoisie philosophy guided the Great Leap Forward of 1958 and the Cultural Revolution of 1966-76, which tried to abolish old

customs, old habits, old culture, and old ideas and replace them with a reconstructed and self-sufficient socialist state embodied and protected by the young members of the Red Guard. However, the early success of the PRC gave way to apparent failure that resulted in China's political exclusion (unrecognized by the United Nations), economic disaster, educational stagnation, and cultural chaos. The dogmatic nature of this generation's xenophobic experiences combined with the substantial failure of its ideology create a conflicted generation, disillusioned and distrustful of the PRC and all authority that it followed wholeheartedly, only to be drastically disappointed by its outcomes. Integrity, ethics and decision-making vacillate between distrust and obedience to authority. Xi Jinping and Peng Liyuan, husband and wife, have turned their potential cynicism into constructive political service for China's CPC and PLA, respectively.

Reformers (1961-79, 25-45) experienced enormous economic reforms and an unparalleled openness to western culture after the death of Chairman Mao in 1976. The Tiananmen Square protests symbolize their understanding of integrity as protecting individual rights and achievement, but as loyal Chinese. Hu Chunhua and Pan Shiyi, with their quick ascent to power, success, and fame in politics and business respectively, exemplify the unlimited potential of the Reformers.

Little Emperors (1980-95, ages 10-25) began with the one child policy in 1978 and coincided with a booming economy and the revival of Chinese culture. Little emperors are self-interested and apolitical so that their ethics and decision-making focus on individual well-being that is tempered by traditional Confucian Ethics and its humaneness for the other. The track star and national idol Liu Xiang and the very successful heiress Zhang Xin typify this generation.

Globalists (born before 2000, <10) will be shaped by the economic growth and political prowess of the People's Republic of China. Born after China was welcomed into the World Trade Organization, the prognosis is that Globalists will push the prominence of China further into the global arena with a nationalistic ethic balanced slightly by multinational implications. Having witnessed the economic and societal tragedies caused by various scandals in all areas of society, Globalists will pursue a Neo-Confucianism integrity that returns to basic honesty, transparent ethics, and just decision-making that pursues and protects equitable relationships. 2008 saw a tremendous outpouring of national pride and cooperation during the Olympic Games, the Sichuan earthquake, and southern snowstorms that will further solidify the cohesiveness and caring of this youngest generation.

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

Table 2. Multi-generational Ethics Program

Generations	<u>Loyalists</u> 1948 (OVER 60)	<u>Revolutionaries</u> 1949-64 (45-60)	<u>Reformers</u> 1965-79 (30-45)	<u>Emperors</u> 1979 (UNDER 30)
Hiring	Mentors Responsibility	Limited Numbers Limited Authority Provide Oversight	Leadership Nucleus	Give Training
Training	Mentors Moral Voice	Detailed Info on goals, purpose, method, reasons Moral Reasoning	Prepare for Leadership Social Networking	Prepare for Leadership Moral Reasoning
Managing	Structure Respect Security	Rewards Guidance	Flexibility Autonomy Responsibility	Teams Mentors Uniqueness

Discussion: Designing a Multi-Generational Business Ethics Program

Recognizing the importance of business ethics to employee loyalty, customer satisfaction, company performance, and overall economic wellbeing, many businesses have implemented business ethics programs. The Chinese government recently issued guidelines for Corporate Social Responsibility,¹¹ providing evidence that China recognizes that business ethics and CSR are essential components for the economic and societal success of the country and its constituents. While a complete ethics program should consist of three equally important dimensions: 1) ethical personnel, 2) ethics training,¹² and 3) ethical culture¹³ (Bandsuch, Pate, & Thies, 2008), the subsequent section explores only the ethical personnel dimension in order to illustrate how generationally-sensitive business ethics programs can help cultivate integrity and ethics across generations in the Chinese corporate context.

Ethical Personnel Policy

A critical factor in determining an organization's ethical culture, reasoning and behavior is of course the ethical disposition of its members – the actual decision-makers. Ethical decision-making is impacted by individual factors like values (Dubinsky & Gwin, 1981), attitudes (Ferrell, Johnston, & Ferrell, 2007), religiosity (Vitell & Paolillo, 2003), moral reasoning skills (Murphy et al., 2005), ethical sensitivity (Sparks & Hunt, 1998), and age/generation/job experience (Hoffman, Howe, & Hardigee, 1991). The ideal interview instrument or portfolio process would be one that could accurately measure¹⁴ a potential employee's moral maturity (i.e., ethical sensitivity, ethical disposition, moral motivation, moral reasoning, cognitive complexity, ethical judgments, ethical actions, and ethical fortitude). Given that all these factors are influenced strongly by generational experiences, the potential employee's particular generation becomes an extremely important consideration in the hiring, recruitment, placement, and promotion of personnel and the resultant development and management of an organization's ethical culture, decisions and actions.¹⁵

Recruitment and Selection of Ethical Employees

The goal of creating an ethical culture is advanced by the employment of personnel whose personal morality corresponds with the ethics of the company because it naturally decreases ethical conflicts, while

also increasing job satisfaction, performance, and loyalty (Ferrell, LeClair & Ferrell 1998). Hiring for a congruence of values seems to be a logical approach that will eventually lead to a more ethical work force (Schwepker, Jr. & Good, 2007). The importance of the overall employee selection process only increases when one considers the significant influence that peers have on ethical behavior (Ford & Richardson, 1994).

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

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

Other reasons for the privileged place of Reformers include:

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

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

Leadership Development

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

Mid-level managers, by the nature of their direct supervision, control strategies, positive mentoring, and more observable modeling, may occupy a more influential role than upper-level executives upon employees. Managers leave an unmistakable imprint on the ethical activity of subordinates through the recruiting and hiring process, through training and control systems, and through their attitudes, words, and actions (Schwepker, Jr. & Good, 2007).

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

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

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

Benefits of a Multi-Generational Ethics Program

The implementation of a multivalent multigenerational ethics program will improve an organization's ethical sensitivity, ethical analysis, ethical culture and ethical behavior, while also leading to more

traditional business benefits of job satisfaction, loyalty, retention, and performance among its employees (Mulki, Jaramillo & Locander, 2006). Ethical behavior appears to contribute to performance advantages at both the individual and organizational levels (Schwepker, Jr. & Good, 2007), even maintaining and expanding its customer base and reputation (Ingram et al., 2007). These business benefits are attributed to the greater ethical sensitivity, stronger stakeholder relationships, and clearer company guidance and support embodied in well-crafted ethics programs (Mulki et al., 2006). Other benefits include greater “job performance, organizational commitment, satisfaction with company policies, with supervisors, with the overall job, with compensation and promotions, with coworkers, and with customers,” as well as lower levels of job stress, “role ambiguity, role conflict, emotional exhaustion, and intention to leave” (Cravens et al., 2006, p. 243).

The highest level of ethical behavior and of corresponding business benefits will be achieved when the three dimensions of ethics training,¹⁷ ethical culture¹⁸ and personnel become fully integrated and mutually-supportive, providing a synchronicity that leads to synergy. The multigenerational dimension of the ethics program needs to be equally balanced in order to maximize its benefits. The social harmony among the generations in the workplace will also facilitate social harmony among the company’s various stakeholders. The micro-benefits to the company may also provide macro-benefits to the industry and economy – such as sustainable economic growth, avoidance of scandals, and expanded trade relations.

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

Conclusion

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

Notes

1. The methodology consisted of a two phases: 1) A qualitative study consisting of interviews with executives and entrepreneurs; 2) A quantitative study that included questions on the importance/relevance of the teachings of Confucius, Mao Zedong and Western philosophy on their decision-making processes.
2. The attempt to precisely define a moral concept like “integrity” is laced with linguistic, cultural, contextual, and philosophical limitations. Additional challenges involve interpretations influenced by race,

gender, education, geography, age, income, and other demographic characteristics like generations (which this paper proposes as most determinative). Yet, accepting these inherent challenges, trying to understand the important concept of integrity is a worthwhile endeavor because it helps to provide a more nuanced and layered understanding of a significant moral construct within and between various cultures, which should then assist the communication and interaction between these various cultures in their business, political, and social dealings.

3. Mao himself admitted to reading and admiring western classics like John Stuart Mill on ethics, Adam Smith on capitalism, Rousseau on logic, and Montesquieu on law (Melvin, 2007, p. 11).
4. As to religion, strength of religious beliefs (but not denomination or value orientation) was found to be strongly related to ethical behavior (McNichols and Zimmerer 1985).
5. Comparable sayings to the Golden Rule, found in MTT 7:12 of Christian scripture can be found in other religious traditions. In Confucian teaching, the rule is most prominently presented in a negative form, "Never impose on others what you would not choose for yourself" (Analects XV.24).
6. Preliminary findings indicate that geographical region, urban/rural setting, and type of education also influence the view of integrity and ethics among Chinese.
7. The demarcations of generations are not immutable because some people's development may overlap two generations (beginning at the end of one generation and continuing briefly into the beginning of another). These "cusps" may exhibit characteristics outside their birth generation and possibly of both generations.
8. Although other characteristics such as political affiliation, family dynamics, and work/leisure balance may be influenced by generational affiliation, the focus here is on ethical perspectives and decision-making in business.
9. Veterans (born before 1945, >65) found their identity in World War II and the earlier Great Depression. They view integrity as loyalty and assistance to the larger group, with ethics and decision-making as adherence to rules and norms. Baby Boomers (1945-60, 45-65) experienced the Civil Rights Movement and other social reform during their formative years. They see integrity, ethics, and decision-making as being rooted in fundamental values and inalienable rights that can be adapted to different situations. Gen-Xers (1961-80, 25-45) were influenced by their absentee parents and early political scandals like Watergate. Thus their ethics and decision-making emphasize individual well-being, self-sufficiency, and self-realization. Millennials (1981-2000, 10-25) have been raised in prosperity and rapid technological advancements. Integrity, ethics, and decision-making all attempt to balance personal development with societal well-being. Homelanders (2000-2020 <10) have experienced scandals in all areas of society accompanied by an economic downturn. The prognosis is that Homelanders will be very apprehensive of international relationships and will pursue a reform agenda with emphasis on a transparent ethics that pursues and protects equitable relationships and punishes unethical and illegal behavior.
10. The interest in cross-cultural business ethics has paralleled the growth of multinational businesses operations (Sims, 2009), a natural consequence of companies encountering differing ethical perspectives in various countries. Academicians, governments, and businesses alike believe that a fuller understanding of cultural differences will improve multinational business relationships, cross-cultural ethics, and global economic development (Blodgett, et al., 2001). This insightful theory contains at least one major flaw: it

views each nation as possessing an essentially homogeneous culture, which incorrectly oversimplifies the cross-cultural dynamics of the current global economy.

11. The Chinese Academy of International Trade & Economic Cooperation (CAITEC), a subsidiary of the People's Republic of China Ministry of Commerce (MOFCOM) issued CSR Guidelines in 2008.

12. A well-run ethics training program that utilizes the stakeholder model and social networking can help employees to understand the different perspectives, decision-making approaches, and formative experiences of their co-workers and other stakeholders.

13. Ethical culture usually includes formal policies (mission statement, codes of conduct), control strategies (compensation, discipline), and informal practices (symbols, stories, interactions). Control strategies and informal practices should be tailored for each generation in order to achieve optimal impact.

14. In order to determine the cognitive complexity, ethical sensitivity, personal values, ethical fortitude, and moral stage of development of potential professionals, tests designed to measure these attributes and their optimal levels should be developed and given as part of the application process. Rest's (1986) Defining Issues Test, which looks at moral sensitivity, judgment, motivation, and character, is a good place to start. Christie and Geis' (1970) Mach IV exam, which measures a leader's perspective on the appropriate purpose and use of power in order to anticipate ethical compromise, would be another helpful tool. Similarly useful are the Ethics Position Questionnaire developed by Forsyth (1980) and the Multidimensional Ethics Scale developed by Reidenbach and Robin (1988).

Interestingly, scholars predicted an increase in psychological testing among businesses would eventually occur (Bergen, Dutta and Walker 1993; Verbeke, Ouwkerk and Peelen 1996). It may be worth the investment to create an exam tailored to one's particular organization.

15. Without diminishing the important role that ethics training plays in improving the ethical behavior of sales people, limits to its effectiveness do exist based in part on the individual's current level of moral development (Ferrell, et al. 2005). Given this limitation, the recruiting and hiring of ethical people takes on added significance and can only enhance the ethical well-being of a sales force. This is especially true since cognitive complexity, empathy, and moral development are critical ethical skills for the stakeholder management framework. Therefore, sales departments might want to organize their candidates' pool in a manner that prioritizes the non-discriminatory attributes of type of education, cognitive complexity, ethical sensitivity, personal values, ethical fortitude, and moral stages of development. Yet, further research is necessary to more clearly understand this area, and to avoid any sort of discriminatory "sales personnel profiling."

16. Influential organizational leaders, however, are not exclusively found among professionals with titles and prestige. Lower level employees are often the most influential leaders through friendships, peer pressure, informal mentoring, humor, and gossip (Bandsuch and Cavanagh, 2005). An organization that touts its ethical culture is rendered mute if its message is unheard or ignored by the many subsidiary employees who serve as a major voice to a company's true ethical message. The union representative, the helpful co-worker, the insightful lunch partner, the successful sales team, even the funny and popular peer have an unprecedented power to impact organizational culture and its ethical climate. Therefore, it may behoove a company to identify both potential formal and informal leaders and work with them in designing and cultivating an ethical climate. The hiring and training of employees at all levels of the business, but especially of informal and formal leaders, will be a significant factor in determining a company's ethical

culture, climate and corresponding behavior.

17. A well-run ethics training program that utilizes the stakeholder model and social networking can help employees to understand the different perspectives, decision-making approaches, and formative experiences of their co-workers and other stakeholders. Such ethics training can help overcome generational differences in ethical reasoning by breaking down the false stereotypes about generations that often hinder inter-generational dialogue and cooperation. Improving the multigenerational communication and social networking, especially among the boundary spanners within the organization, will decrease role ambiguity, expand the ethical reach of the business, and cultivate “guanxi” among internal and external stakeholder relationships.

18. Ethical culture usually includes formal policies (mission statement, codes of conduct), control strategies (compensation, discipline), and informal practices (symbols, stories, interactions). Control strategies and informal practices should be tailored for each generation in order to achieve optimal impact. In general, revolutionaries need much more positive reinforcement for their good behavior and a softer form of admonishment and detailed explanations for their mistakes. This need is rooted in the mixed messages they experienced during the Cultural Revolution. Little Emperors have a similar disposition resulting from the one-child policy. Loyalists and Reformers thrive with a balanced reward system. At the very least, some specific management responses to both ethical and unethical behavior are necessary to influence the ability of the entire sales force to recognize ethical quandaries (McClaren 2000).

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ETHICAL TRAINING FOR LAW STUDENTS IN CHINA: LESSONS FROM OVERSEAS COUNTRIES

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Abstract: Ethical training for law students is commonly known as legal ethics education. In the past three decades, there has been a growing awareness of the importance of legal ethics education in many overseas countries. After outlining the evolution of law schools in China, this article evaluates the development of legal ethics education in overseas law schools before and the lessons that can be learned from such experience for legal ethics education in Chinese law schools.

Keywords: ethical training, legal ethics education, Chinese law schools

Introduction

In the past three decades, law schools in China have experienced phenomenal growth. In 1976, there were only four law schools, but by 1989 the number had increased dramatically to 62. By 1999 it had reached 183 and by 2005 there were 559 (Zhu, 2007, p. 40-42). The rapid growth of law students in the past three decades is illustrated in the following diagram:

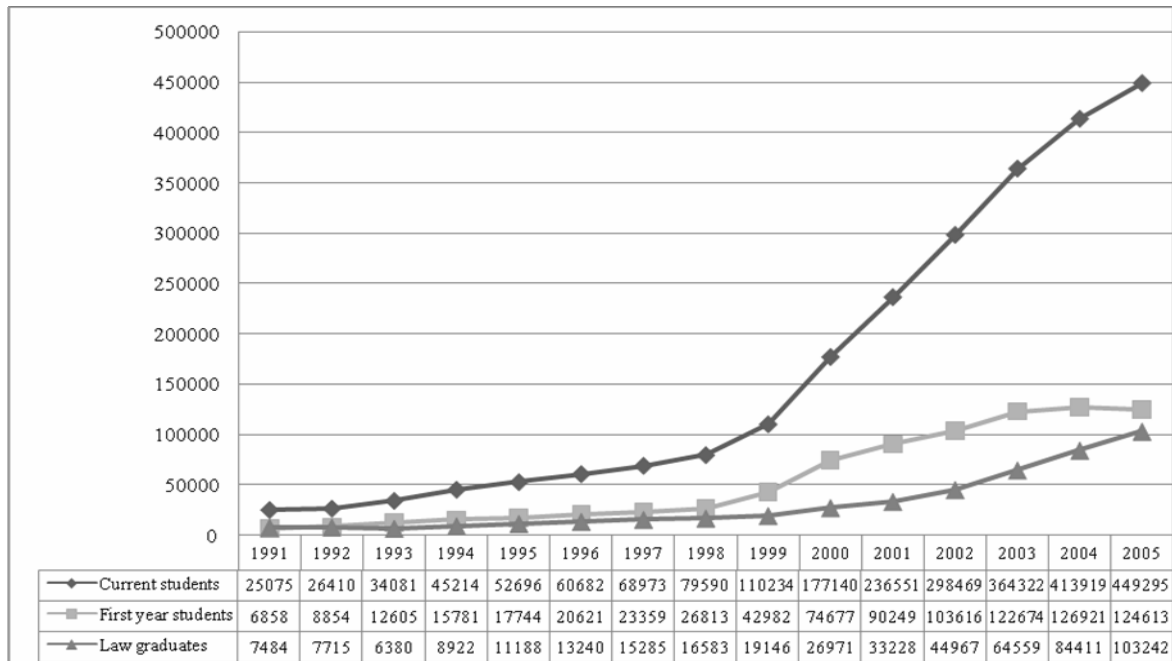


Figure 1. Change in number of law students in Chinese law schools

In spite of their phenomenal growth, law schools in China have not been free from criticism. For example, Ma pointed out that within the school curricula legal ethics was not a compulsory subject (Ma, 2006, p. 256). However, in recent years, in order to strengthen the teaching of legal ethics, nine schools introduced clinical legal education in September 2000 based on the American model. Liu argued that clinical legal

education complemented traditional legal education in training future lawyers (Liu, 2004). Equally, Pan identified improvement of the ethical standard of students as one important goal of clinical legal education in China (Pan, 2006, p. 376-403).

In recent years, the importance of legal ethics education has been increasingly recognised in developing the rule of law and reforming the judiciary in China. Qin has drawn attention to the situation in most other developed countries in the Western world, where courses on judicial ethics or legal ethics are compulsory in their law school curricula. Yet in Chinese law schools, there is no similar mandatory course in the curricula. He saw this as a 'fatal deficiency' in the Chinese legal education system (Qin, 2007, p. 58-61). Clearly, China is now gradually embracing a vision of legal ethics education that is rooted in the common law and liberal democratic system.

As a result, clinical legal education is now adopted for legal ethics education in Chinese law schools, but there is room for the strengthening of future curriculum reforms in such training. In this regard, Chinese law schools should continue to monitor overseas experiences to see what can be learned, particularly as legal ethics education has become a topic of global concern.

United States

In the United States, the Watergate scandal in the early 1970s marked the beginning of a new era for legal ethics education. The large number of lawyers involved in the scandal seriously undermined public confidence in the legal profession (Pearce, 1998, p. 719). In response, the American Bar Association ('ABA') mandated the teaching of legal ethics (or more commonly called Professional Responsibility) in all ABA-accredited law schools. As a result, since the late 1970s, all American law students intending to practice law have had to take a compulsory course in legal ethics followed by a bar examination. To some people, this new emphasis on legal ethics has exemplified a 'post-Watergate morality' (Rotunda, 2000, p. 661).

During the 1980s, the American Bar Association continued its efforts to promote legal ethics.¹ Then in 1992, a Task Force of the ABA Section of Legal Education and Admissions to the Bar comprising lawyers, judges, law school deans and professors, published the 'MacCrate Report'. The report set out 'the Fundamental Values of the Profession', one of which was 'recognizing and resolving ethical dilemmas' (MacCrate Report, 1992, p. 140).

Consequently over the past three decades, a body of literature has been developed on legal ethics education. For example, Morgan advocated the use of the problem method (Morgan, 1998, p. 409). Under this approach, law students are provided with 'realistic' patterns of facts which are different in detail and complexity. They are then required to advise on the decisions likely to be reached by courts (Ogden, 1984, p. 654). Others adhered to traditional lecturing methods, but with some innovations, such as Brown who advocated a 'modified traditionalist approach'. His innovations included the use of movie clips, group assignments and volunteering services to underprivileged members of the society (Brown, 2007, p. 1119). In contrast, Moliterno advocated a 'comprehensive skill development' approach. He designed a course in which legal ethics was not taught as a 'side topic' but rather, 'built around the core demands of teaching ethics'. The distinguishing features of his program consist of 'experiential exposure' to ethical issues; role models provided by law professors; diverse sources of legal ethics materials; classroom discussions and written assignments; process for disciplinary actions; role playing of clients; and 'comprehensive'

simulation of client service (Moliterno, 1990, p. 145). In addition, Moliterno advocated the integration of skill and ethics teaching with clinical legal education, which would result in experiential programs combining legal ethics, skills and substantive law with an externship component (Moliterno, 1996, p. 68).

In a similar vein, Cramston and Koniak promoted the three elements of 'rules, story and commitment' necessary for good legal ethics teaching. In their scheme, 'rules' mean the legal rules, 'stories' refer to the contexts in which a better understanding of those rules can be achieved, while 'commitment' includes those core values and principles that inspire the profession (Cramston & Koniak, 1997, p. 145).

Green also advocated a 'contextual' approach (Green, 1998, p. 357). This means the placement of teaching within the reality of a small number of contexts, rather than across the whole spectrum of legal practice in order to allow students to acquire 'skills, concepts and processes necessary to recognize and resolve ethical dilemmas' (MacCrate Report, 1992). Green claims three advantages of such a 'contextual' approach. Firstly, it provides more realistic scenarios of ethics problems. Secondly, it enables students to spend more time on 'core' issues of legal ethics. Thirdly, it alleviates students' resistance towards the 'compulsory' nature of the legal ethics course (Green, 1998).

In contrast, Rhode advocated a 'pervasive' method whereby legal ethics should be taught both as 'a course in its own right' and legal issues addressed throughout the curriculum as they arose in all substantial areas of law (Rhode, 1992, p. 31). Moreover, she suggested that law professors should always include discussion of ethical issues in their own areas of expertise. What is more, law schools should provide electives in legal ethics under different areas of substantive law so that students could choose on the basis of their future intended fields of practice (Rhode, 2007, p. 1043).

Finally, certain American legal academics focus on teaching students how to perceive ethical dilemmas within an 'experiential learning environment' so as to promote students' moral development.² Luban and Millenmann asserted that clinical legal education was the best way to teach legal ethics with elements of moral judgment incorporated (Lubman & Millenmann, 1995, p. 31). Shaffer also advocated the use of clinical education in providing an experiential environment to foster moral dialogues (Shaffer, 1996). In contrast, Hartwell advocated the use of 'out-of-class attorney-client simulations' to advance moral development of students (Hartwell, 1995).

In summary, within the spectrum of legal ethics education among American legal academics, there are those scholars at one end who focus on the teaching of rules, while some in the middle of the spectrum advocate the teaching of rules in context; at the other end, there are those who concentrate on the moral development of their students. As we see earlier in this paper, clinical legal education akin to the American model has now become a popular methodology adopted by Chinese law schools in teaching legal ethics.

Australia

Before the 1990s, legal ethics was not part of the undergraduate law degree curriculum in Australia, but in 1992, the Consultative Committee of State and Territorial Law Admitting Authorities included legal ethics as one of eleven core subjects on a list of compulsory law subjects for the academic stage of legal education (Centre for Legal Education, 1992).

In 2000, the Law Admission Consultative Committee (LACC) recommended that all applicants intending to become legal practitioners in Australia were required to complete a legal ethics course while studying their Practical Legal Training (PLT) course. They took the view that all lawyers "should act ethically and

demonstrate professional responsibility and professional courtesy in all dealings with clients, the courts, the community, and other lawyers.” This recommendation was accepted by the State and Commonwealth Attorney Generals in August 2003 (Pastellas & Maxwell, 2004).

Australia also actively promotes legal ethics through innovative curriculum reforms, and has developed a body of literature on legal ethics teaching in recent years.³ For example, Tzannes advocated such teaching as ‘a skill that is learned and practised much like advocacy, interviewing and negotiation.’ To this end, she designed innovative methods to strengthen students’ skills in detecting ethical dilemmas, ethical decision-making and implementing decisions in the face of opposition (Tzannes, 1997, p. 59). Similarly, Noone and Dickson developed a similar legal ethics course combining a clinical programme with classroom teaching, which constantly encouraged students to question ‘whether one can be a good lawyer and a good person at the same time?’ (Noone & Dickson, 2001, p. 91).

In contrast, Robertson (2005, p. 221) developed a three-category conceptual framework for legal ethics teaching. The first category adopts what he called a ‘rules’ approach, under which the legal ethics curriculum covers the minimum requirements required by the accrediting professional bodies. One example he gave for this approach was the ‘Priestly’ requirement, named after the chairman of the Committee for setting the minimum requirements for legal education in Australian universities.

Secondly, legal ethics should be treated as a skill in a similar approach to that of the A.B.A. in U.S. referred to earlier in the MacCrate Report. On the premises that ‘competent, ethical practice requires more than just knowledge of the applicable rules and principles of professional responsibility’, the report emphasizes that lawyers should acquire skills in identifying and dealing with ethical dilemmas (p. 203-207). As one may see from the discussion that follows, the Marre Report in U.K. also adopted this ‘skill’ approach.

The third category adopts a ‘judgment’ approach, which is a collection of different approaches that demonstrates a preference towards a ‘value-based’ conception of ethical lawyering. It emphasizes that lawyers have discretion in making their decisions, as they make ethical or moral choices all the time in their daily decisions. Clearly, Robertson’s scheme is useful in conceptualizing legal ethics teaching in different jurisdictions. Significantly, Fang also argued for a ‘value-based’ model of legal education in China.⁴

United Kingdom

In the past forty years, four major reports on legal education were published, including the Ormrod Report (1971), the Benson Report (1979), the Marre Report (1988), and the Lord Chancellor’s Advisory Committee for Education and Conduct First Report on Legal Education and Training (ACLEC, 1996). However, it was only in the last two reports that the topic of legal ethics was addressed.

The Marre Report (1988), published by the Law Society and Bar Council of England, identified an ‘adequate knowledge of professional and ethical standards’ as one important skill that law students should acquire at the vocational stage of legal education. This marked English recognition of the importance of ethics in legal education. Many other skills recommended in the Marre Report also involved a substantial ethical component, such as ‘an ability to help clients understand the options available to them so that they can make an informed choice of action or direction’ (Boon, 2002, p. 34).

The ACLEC Report went further than the Marre Report in addressing legal ethics. It called for ‘...the development of what has been termed common professional values’. The Report also advocated that legal

education should strengthen law students' capacities in five major areas: intellectual integrity and independence of mind, core knowledge, contextual knowledge, legal values and professional skills (ACLEC, 1996, para. 2.4). Following the publication of the ACLEC Report, the Law Society of England and Wales published a consultation paper advocating that legal knowledge, skills and ethics constitute the core of legal education 'from the cradle to the grave' (Law Society, 2001). The consultation paper was well received, thereby establishing the central role of legal ethics in legal education (Boon & Webb, 2002). Nevertheless, unlike the US and Australia, there is no compulsory legal ethics course in the academic law degree, as it is only taught at the vocational stage.

In recent years, however, literature on legal ethics education has started to emerge in the U.K. For example, O'Dair (1998, p. 154) has argued that legal ethics teaching should go beyond training in professional standards, while Webb pointed to the role models served by law professors in transmitting values both inside and outside the classroom. He asserted that if the curricula of law schools remain silent in those areas that call for ethical responses, then they contribute to a cynical response to law (Webb, 1999). Similarly, Cownie (2003) argued for values in teaching law and engagement with students on these debates. Interestingly, a similar plea was made by Xu a law school dean in China who asserted that legal education was in essence a study of values and an education in justice (Liu & Shen, 2008, p. 47).

New Zealand

In 1996, the New Zealand Law Society published the Cotter and Roper Report, which found that ethical training of lawyers could no longer be left to the professional bodies alone as a result of the increased pressure in legal practice (Cotter & Roper, 1996, p. 56-59). Consequently, on October 17th 1997, the Council of Legal Education adopted a resolution prescribing legal ethics as a compulsory subject in the LL.B. degree. As a result, New Zealand undergraduate law students intending to become barristers and solicitors after 31st July 2000 were required to study legal ethics. This resolution represented a landmark development in legal education (Webb, 2001).

Like other developed countries, New Zealand has witnessed the emergence of literature on legal ethics education in recent years. For example, Webb highlighted the 'fragmented' nature of legal education in most countries. This referred to the division between law areas, between legal knowledge and legal practice, between law theory and law application, between liberal education and professional education. Consequently, there was no obvious place in legal education where legal ethics should be taught. Webb also considered the problems of the 'pervasive' approach. He pointed out that law professors who do not have adequate time to cover their own courses have no incentive to extend their curriculum to cover legal ethics in their own subject areas so he maintained that a separate course of legal ethics should be provided even if the subject is taught pervasively in other courses. Interestingly, Webb's comments on this lack of clarity on the 'status' of legal ethics are shared by Si in relation to Chinese law school curricula (Si, 2007).

Canada

Canada undertook a review of legal ethics education in its law schools in the early 1990s, leading to the Cotter Report (Cotter, 1992). While there is no compulsory legal ethics course in universities like those in US and Australia, law schools like the University of Western Ontario have introduced a mandatory legal ethics course (Pitel, 2005). Furthermore, Canadian literature on legal ethics teaching is growing. For

example, Pitel identified the problems of Western Ontario's law school in introducing their mandatory legal ethics course. These included the difficulties of teaching legal ethics effectively with large numbers of students in large lecture halls; students' resistance towards the legal ethics course; problems associated with designing course materials of appropriate depth and difficulty and of assessment. On this last point, it is noteworthy that similar difficulties are encountered in Chinese law schools regarding appropriate assessment.⁵

Other Asian Countries

Legal ethics education is also developing rapidly in law schools of other Asian countries like Japan and Malaysia. In Malaysia, for example, law students are required to study legal ethics in an undergraduate course called Professional Practice. The course contents are similar to their counterparts in other English speaking countries, such as duty of counsel to court and client.⁶ In contrast, the concept of legal ethics is relatively new in Japan. It was not until the early 2000s that the country embarked on radical legal education reforms, which included a strengthening of ethical training.⁷ For example, newly established graduate professional law schools teach legal ethics through mandatory courses. It is, therefore, clear that China is still lagging behind these Asian countries in adopting mandatory legal ethics courses.

Conclusions

What assessment, therefore, can we make of the relevance of overseas experience in the context of ethical training for law students in China? Influence from overseas is not new. China has in recent years adopted clinical legal training programs based on the US model to improve the ethical standards of law students. Clearly, a closer and more detailed focus on the overseas experience relating to practical schemes, and methodological techniques suitable for legal ethics education reveals a widening wealth of beneficial references.

In my opinion, there are at least three lessons to be learnt for China. To begin with, the growing emphasis on legal ethics education in overseas law schools indicates that China should follow the example of this international development by similarly increasing its efforts in ethical training for law students. With the exception of the U.K., most of the countries discussed have compulsory legal ethics course in their law degree program, either mandated by the professional bodies (like US, Australia and New Zealand) or introduced by law schools independently (like Canada).

Secondly, as indicated above, overseas literature provides reference materials for China in strengthening its ethical training for law students, particularly in introducing more innovative methods such as the use of movie clips described by Brown and the promotion of simulations in the teaching of ethical dilemmas as put forward by Hartwell. Moreover, as clinical legal education courses are introduced into the curricula, legal ethics can also be taught within Chinese law school programs as advocated by such scholars as Shaffer, Luban and Milleman. Moreover, in adopting Robertson's three-category conceptual framework, China can consider adopting either one, or a combination of the three approaches: 'rule', 'skill' and 'judgment'.

Thirdly, ethical training of law students is clearly more developed in U.S. and Australian law schools which have generated a comprehensive body of literature. China should therefore look to these two countries in particular for inspiration in future efforts to strengthen their ethical training of law students.

China should also follow closely the development in other Asian countries like Japan in its future reforms. In the near future, law schools in China should combine the teaching of legal knowledge, legal skills and legal ethics into the curriculum. This will enable Chinese law students to learn legal ethics in the context of different areas of legal knowledge and legal skills. For example, students can learn the ethical issues faced by criminal lawyers in conjunction with Chinese Criminal Procedure Law and Criminal Advocacy Skills. Likewise, students can study the ethical issues faced by commercial lawyers side by side with Chinese Company Law and Chinese Corporate Practice. This will create a more 'integrated' model of legal education in China akin to the best practices existing in other developed countries. In addition, Chinese law schools should reform their curricula to teach legal ethics as a compulsory subject, a practice already adopted in other jurisdictions like the US and Australia.

Moreover, Chinese law schools should introduce more innovative teaching methods to teach legal ethics. In so doing, their students will no longer study legal ethics passively as a body of rules, but in a more 'self-directed' manner. To this end, law schools should devote more resources to clinical legal education, as the latter has proved to be an effective means of teaching legal ethics through active learning of students. In the long run, widespread adoption of clinical legal education in Chinese law schools may produce a new generation of ethical lawyers for the country.

Finally, China needs to cultivate a culture and tradition of co-operation between its law schools and legal profession because their collaboration is crucial to the success of legal ethics teaching. For example, in designing the curricula for a legal ethics course, it is always preferable to involve experienced legal practitioners, as they are the people who know most directly, the current ethical issues faced by their profession. Moreover, when it comes to the design of 'realistic' tutorial problems for a legal ethics course, practitioners' input is also invaluable. To this end, those law schools which have a long history and a wide alumni network in the Chinese legal profession will be best placed to strengthen their legal ethics teaching as they can work closely with their alumni in the legal profession.

Notes

1. See, for example, the American Bar Association, *In the spirit of public service: A blueprint for the rekindling of professionalism* (1986).
2. See, for example, Lerman, L.G., (1997-1998). *Teaching moral perception and moral judgment in legal ethics courses: a dialogue about goals*, William and Mary Law Review, 39, p.457.
3. See, for example, Economides K. and Webb, J. (2001). *Teaching ethics and professionalism: A lesson from the antipodes*, *Legal Ethics*, 4, p.91.
4. See Fang Wencui, (2005). *A study of valued-based legal education*. Beijing: Peking University Press,
5. See, for example, Jiang Weipin, (2009). *Problems and solutions existing in contemporary chinese legal education*. *Journal of Tianzhong*, April issue, pp.116-117.
6. See, for example, Ravi Neeko, Hargopal Singh Gill and Parmes K., (2001). *Professional practice* Kuala Lumpur: *Malayan Law Journal*.
7. For the reinforcement of legal ethics in Japan legal education system, see *Recommendations of the justice system reform council – For a justice system to support Japan in the 21st century*, Chapter 3, Part 6, available at <http://www.kantei.jp/foreign/policy/sihou/singikai/990612_e.html>.

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TOWARDS AN ECOLOGY OF CHINA'S LEGAL SYSTEM

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Abstract: China's legal system has undergone remarkable development over the past thirty years. Legal institutions now regulate every extant area of market activity, extending governance throughout every corner of China's market economy. However, national rules and regulations will be unable to stimulate corporations to act with integrity in the absence of compelling incentives that encourage compliance. The provision of compliance incentives is an enormous problem; laws must change so that they keep pace with their business environment, but firms are slow to adopt new laws due to their cost. Thus, the incentives of new laws may appear worse in comparison with the incentives of older laws, which would have a negative effect on compliance. In order to compare incentives, we utilize legal ecology, a research methodology that examines changes to the legal system over time. We propose that organizations, which use the law, are a key actor in determining the survival of a new law. If the incentives of a new law are unclear to the users of the laws, then, from the organization's perspective, the cost of using the new law is higher than the cost of using the old law. A new law will survive if the incentives are clear, which leads to lower costs for the organizations that use the law.

Keywords: organizational ecology, compliance, incentives, use of law

Introduction

Organization theorists are increasingly extending ecological dynamics, defined as processes of competition and legitimation, among populations of physical and social entities (Hannan & Freeman, 1977, 1984) into new theoretical domains. Ecological theory has been applied to the evolution of work routines (Miner, 1991), social networks (Jaffee, McEvily, & Tortoriello, 2008), and formal rules (March, Schulz, & Zhou, 2000). Recently, this tradition birthed the ecology of law, the study of evolutionary dynamics affecting the development of written national rules (van Witteloostuijn, 2003; van Witteloostuijn & de Jong, 2007, 2008, 2009).

Legal ecology proposes that the legal system's internal evolutionary dynamics, defined as law-making and law-abolishing processes, account for the introduction of and changes to statutes (van Witteloostuijn, 2003). External agents and environmental dynamics provide crucial triggers of these processes, but are not solely responsible for observed patterns of legal change. In a similar vein, the ecology of rules (Zhou, 1993; Beck & Keiser, 2003) explains variation in the volume of rule births as a function of change in the rule environment (Schulz, 1998b). In contrast, the ecology of law examines the effect of a legal domain's alignment with its environment on the volume of law births within a given population of statutes. Therefore,

this article contributes to the ecology of law, and to ecological approaches overall, by examining the conditions under which the law birth rate is positive. The question is whether new laws are born when the legal domain is misaligned with its environment.

Systematically exploring this question requires a legal field (Edelman, 1997) characterized by a rapidly changing business and legal environment. The legal system of the People's Republic of China (P.R.C.) is identified as a suitable research field due to the extent and complexity of legal change within this system (Clarke, 2008). Given China's transition from a socialist to a market economy, substantive legal concepts, such as private property rights and the legal mechanisms used to protect them, are novel, providing an ideal case. Within China's legal system, the domain of bankruptcy, an integral legal institution for a market economy that does not have a legal presence within a socialist economy, is selected.¹

The examination of bankruptcy reveals if the incentives of a new law are unclear, then the cost of using the law is high, due to the resource investment needed to understand and apply the law. Consider not only the financial cost to the organization, which stems from hiring attorneys to analyze the new law, but also the resource cost generated by the construction of new internal routines to bring the organization into compliance with the law. If the laws incentives are unclear, the organization will be wary of using the law due to these costs. Thus, ambiguity distorts incentives; a high degree of ambiguity will cause a law to rapidly fail. Moreover, a lack of clarity, in terms of incentives, reveals that the legal domain is misaligned with the business environment. From the regulator's perspectives, the failure of the new laws will lead to the creation of further new laws, so that the legal systems misalignment with the business environment causes the birth rate of statutes to increase.

This paper contributes to legal ecology through its consideration of organizations' use of law, as opposed to more standard examinations of lawmakers' demography (Wittelostuijn & de Jong, 2009). Non-ecological theories of legal change emphasize the impact of external agents, such as special interest groups and lobbyists, on rule makers (Friedman, 2002). By attributing change exclusively to agency, these theories overlook the effect of internal processes of change on a population of statutes. The use of legal ecology modifies this standard conception of agency and integrates environmental effects with the role of firms. Through this synthesis, we contribute to China management research, generating new insights in the relationship between the society of Chinese organizations and the Chinese legal system. Chinese organizations do not simply comply or ignore the law, but rather shape the evolution of the law through their actions.

The paper proceeds as follows. We will first explain in detail the theoretical logic. Next, we provide an overview of the evolution of bankruptcy law within China. Then, we formulate propositions of the effects of newness on laws grounded in this empirical example. Finally, we conclude with a discussion of our results and offer a reflection on opportunities for future research.

Theoretical Background

The Ecology of Law

In organization theory and sociology, insights from biological ecology have been translated and applied to the evolution of populations of social entities rather than the evolution of species (Hannan & Freeman, 1977, 1984). This research stream focuses on the drivers of the rates of the birth, change, and death for social entities population in specific terms such as concentration, density, and diversity. The implications of

these combined vital rates reveals the effects of underlying processes of competition and legitimation on the macro structure of the population (van Witteloostuijn & Boone, 2006). This ecological logic has been applied in empirical studies of a wide variety of organizational populations, including industrial firms and interest groups.

As the ecological research tradition deepened, a series of quantitative studies in the 1990s and 2000s tried to estimate the determinants of rule making processes through an examination of the evolution of organizational rules (e.g., March, Schulz & Zhou 2000; Schulz, 1998, 2003). Quantitative work on rule making grapples with the underlying processes that determine the vital rates of rules over an extended period of time. A core premise of this work is that underlying causal processes manifest in observable regularities that drive the evolution of stocks of rules.

Building on this work into the evolution of organizational rules, legal ecology (van Witteloostuijn, 2003) conceptualized and began the study of the evolution of national rules. In line with other ecological theories (see Hannan & Freeman, 1977), legal ecology assumes that the histories of groups of written laws possess general statistical properties, implying that they develop in systematic ways (van Witteloostuijn & de Jong, 2007). This assumption is founded upon, and granted by, previous empirical studies conducted into rules processes occurring within organizations (Schulz, 1998, 2003; Marsh, Schulz & Zhou, 2000).

Concept 1 (evolution of laws): The evolution of a stock of laws within a specific legal domain occurs in a systematic manner.

Legal ecology examines the systemic development of written laws within a particular legal domain, such as bankruptcy or contract law. This research program has established that underlying processes influence the production of statutes while the effect of certain ecological conditions on these processes remains understudied.

Organizations and the Law

A unique characteristic of the law is that *organizations'* use of law helps to determine the structure and the rate of change of a legal domain. "Organizations provide an important terrain for...the structuration of legal environments," (Edelman & Suchman, 1997, p. 507). Organizations are able to exercise a degree of choice in their use of the law, as they adapt to their institutional environment (Heinsz & Delios, 2002), exercise 'non-market strategies' (Baron, 1995), and engage in political behaviours that shape their regulative environment (Hillman & Hitt, 1999). Due to the influence of organizations, understanding the conditions underlying their use of law will explain variation in the observed rate of change within a population of statutes.

Organizations are embedded within the law; their operations face annually increasing levels of litigation, regulation, and certification (Edelman & Suchman, 1997). Through this relationship the legal system acts as a constitutive environment for firms, providing both forums and templates for commercial organizations' interactions that delineate and empower classes of firms. This interaction is recursive, as enterprises' are able to use their legally structured activities to constrain the law's reach.

Written law is, by necessity, both ambiguous and incomplete, and demands explanation in order to become complete (Pistor & Xu, 2002; Eggleston, Posner et al., 2000). Conceptually, an individual law is

complete *only* if it unambiguously specifies solutions to all potential harmful problems. Written law overcomes this issue through the provision of 'default gaps,' common in standardized legal documents, which refer to a lack of a common knowledge agreement of a term (Riles, 2008). Since the law is ambiguous and incomplete, only the use of law can fill in these gaps or provide solutions to harmful problems. An organization cannot specify a solution without applying that law to an issue. The ambiguity of law empowers the use of law; the use of law empowers organizations to structure the legal environment.

For example, the law of contracts may specify that in the event of a default, the breaching party must pay a fine, thus giving a solution to a problem. However, what constitutes a default is ambiguous; if an act of nature, such as a typhoon, destroys a factory, causing a party to default, paying a fine is a grievous economic harm. Organizations, through their use of law, such as filing for fines if a contract is breached, define what it means to default on a contract. This definition shapes the legal environment, so that all new statutes within the domain of contracts refer to the organizational definition of default.

Concept 2 (legal ambiguity): The ambiguity of written law empowers organizations to influence the rate of change within a legal population through organizational use of law.

Nonetheless, the process of organizational response to the law remains understudied. It is difficult to specify the actions that constitute the process. Corporations, as actors, are neither wholly passive nor wholly strategic in their responses to institutional pressure emanating from the legal system (Oliver, 1991). Of course, all organizations are supposed to abide by the law, so that reflections on an organizations use of law initially appear oxymoronic. Rather, the incentives underlying the use of law denote various conditions whereby organizations use of law causes changes in the evolution of the law. Instead of attempting to specify how firms respond to the legal system, this article argues that under these conditions firms' use of law affects the rate of legal change.

Use Incentives

A company must devote resources to understanding and applying a specific law and to navigating the population of laws within a specific legal domain. A law must offer sufficient incentives to overcome these costs, or the firm will avoid using the law because the costs will outweigh the benefits. These *use incentives* are geared towards providing a firm with either a resource or with access to a resource as a result of using the specific law. When a use incentive is sufficiently attractive, an organization will use a law. For example, the Enterprise Bankruptcy Law (EBL) provides access to reorganization, in which the resource is the protected status of the firm. The EBL also provides for trustees, so that the resource is the trustee's help in achieving a less costly winding down of the firm (PRC Enterprise Bankruptcy Law, 2006). A firm has the option of not using the bankruptcy statute and of pursuing alternative legal / non-legal means of dissolution. The use incentives of the Enterprise Bankruptcy Law are geared towards attracting a firm towards bankruptcy, as having a trustee unwind your debts should lower the costs of dissolution.

Concept 3 (Use Incentives): Different types of use incentives create different conditions for organizations to use the law. Under certain conditions, organizations' use of law influences the rate of change in a legal domain.

The circumstances under which a certain law is applied vary across industry types and situational characteristics and these different types of situations are associated with different types of use incentives. Moreover, different levels of legal ambiguity accompany the various types of use incentives. Certain firms, such as pharmaceutical companies and banks face a higher level of legal regulation than others and operate under a mandate of legal usage, the first use incentive type. If a company opts for reorganization (see Chapter VIII, The Enterprises Bankruptcy Law of P.R.C., 2007), it is subject to the provisions stipulated within this chapter, including the formation, approval, and performance of the reorganization plan.

However, mandating usage does not equate with mandating compliance. If a statute is composed of broad goals in ambiguous language, an unintended effect of that ambiguity is the ability of attorneys and firms to use that law as a resource to achieve their own goal (Edelman, 1992; Burk, 1988). Law firms may perceive benefit in a law even when their client does not and often use the law on behalf of their clients to attain an outcome beneficial to their client, even if the outcome seems to be antithetical to the law's purpose. Thus, the second use incentive type is (self) interest-seeking incentives.

In addition to mandatory and self-interest use of law incentives, a firm will employ the law when the perceived benefit outweighs the costs as certain laws are utilized for the protection that they provide from uncertainty and risk. The law of contracts stipulates how to resolve disputes arising from one party to the contract claiming that breach (McNeil, 1978). The parties to the contract could resolve this dispute without recourse to the legal system or they could voluntarily turn to the legal system to repair a breach of contract. The conditions for the use of law are presented in Table 1 below.

Concept 4 (Variation in Ambiguity within Use Incentives): The conditions under which organizations use of law influences the rate of change in the legal population are determined by the differing degrees of legal ambiguity within use incentives.

Table 1. Incentives for the Use of Law

<i>Incentive Type</i>	Mandatory	Interest Serving	Protectionist
<i>Level of Ambiguity</i>	Low – High	High	Low

The Hazard of Obsolescence

While the repeal of a law could signal its death in an analogous manner to organizational failure, laws are rarely repealed (van Wittelostuijn & de Jong, 2009) and remain on the books after their usefulness has faded. Therefore, we employ the obsolescence rate instead of the survival rate to determine the influence of novelty on a stock of laws (Schulz, 1998b). The rate of obsolescence indicates the increase or decline in the obsolescence of a law over time. Obsolescence is defined as the state of disuse, or when a law, despite its presence on the books, is no longer utilized; if a law is not used, then the law is not followed, voiding the authority of that law over its domain (Taylor, 1990).

Concept 5 (hazard of obsolescence): Although an obsolete law still exists, its obsolescence is similar to organizational failure in that the law is non-operational.

Once a firm is attracted to a specific law, its use of that rule leads to the birth of further rules. These new laws offer specific solutions, either adding a level of detail to ambiguous language or completing a default rule. The use incentives of the new rule are more compelling than that of the old rule as they offer a higher degree of completeness.

It is also possible that ambiguity would be perceived as a desirable attribute under the self-interest use incentive. In that situation, organizations' use of law would resolve the ambiguity in the manner described *supra*, and the effect of this use would be the generation of organization friendly laws, as described in Edelman's (1992) article on Equal Employment Law in the United States. As fewer and fewer firms follow the old rule, over time it becomes less effective, and eventually becomes obsolete. Thus, obsolescence will have a positive effect on the volume of law births within its legal domain, as the lack of use will prompt lawmakers to generate new laws to regulate a specific legal domain (Schulz, 1998b). We consider the effects of ambiguity on the obsolescence rate through an examination of the evolution of the Enterprise Bankruptcy Law in China.

The Evolution of the Enterprise Bankruptcy Law

The National People's Congress enacted the Law of the People's Republic of China (P.R.C.) on Enterprise Bankruptcy on 2 December 1986, which came into operation on 1 October 1986 and applied to State Owned Enterprises (SOE) (Enterprise Bankruptcy Law, 1986). A law, in the formal sense, refers to a collection of text with a specific structure that codifies a regulation for a specific topic (van Witteloostuijn & de Jong, 2008). In China, the National People's Congress and its standing committee are empowered to generate national laws. The State Council and governmental ministries, such as the ministry of commerce, are able to issue regulations that interpret and clarify laws passed by the National People's Congress. On 9 April 1991, the PRC Civil Procedure Law (CPL) was approved; Chapter XIX of the CPL applied to the bankruptcy of private enterprises, or non-SOEs.

These laws were quite short. The 1986 Chinese Bankruptcy Law (1986 CBL) ran to 43 articles, while Chapter XIX of the CPL ran to 8 articles (Booth, 2008). In contrast, Chapter 5 of the US Bankruptcy Code contains 61 articles, while the US Bankruptcy code as a whole contains 11 chapters (11 USC). Of course, the comparison is faulty, given the state of China's economic development in 1986. It does show that the language was both broad and ambiguous as it is impossible to detail important procedures effectively in only 43 articles. Examples of procedural error resulting from insufficient detail include Chapter XIX of the CPL inability to specify whether non-SOEs were subject to the provisions of the 1986 Law and the 1986 CBL failure to denote a priority order for creditors (Booth, 2008). To address this issue, the Supreme People's Court issued a number of opinions interpreting both laws. The 1991 Supreme People's Court Opinion attempted to clarify issues of precedence, such as whether workers' rights were given precedence over creditors' rights in bankruptcy (Booth, 2008). In 1992, the Supreme People's Court issued an Opinion on the Application of the PRC CPL law for Non-SOE enterprises. Furthermore, Article 189 of the PRC Company Law supplemented the provisions of the 1991 PRC CPL.

Despite this clarification, use of the law was low. From 1989 to 1993, the court accepted only 1,153 cases total, an average of 191 per year (Wang & Booth, 2002). It has been estimated that prior to 1996 over 8 million enterprises existed in China, and that close to a majority of these enterprises operated at a loss (Zhang & Booth, 2002). A national survey conducted in 1997 of 14, 923 SOE found that 40.5% were

estimated to be losing money (Zhang & Booth, 2002). Dissatisfaction with the low effectiveness led to two outcomes. First, post 1994 the drafting of the new edition of bankruptcy laws began. Second, the State Council issued several Bankruptcy Policy Decrees. These decrees applied to select SOEs regardless of whether the 1986 Bankruptcy law applied (Booth, 2008). The decrees extended the reach of the 1986 law while simultaneously superseding the law; companies would file under the 1986 law but refer to the decrees in doing so.

These decrees were issued to facilitate debt restructuring through mergers and acquisitions and bankruptcy filings under the Capital Structure Optimization Program (CSOP) (Wang & Booth, 2002). For example, on 25 October 1994, the State Council issued a notice (1994 PRC Notice) that addressed problems involving the resettlement of workers of state owned industrial enterprises. The notice provided special treatment for the resettlement of workers, such that resettlement rights were given first priority when funds from the sale of assets, such as land use rights of the bankruptcy SOE, were distributed.

In 1996 and 1997, the former State Economy and Trade Commission, in conjunction with the People's Bank of China and the State Council, issued further supplementary notices (1996 Notice; 1997 Notice). The 1997 Notice clarified that the resettlement rights of workers would have priority over secured creditors. If the sale of the land use right were insufficient to settle the workers claims, non-secured and secured assets would be sold to insure that the workers claims were satisfied. If this sale were insufficient, the People's Government of the same level as the SOE would be responsible for bearing the costs (Booth, 2008).

Several administrative out of court restructuring efforts were pursued in addition to the Government's policy decrees. In September 1999, the 15th Party Congress issued the Decision of Several Significant Issues on the Reform and Development of State Owned Enterprises (1999 Decision) (Wang & Booth, 2002). The 1999 Decision included measures aiding the banks, allowing them to increase their bad debt write-offs, which would support the mergers and bankruptcies of medium and large SOEs. It included a measure that would convert the debt of SOEs into equity, thus converting the major creditors of the SOEs into shareholders (Yu & Gu, 2001). Finally, in 2002, the Supreme People's Court issued another interpretation of the old bankruptcy laws, which included some of the ideas developing in the law reform process (Wang & Booth, 2002).

In 2006, the PRC Enterprise Bankruptcy law harmonized the various insolvency processes in China and enacted a unified law that replaced the old patchwork of insolvency legislation (Kargman, 2007). Major innovations in the new law included the replacement of the liquidation committee as the overseer of the bankruptcy process with administrators. This change was meant to address a gap in control; the liquidation committee was formed 15 days after the court made the adjudication order and not when the firm declared bankruptcy (Article 47 of the 2002 Supreme People's Court Opinion). During this time period, management could abscond with assets. The Supreme Court issued rules on the administrator in April 2007 (2007 Supreme Court Provision) before the new law had taken effect.

In addition to rules on the administrator, the 2006 Enterprise Bankruptcy Law also addresses corporate reorganization, a topic that was technically permitted under the old law but never used (Booth, 2008). Under the new law, both debtors and creditors may apply for reorganization, meaning that a creditor may apply for the bankruptcy of a debtor, and vice versa (2006 PRC Enterprise Bankruptcy Law, Article 70). Only a few cases have been carried out under this law. Despite this low use rate, the Supreme People's Court has issued Provisions on the Application of the Law (2007), a Notice on Implementing the rules

(2007), and an Official Reply, or an Opinion, on how a creditor may apply for liquidation against a debtor whose whereabouts are unknown (2008).

There are a total of 19 laws passed on bankruptcy in China from 1986 to 2008, as noted in Table 3 below. Out of these 16 laws, only three, the Enterprise Bankruptcy Law of 1986, Chapter XIX in 1991, and the Enterprise Bankruptcy Law of 2006, introduced new concepts to the legal domain. The remaining laws clarified and superseded these original laws. From 1986 to 2005, nine clarifying laws were passed, with a high volume occurring from 1994 to 2004, when public rule makers were motivated by the non-use of the law to generate new rules. From 2006 to 2009, in addition to the new bankruptcy law, 4 laws were passed to clarify usage issues within the law (see Table 3, p. 31).

Table 2. Evolution of Bankruptcy within China's Legal System

Year	Law Name	Law Type	Body	New Concept	Clarify Concepts	Ambiguous Language	Cases Filed
1986	Enterprise Bankruptcy Law	Act	NPC	1	0	1	0
1987							0
1988							0
1989							98
1990							32
1991	Chapter XIX of the Civil Procedure Law	Act	NPC	1	0	1	117
1991	Opinion on Questions Concerning PRC Insolvency Law	Opinion	SPC	0	1	0	428
1992	Application of the PRC Civil Litigation Law	Opinion	SPC	0	1	0	478
1993	Company Law	Law	NPC	1	1	1	1000
1994	Document 59, Proposal for Carrying Out SOE Bankruptcy Law in Some Cities	Notice	State Council	0	1	0	1500
1995							2500
1996	Certain issues on trial implementation	Notice	SETC	0	1	0	6000
1997	Notice Concerning Problems Encountered	Notice	State Council	0	1	0	5500
1998	0	0	0	0	0	0	5000
1999	Decision of Several Significant Issues	Decision	NPC	0	1	0	5000
2000	Insurance Law	Law	NPC	1	1	1	5000
2000	Effect of Contract by Bankruptcy Company	Reply	SPC	0	1	0	5000
2001	0	0	0	0	0	0	5000
2002	Some Issues concerning the Trial of Bankruptcy Cases	Provisions	SPC	0	1	1	5000
2003	Some Issues concerning the Trial of Bankruptcy Cases	Provisions	SPC	0	1	0	5000
2004	0	0	0	0	0	0	5000
2005	Commercial Bank Law	Law	NPC	0	1	0	5000
2006	Enterprise Bankruptcy Law	Law	NPC	1	0	1	5000
2007	Designating the Administrator	Provisions	SPC	0	1	1	5000
2007	Application of Law to Bankruptcy Cases	Provisions	SPC	0	1	1	5000
2007	Application of Law to Bankruptcy Cases	Notice	SPC	0	1	0	5000
2008	How to handle a case where the debtor whereabouts are unknown	Reply	SPC	0	1	0	5000

Analysis and Propositions

Organizations and Law Births

The number of organizations that use a law, or the use rate, helps to determine the volume of law births in that domain. This phenomenon evidences itself in the evolution of the Enterprise Bankruptcy Law of 1986. This law initially suffered from a low use rate due to the difficulty organizations encountered in its use. Only 1,153 firms filed for bankruptcy in the first eight years of the bankruptcy laws existence when over 15 million organizations existed during that time period. This low usage rate was directly responsible for the decrees and interpretations issued by the Government to encourage use of the Bankruptcy Law. The additional decrees and interpretations led to an expansion in written law. The low use rate exerts a positive influence on the volume of rule births, which has a corresponding positive influence on the hazard rate. This suggests the first proposition:

Proposition 1a: *A low use rate of the law will increase the rate of law births.*

Proposition 1b: *The use rate of the law will decrease the hazard of obsolescence.*

Ambiguity and Law Births

A law that introduces a new concept to its legal environment will always possess a high degree of legal ambiguity. In contrast, a rule that clarifies an introduced concept, despite being new, will possess a low degree of legal ambiguity, because its purpose is to clarify the original law. Ambiguity will have a negative influence on the number of firms using a law, with a corresponding positive influence on the hazard rate of obsolescence. The effect of legal ambiguity is the generation of new rules that clarify the law. For example, the 1986 EBL presented a new market institution, bankruptcy, to the legal and business environment of China, and suffered from a lack of declarative clarity in its procedures. The 1997 State Council Decree clarifying this law was unambiguous; it stated that the resettlement rights of the workers of the bankrupt SOE had first priority over the rights of other creditors. Both laws were new, but only the 1986 law introduced a new concept, leading to the generation of further laws. This relationship suggests the second proposition:

Proposition 2a: *The presence of legal ambiguity within a legal domain will increase the volume of law births.*

Proposition 2b: *The presence of legal ambiguity will increase the hazard of obsolescence.*

Discussion and Conclusion

The strength of legal ecology lies in the new insights it can generate into old problems. Many theorists have discussed legal change from a purely exogenous perspective, arguing for the actions of external agents. The ecology of law shows that internal processes are also responsible for legal change. When the organizational use of the law determines the hazard rate, the underlying properties of a system are made clear. In no way does the examination of the organization use of law discount the role of lawmakers, such as the People's Congress. As the supply of problems within a particular legal area increases, and outstrips the ability of extant laws to provide solutions to these problems, lawmakers will generate new laws to address these

problems. Legal ecology provides a framework to understand why the supply of problems increases; within this framework, an examination of organizational use of law helps to determine the conditions affecting the volume of law births.

A discussion of the factors affecting the supply of law must also consider the demand side, which leads, in part, to organizations. Consider the cost to an organization of using a law. The initial deciphering and application of legal routines requires more resources, in terms of time, lawyers employed to examine the law, etc., than an older law. Moreover, an organization could be uncertain if its interpretation of law is actually applicable to a new law. Laws must offer incentives to overcome the cost of use, or risk failure at the outset.

Incentives explain why some populations of laws exhibit a higher propensity for change than others. When a new concept is introduced to the legal environment, the incentives in the law (that introduces this legal concept) are sometimes misaligned with the business environment. This leads to the generation of new laws, or to an increase in the volume of law births. These new laws strive to clarify the legal concepts. Clarification decreases ambiguity, which lowers costs. As the legal domain becomes aligned with the business environment, ambiguity decreases, and the volume of law births decelerates.

The ramifications for China's legal system are twofold. First, in terms of the overall legal system, the volume and pace of legislation suggests that legal solutions to problems are proliferating. Whether those legal solutions are preferable to alternative means of dispute resolution is beyond the scope of the paper. Regarding the Enterprise Bankruptcy Law (2006), the low volume of regulation suggests that the risk of obsolescence for this law is low. The largest obstacle to its success is no longer legal, but rather institutional. Thousands of attorneys, judges, and accountants must be trained in the new law for it to be truly effective. In the absence of institutional support, continued legislation will be passed in order to regulate the winding down of corporations, which will have a positive effect on the obsolescence hazard for the 2006 law.

Future research into this topic should strive to provide quantitative evaluations of the growth rate of laws within a national domain. Previous articles in legal ecology and the ecology of rules have provided such quantitative assessment. In order to do so, a large data set should be compiled, which would also allow the generalizability of the findings to be determined. Main effects and interaction effects could be computed, which would allow not only greater inclusion of multi-level analysis, but also grant greater sophistication in the consideration of trigger events. In addition, the collection of data in alternative legal domains allows cross population dynamics to be addressed. During the evolution of Bankruptcy law, laws from other legal domains, such as the law of corporations or civil procedure, addressed bankruptcy proceedings. It might be that growth in the population of these legal domains is a reaction to the inter-pollination.

A final remark relates to the potential applicability of our work. We believe that the use of ecology to study the evolution of law offers a promising platform to consider normally vexing questions, such as how to consider the use of law and the manner in which organizations use the law.

Note

1. Populations of law are domain specific, varying from corporate and tax to education law, while organizational rules are often problem specific (Schulz, 1998a). A legal domain refers to a population of laws within a single practice area, such as bankruptcy or contract law.

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Appendix

Laws

US Code 11 (Bankruptcy)
People's Republic of China, Enterprise Bankruptcy Law (1986)
People's Republic of China, Civil Procedure Law, Chapter XIX (1991)
People's Republic of China, Company Law, Chapter VIII (1993)
People's Republic of China, Insurance Law, Article 86 (2000)
People's Republic of China, Commercial Bank Law, Article 71 (2005)
People's Republic of China, Enterprise Bankruptcy Law (2006)

State Council Notices

Proposal for Carrying Out State-Owned Enterprise Bankruptcy Law in Some Cities, Document no.59 (1994)
Notice on Certain Issues on Trial Implementation of Mergers and Insolvency on State-Owned Enterprises, Document no. 492 (1996)
Notice concerning the Problems Pertaining to the Trial Implementation of State-Owned Enterprise Merger and Bankruptcy and Re-employment, Document No 10 (1997)
Supplementary Notice of the State Council on the Relevant Issues about the Pilot Implementation of the Merger and Bankruptcy of State-owned Enterprises in Some Cities and the Reemployment of Workers, Document no.10 (1997)
The Decision of Several Significant Issues on the Reform and Development of State-Owned Enterprises, 4th Session of the 15th Party Congress (1999)

Provisions, Opinions, and Replies of the Supreme People's Court

Application of the PRC Civil Litigation Law Several Issues Opinion for non-SOE enterprise legal persons (1992)
The reply of the People's Supreme Court on the effect of contract entered into by the enterprise that is declared bankrupt and permitted to operate by the people's court before the termination of bankruptcy procedure (2000)
Provisions on Some Issues concerning the Trial of Enterprise Bankruptcy Cases (2002)
Provisions of the Supreme People's Court on Some Issues Concerning the Trial of Enterprise Bankruptcy Cases (2003)
Provisions of the Supreme People's Court on Designating the Administrator during the Trial of Enterprise Bankruptcy Cases (2007)
Provisions of the Supreme People's Court on Some Issues about the Application of Law for the Enterprise Bankruptcy Cases That Have not Been Concluded When the Enterprise Bankruptcy Law of the People's Republic of China Comes into Effect (2007)
Notice of the Supreme People's Court on Implementing the Rules on Some Issues concerning the Application of Law to Enterprise Bankruptcy Cases pending Trial upon the Effectiveness of the Enterprise Bankruptcy Law of the People's Republic of China (2007)
The Official Reply of the Supreme People's Court on How to Handle a Case Where a Creditor Applies for Bankruptcy Liquidation against a Debtor Whose Relevant Persons' Whereabouts are Unknown or Whose Asset Conditions are Unclear (2008)
The Opinion on Questions Concerning the PRC Enterprise Insolvency Law (1991)

INTEGRITY IN MARKETING: CHINESE AND EUROPEAN PERSPECTIVES

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Abstract: In the context of environmental and socio-economic crises there is also an ethical crisis in brand marketing. This conceptual paper outlines the emergence of integrity as a new and yet fundamental attribute to the mainstream marketing proposition. The paper illustrates the impact of consumer expectations on brands in China and Europe and explores the language of integrity in marketing. A method of building integrity by businesses and brands is described which integrates steps towards third party verification of practice with brand strategy. The ultimate challenge of integrity in marketing is to the character of the marketer and of those who are responsible for the management of brands. It is suggested that such a challenge is reflective, virtue-orientated and truthful.

Keywords: brand marketing, marketing virtue, integrity, moral agency

Integrity in Marketing: Chinese and European Perspectives

Institutional and corporate communications have been impacted by a continuous flow of stories exposing abuse or even corruption at senior levels of business and government. As public scandals from all sectors of society across the world have become a regular feature in media and social commentary, so the demand for transparency to be demonstrated by governments, NGOs and corporations has grown. In light of such scandals, and as a result of longstanding international campaigns by NGOs to highlight social and environmental malpractices in corporate supply chains, many mainstream brands have now adopted social or environmental causes to support their brand propositions. What was once the preserve of the so-called “ethical brands” such as Max Havelaar, Traidcraft or the Body Shop has now become, in varying degrees, another opportunity for mainstream brands to show that they demonstrate integrity and responsibility through their policy and practice of societal standards (mainly for vulnerable workers in their supply chains) and specific environmental standards. From a brand marketing perspective, transparency itself has become recognized as a consumer trend demanding a response by corporations and their brands.¹

The International Popularization of Integrity as a Basic Value in Business Practice

In the context of environmental and socio-economic crises, and fuelled by vivid media reporting, the demands for the practice of integrity by business leaders and managers has grown in society. A recent study of Chinese consumers’ perception of CSR has shown that Chinese consumers are supportive of CSR (Ramasamy & Yeung, 2009). This conclusion may also be supported by findings in a study by McKinsey in 2007 which shows that 76 per cent of Chinese consumers believe that the overall contribution large corporations (public and private) make to the public good is ‘generally’ or ‘somewhat’ positive versus 35 per cent of European consumers (Bonini et. al., 2007).

The word “integrity” is now common currency in the language of management and corporate governance and has assumed a symbolic significance in such contexts for ethics. The etymological origin of integrity is found in the Latin word *integritas*, meaning soundness or wholeness and, in English, the word has also incorporated the prime virtues of honesty and moral courage. The idea of ‘wholeness’ gives rise to the word’s technical usage in relation to the preservation of a system from damage, as in ‘data integrity’. But when the word is used for human relations, the connotation is that first meaning given by dictionaries: “adherence to moral and ethical principles; soundness of moral character; honesty.”² Integrity refers to a complex of virtues that embrace six relational values: honesty, competence, consistency, dependability, sincerity and benevolence. It is in this sense the notion of a ‘leader of integrity’ might be given to a person who demonstrates moral character.

In China, the word for integrity is *chengxin* and has become a well-used media word in the context of the prosecution of corruption in both public and private sectors. But it also has a very rich history of meaning in the Chinese classical tradition. Integrity has three elements: honesty, credibility (or trustworthiness) and moral principles. According to classical Chinese tradition, the integrity developed (or not) in a person’s ‘inner world’, will be reflected in their outward behavior and this is especially shown in the way in which a person relates to his parents and elders: “If you have honesty and integrity in your heart, it will show” (Shoujin, 2009; Guocheng, 2009).

The Confucian principle is that the integrity of an individual should be reflected in the integrity of an organization and of a country. Integrity from the perspective of the classical Chinese tradition is the corollary of the fundamental Confucian virtue of *Ren*, benevolence, or, “one’s love for his fellow men.” Integrity, both from an Eastern and Western perspective is a character-based ethic and, in the discussion that follows, the emphasis taken is on the character of the marketer as more appropriate to explain the idea of integrity in marketing.

The Chinese melamine dairy scandals of 2008 illustrate how quickly the integrity of a business and its brands can be tested. In 2008, Chinese authorities discovered that melamine had been added to about 70 milk products from 20 companies resulting in severe sickness in nearly 300,000 infants and even some deaths (de Laurentis, 2009). Companies that had engaged their employees on the basis and practice of *chengxin* survived the consumer backlash better than those that were found to have failed in supply chain assurance and accountability and also in the unethical management behavior. The Inner Mongolia Yili Industrial Group Co., Ltd had a longstanding quality assurance program based on a high level commitment to social responsibility as its foundation as expressed in its website as: “Foundation development is superior to develop speed, prosperity of industry is better than individual glory, social value is more important than company wealth.”³

The statement is backed by ethical and quality assurance programs based on the company’s four “cardinal principles”: loyalty, honesty, diligence and thrift. As de Laurentis (2009) reports, Yili and dairy producer, Sanyuan, had strong ethical cultures which have enabled them to survive the product safety scandal. In March 2009, Sanyuan bought Sanlu, the company at the centre of the melamine scandal, having previously been its much smaller competitor. Those companies in the sector which were not perceived to have had a strong ethical stance have suffered even though accusations of malpractice have been found to be false. Unsubstantiated accusations against Wyeth in China have resulted in 61% of respondents in an online poll saying that the accusation will affect their future decisions to purchase Wyeth⁴.

The Mainstreaming of Integrity in Marketing Practice

The sustainability agenda has recently become a strong primer for integrity in marketing as its claims relate both to environmental preservation and issues of social justice in the way people throughout the supply chain are treated. But sustainability is only another layer of consumer and societal demand for a reconstruction of the idea of brands. The twentieth century marketing paradigm now faces cynicism in Europe (Bonini et al 2007) and the energy is lying with new brands that offer a more holistic proposition to consumers. In the words of Askew (2009),

Brands are failing at two levels. They've experienced a diminishing of purpose, and they've failed to maintain the perspective on the outside world necessary to cope with changes that would affect their future. The former is an inevitable outcome of advancing consumerism, not just the emergence of the sustainability agenda.

There is an ethical crisis facing brands: firstly, from the basic challenge to the honesty of branded communications and, secondly, from the underlying moral imperative of sustainability which is the claim that it is morally wrong for the current generation to devastate the environment and economy because future generations of people will suffer loss or harm. So-called "green ethics" has force not because the environment *per se* is a moral agent. The moral force of environmental degradation is that people depend on the environment for their life and wellbeing and because humankind has the responsibility to steward the environment and all living beings for the Common Good.⁵ Brenkert (2008) utilizes the precautionary principle as a background standard for marketers to use, which requires that marketers not to produce any products unless they can be shown not to have a negative effect on the environment. Brenkert offers a more realistic "weaker version" which requires a trade-off between negative and positive impacts of a product.

In response to the ethical crisis of brands, mainstream brand owners are increasingly insisting on greater transparency in their brand's environmental and social practice as a means of bolstering trust and displaying integrity. Sustainability themes such as recycling are the indirect way in which integrity in marketing is being approached by supermarkets and food and beverage brands in particular. Wal-Mart, for example, launched their 'Sustainable Product Index' in July 2009 which to survey its 100,000 global suppliers on sustainability and "people and community" criteria.⁶ In the UK, Marks and Spencer followed extensive research and consideration of their social and environmental responsibilities by launching their 'Plan A' campaign in 2007. The campaign very quickly gained high media visibility and customer impact significantly improving sales during 2007-08. A simple marketing device (*Doing the Right Thing*) has been created through which Marks and Spencer can continue to launch fresh creative executions around the basic sustainability theme, such as: *Look behind the label, Love Food Hate Waste and Wanted - Your Old Clothes. Reward £5.*

The legal and ethical challenges to McDonald's Restaurants in the US and the UK in 2003 resulted in the re-creation of the McDonald's brand to blunt McDonald's association with unhealthy food and unhealthy children. Confronted by an advertising ban in the UK, McDonald's committed to use advertising to teach children how to achieve healthy lifestyles through a balanced diet and exercise. At the annual conference of the Society for British Advertisers, UK CEO Light argued:

We do not need less communication to children: we need more. If we want to educate children to eat right and be active, we need effective marketing communications that are responsive and responsible (cited in Botterill and Kline, 2007, p. 90).

McDonald's overhauled its menus and launched a "healthy happy" campaign, with the tagline "It's what I eat, it's what I do" highlighting fruit and vegetables. In the UK, McDonald's launched a website called *Make Up Your Own Mind* to promote transparency of its practices and operations:

Welcome to Make Up Your Own Mind. The site has been set up for you to find out anything you would like to know about McDonald's food, business, people and practices. Since 2006, Quality Scouts (independent members of the public) have been going behind the scenes at McDonald's and its suppliers, to find out for themselves what really goes into McDonald's food and report back on this site.⁷

ABInBev UK launched an advertising campaign in August 2009 to reposition its Stella Artois brand as being more environmentally responsible. The advertising theme was based on a simple message about the recyclability of their product packaging: aluminum cans and glass bottles. The claims were that, on average, Stella Artois cans were made from 50 per cent recycled aluminum and their bottles were made from 75 per cent recycled glass.

The marketing claims made by these businesses focus on "a more transparent supply chain" (Wal-Mart⁸); "doing the right thing" (Marks and Spencer⁹); "doing good" (McDonalds¹⁰) and "making for a better world" (Stella Artois¹¹). In consumer language terms, these simple phrases convey the key elements of integrity but require deeper internal substantiation and accountability to provide external and internal assurance that integrity is being practiced and not just claimed.

Over the past decade, there has been a proliferation of agricultural verification and certification organizations responding to the growing demand for more environmentally-friendly sourcing combined with agronomic support to farmers and, in the case of fair trade certification, assurance on the social and educational needs of farming communities in developing countries. One such organization is the Rainforest Alliance, an independent NGO, with expertise in verifying the quality of the agronomic and sustainable farming practices of companies such as Chiquita (bananas), Kraft (Kenco Coffee brand), Costa Coffee and Nestlé Nespresso (AAA coffee brand).

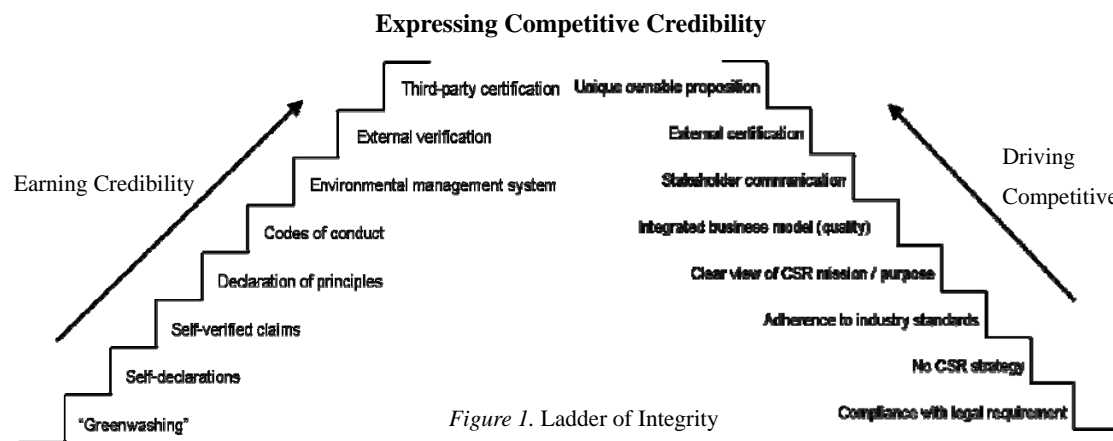
The contract that such companies enter into with the Rainforest Alliance are based on a commitment to practice, and to be held accountable for, a development process which includes:

- Reduction in water pollution
- Reduction in soil erosion
- Removal of "dangerous pesticides"
- Protection of wildlife habitats
- Reduction in waste
- Water conservation
- Improved profitability and competitiveness for farmers
- Greater collaboration between farmers and conservationists.

Since 2004, Nestlé Nespresso has been working with the Rainforest Alliance to increase the proportion of its coffee that can be sourced under the Rainforest Alliance verification regime. Nespresso launched their own multi-stakeholder sustainability forum called *Ecolaboration* in June 2009 with the aim to develop stakeholder relationships and clarifying their approach and commitment to sustainability in a way that is relevant to their business, to its customers and its stakeholders. This initiative represents the first step in expressing the credibility of their work in a branded competitive way five years after beginning the verification process.

The role of responsible marketing is to innovate products and communicate their value through branded frameworks and communications. Increasingly supply chain sustainability innovations such as water and ‘carbon footprinting’ are being utilized in marketing communications. *The Ladder of Integrity*¹² (Figure 1) illustrates the headline steps towards verification and certification on the one hand and sustainable brand practices and communications on the other. Claims of the lowest level are graded as ‘greenwashing’ but could lead to further steps of product transparency towards the independent verification and certification of sustainable sourcing practices.

Competitive differentiation can be achieved when a brand combines third party verification (or certification) with a new and differentiated value proposition for its customers and stakeholders. To maintain integrity, the value proposition, and claims created around an ethical or sustainability supply chain program, need to keep in step with the credibility that the company has earned through independently assessed and benchmarked standards. The *Ladder of Integrity* shows that the ‘platform’ for a brand to express its competitive credibility is only reached by achieving verifiable performance standards and by developing an integrated business model which goes beyond industry sustainability and CSR norms.



If marketers give rigorous attention to the extent to which they can avoid their products having any negative effects on people or the environment, and develop concepts that are tested with key opinion leaders and stakeholder experts as well as consumers, the opportunity to gain competitive advantage through ethical branding initiatives is created.

Cultivating the Practice of Integrity by Marketers

Integrity is a moral consideration and the principles of morality are normative and relational, between the brand owners through their agents, the marketers, to the consumer. Whilst legal and ethical frameworks assist moral considerations, decisions about brand claims and promises are made by marketers and brand managers as moral agents. Brenkert (2008, p. 8) has clarified the nature of moral agency for marketers:

...an effective morality will set standards, subject to reason and evidence, by which people can and should behave. The upshot is that morality is neither simply a matter of opinion, nor irrelevant to marketing. Though too many marketers don't always do what they morally ought to do, this does not itself make morality (or the ethics of marketing) irrelevant.

Such a morality is ultimately grounded in the character of the marketer and the ethical maturity of those guiding organizational decision-making. Moral decision-making in developing an ethical or sustainable dimension to brands requires endogenous moral consideration. But this is contentious territory in a world view dominated by calculative rationality and objective decision-making which largely overshadows notions of substantive moral judgment.

Seeking to understand and account for the 'right' action by brand owners and marketers is not only found through internal Kantian-type discussions on rights and responsibilities. Rather, the conversations that surround a decision to be more transparent in marketing communications emerges from senior management convictions of the kind of people they want to become in taking actions that they believe to be "right" above and beyond the immediate pressures from key opinion leaders. This approach to integrity in marketing requires a focus on both the moral character and the motives of marketers. The marketer has responsibility, with other moral agents, to make judgments about the ethical nature of the marketing mix and its branded communications.

A deontological approach alone has the danger of producing a declared ethical framework, usually a code, without directly addressing the ethical performance of individuals through training and appraisal systems. A utilitarian approach relies on moral disengagement and Mill's notion of the "disinterested and benevolent spectator" (Mill, 1871). As Chan (2008) has pointed out, there are several commonalities between the virtue ethics of Aristotle and Confucius and the particular significance of exemplary individuals for guidance and training in proper ethical behavior (Sim, 2001). Whetstone (2001, 2003) has argued that managers should give attention to the virtues and vices of human character as well as to deontological and teleological approaches. He specifically highlights the personal nature of the Aristotelian virtue perspective and on the motivations of the actor to bring a dynamic to ethical understanding.

Adding a virtue perspective as a complement to act-oriented perspectives can expand to scope and perspectives of ethical analysis and understanding. This is because the Aristotelian virtue perspective is personal; focuses on the motivations of the actor and the sources of action, bringing a dynamic to ethical understanding; is contextual, highlighting the importance of understanding the environment as it affects both the actor and his or her acts; and complements other disciplines addressing human behavior (Whetstone, 2001).

Conclusion

Integrity in marketing involves reflecting before acting and engaging with others about ‘doing the right thing’. It will involve a consideration of the ‘other’ and responsibilities to the other however distant that other may be from the challenges of marketing management. Integrity in marketing places the focus on the marketer as a moral agent to assume the responsibility for fairly and honestly communicating a product’s attributes and benefits within the nature of a truthful relationship (Thompson, 2002).

Commentaries published before the recent global economic crisis had found little evidence that corporate or brand virtue pays (Vogel, 2005, p. 45; *The Economist*, 22 January, 2005). But these views represented a market paradigm which is quickly fading, a paradigm which is not simply focused on whether integrity or marketing virtue ‘pays’ but whether the level of demand for integrity and marketing virtue is so strong that a more transparent market emerges in which integrity or ethicality becomes another platform for competition.

Notes

1. “Transparency Triumph” a report by Trendwatching.com, September 2009.
2. Source: “Integrity.” Dictionary.com Unabridged (v 1.1). Random House, Inc. 23 Sep. 2009. Dictionary.com <http://dictionary.reference.com/browse/integrity>.
3. Source: http://www.yili.com/english/about/about_survey.html. Retrieved 25 September 2009.
4. According to an online poll of 10,000 conducted by sina.com in February 2009: <http://finance.sina.com.cn/consume/puguangtai/20090224/08105892678.shtml>. Retrieved 24 September 2009.
5. The notion of the Common Good is drawn from a variety of philosophical and faith sources and describes individual and corporate responsibility to act in a way that contributes to the good of all or the good of the commons.
6. CSR Wire Press Release, The Latest Corporate Social Responsibility News: Walmart and Sustainability: Oxymoron or Salvation – or Both?, 21 July 2009.
7. Excerpt from the McDonalds website: www.makeupyourownmind.co.uk, accessed 21 October 2009
8. Mike Duke, President and Chief Executive Officer, Wal-Mart Stores, Inc. Walmart Sustainability Milestone Meeting, July 16, 2009 from Sustainability Product Index Fact Sheet, July 2009.
9. Source: <http://plana.marksandspencer.com/>, accessed 20 October 2009.
10. Source: <http://www.mcdonalds.com/usa/good.html>, accessed 20 October, 2009.
11. Source: <http://www.stellaartois.com/hedgfund/recyclage-de-luxe.html#glass>, retrieved 20 October, 2009.
12. The Ladder of Integrity was created in 2007 by Dean Sanders of GoodBrand, London.

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INTEGRITY AS MORAL IDEAL AND BUSINESS BENCHMARK

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Abstract: The increasing appeal of integrity in business may not only imply an acknowledgment that integrity has in fact all along been in short supply, but also suggest that its moral value has been short-changed into its function to increase profit. It will therefore be necessary to reconstruct the concept of integrity in light of an interpretation that takes up the various strands of meaning and ties them together in the comprehensive vision of the good life grounded in the ethics of respect for persons. This will put the moral implications of integrity into sharper profile and set benchmarks for socially attuned and responsible business.

Keywords: integrity, integration, wholeness, respect, virtues

Financial Crisis as Wake-Up Call

In September 2009, news broke that the G20 finance ministers had reached a compromise on the reform of the financial markets. They all agreed that lessons must be learned that would prevent another crisis of this magnitude. While deep divisions remained, the compromise reached has been regarded as a milestone on several accounts. For one, it acknowledges that something in the regulatory systems of financial markets didn't work as economists had always maintained it would. They now had to admit that the market left to itself did not exercise the self-healing powers they had all along relied on. Instead, it had to be referred to the care of government-appointed doctors prescribing tough emergency medicine in the form of billions in guarantees and stimulus packages for the collapsing economy that would cost the taxpayer dearly.

Furthermore, the politicians firmly acknowledged in principle that the much-criticized bonus payments did in fact play a role in triggering the crisis and that in future they should therefore only be paid on companies' long-term success. Risky decisions on short-term gains would have to be balanced off against the possibility of losses that could be claimed back from those whose decisions caused them.

Finally, they agreed on more transparency in the financial markets and clearer regulations that would give oversight bodies like the central banks greater monitoring powers that would allow them to step in and to impose restrictions on too risky or shady products that could destabilize the financial system.

In all of this, the term integrity was never mentioned. Yet it may be the single most important term looming in the background of this debate. The global financial crisis could even be the exemplary case for a study of integrity – or rather the lack of it. The issue of integrity gives the crisis its specific profile and a significance that reaches far beyond finance systems and into ethics and morality.

Intuitively, three facets of integrity are discernible. The acknowledgment that the financial system did not work as predicted and therefore needed governmental regulatory intervention, illustrates that integrity has something to do with soundness of system performance. While this concept has lately gained much currency in ecology, it has also relevance for economic and financial systems and their analysis. In the environmental context, "a living system exhibits integrity if, when subjected to disturbance, it sustains an

organizing, self-correcting capability to recover toward an end-state that is normal and ‘good’ for that system” (Regier, 1993, p. 3). Clearly, the market economy is a robust and complex system comprised of numerous individual and corporate actors, regulations, transactions as well as mechanisms of communication with proven resilience to adversities. Market economies will always bounce back and perform so-called technical corrections, but the state they reach may still be wanting in terms of justice, reciprocity, or solidarity that are part of our larger vision of the good society towards which we aspire.

A second facet of integrity comes to light with the excesses in salaries, compensations, and bonuses the G20 planned to address. While they are clearly system-related, it is still highly controversial to what extent – if any – they may not only stand for flaws in the operation of financial markets, but also in the character of individuals. Integrity relates at least as much to systems as it does to issues of character, attitudes, and habits of people in business and finance as well as in any other position of responsibility. Their relation to ethics and morality is, however, not unanimously acknowledged but subject to debate. In some theories, integrity is regarded as an issue of personal identity rather than moral character. On their account, even a Nazi could be a person of integrity as long as he is fully committed to his belief in the values espoused by Nazi ideology that define his identity and acts only in accordance with them.

For the intuitive understanding integrity has deep, however somewhat fuzzy moral connotations. Actors thriving only in the dark corners of the market system and benefiting personally by taking full advantage of the lack of regulations or their less than strict enforcement, would not be expected to figure prominently on lists of persons of integrity. On this view, integrity is at stake when motivations of selfishness and greed override concerns for uprightness and moral probity. Individuals ignoring all rules of responsible business and selfishly focusing only on short-term profit also tend to overstep the thin line that separates shrewdness from deception and fraud. Finance managers and investment bankers who systematically downplayed the risks of their products in the expectation of a government bailout in case something really goes wrong did not merely play moral hazard but compromised their integrity.

This certainly applies to those whose business creed according to a newspaper report was: “I.B.G. The phrase implies that by the time a deal goes sour, ‘I’ll be gone,’ after having received a sizable bonus.” As Nassim Nicholas Taleb, a statistician, trader, and author, has pointed out: “I don’t know anyone on Wall Street who goes to work every day thinking of anything but how to increase their bonus” (Berenson, 2009).

While our intuitive understanding may be on the right track, integrity has something of a cluster concept (or is simply seen as an “umbrella term” (Maak, 2008, p.359) as it seems to tie together different overlapping qualities under one term ranging from a more or less amoral usage to its function as full substitute for morality proper. While it seems to share important features generally associated with the virtues, its standing among them is less clear. For some interpreters, integrity can at best be “an adjunctive” (Audi & Murphy, 2006, p. 12) or a “secondary” virtue (Rawls, 1971, p. 520), for others it is the “master virtue” (Calhoun, 1995, p. 260), the “synthesis” (Solomon, 1999, p. 38), the “unity” of the virtues (Dudzinski, 2004, p. 309), or a “higher-order virtue” (McFall, 1987, p. 14). Without further clarification on this matter it is therefore doubtful that integrity could credibly perform its role as a benchmark of ethics in business and society and even be operationalized in specific integrity checks.

In the following I will therefore firstly briefly illustrate that the increasing appeal of integrity in business may not only imply an acknowledgment that, in practical terms, integrity has in fact all along been in short supply but also suggest that its moral value has been short-changed into its function to increase

profit. I will then offer an interpretation that takes up the various strands of meaning and ties them together in a comprehensive conception anchored in the ethics of respect for persons and the vision of the good life. This will put the moral implications of integrity into sharper profile and set benchmarks for socially attuned and responsible business.

The Appeal of Integrity in Business

The term integrity enjoys great popularity in company mission or values statements, is frequently invoked in professional ethics codes or codes of conduct, and even found in company advertisements. The voice-over in HSBC's recent world-wide television campaign noted: "For many people, integrity is as important as money. At HSBC, we understand that people's values influence their financial decisions."

In Patrick Murphy's examination of eighty exemplary ethics statements integrity was the most frequently mentioned value (Murphy, 1998). Across the board, companies take pride in highlighting it in their glossy fliers (Foster, 1993) and their managers try hard to persuade a weary public that they do place integrity at the heart of their companies' culture.

F. Hoffmann-La Roche Ltd, for example, published guidelines on Business Integrity & Responsible Marketing pointing out: "We pride ourselves on doing business with integrity. We have a Guide to Integrity in Business Transactions to promote shared understanding of our standards of integrity throughout the Group, and to prevent violations of those standards." Similarly, the Siemens Code of Ethics for Financial Matters requires in its very first paragraph that every employee "act with honesty and integrity and avoid actual and apparent conflicts of interest in personal and professional relationships." And even the American mutual fund industry has long proclaimed that it demonstrates the utmost integrity in putting investor interests first. The Executive Vice-President of Capital Research & Management, Paul G. Haaga, told the trade group's annual meeting: "Integrity... is the basic foundation of our business. Our shareholders trust that their mutual funds are being managed with their best interests in mind" (Koehn, 2005, p. 125).

Similarly, Bank of America's Liam McGee stated: "We work together and rely on each other to serve customers and strengthen two of the most valuable assets we possess—our integrity and our brand." JPMorgan Chase refers six times to integrity in their business principles and claims to maintain "the highest standards of integrity," which explicitly implies the integrity of the advice a banker gives to customers. Their code of ethics requests anyone to report "matters that would compromise the integrity of the firm's financial statements."

Evidently, appeals to integrity are ubiquitous in business and lately they seem to occur with increased frequency. Integrity is "quite possibly the most commonly cited morally desirable trait" (Audi & Murphy, 2006, p. 3). It suggests some high-sounding quality worthy of praise that contributes to individual and corporate reputation. In most cases integrity is simply regarded as a business asset (Koehn, 2005) or even "the biggest asset a corporation can have" (Maak, 2008, p. 365). For hard-nosed executives, integrity is apparently important because it has market value and for that reason alone has to be a factor in their calculations. It enables business to attract capital and to increase market share. Obviously, the thinking goes, integrity helps to build up "reputational capital" and good reputation sells as it "contributes to a company's core capability differential" (Petrick & Quinn, 2000, p. 15). Therefore integrity is a priced company asset.

This raises the suspicion that in spite of all high-sounding statements, integrity may sometimes be little more than a smoke-screen that offers some cover against close ethical scrutiny. On the one hand, it is

clearly “an ethically charged term.” Yet on the other, “it does not have the same negative connotations that ethics does for many people; nor does it have the overtones of moralizing that the term morality often carries with it” (De George, 1993, pp. 5-6). In other words, while implying normative claims, it is less intimidating and probably easier to promote in business circles than outright references to ethics and morality. It allows for quite different interpretations and less strict application in daily business operations, particularly when the going gets rough. It is among the first casualties when business strategies aiming at short-term success conflict with ethics. Executives can then be very forgetful about the integrity avowals in their own value statements. It may even turn out – as Enron has illustrated – that they probably had never read their ethics codes, which by the time their company came crashing down were still sitting in some office neatly packaged and obviously untouched.

Yet attaching to integrity merely instrumental value undermines, as it were, the integrity of integrity and leads to dangerous results. As instrumental values are not sought for their own sake, they are disposable and can be replaced by anything that serves the same function. If the function of integrity is only to increase profit, it may be sufficient merely to be seen as a company of integrity. And such belief can be facilitated by simply claiming integrity in public. All too often, the public image a company portrays of itself takes precedence over real integrity, much to the detriment of the company. Only when companies take integrity seriously as an intrinsic value will they gain lasting trust. Good reputation has to be earned through an unwavering commitment to integrity in word and deed.

For many companies, the vagueness of the term integrity combined with its intuitive appeal to the general public, the ethical overtones it carries, and the increase in reputation it promises are apparently little more than marketing strategies to gain public trust and to increase their profit. While companies frequently leave the term undefined and refer it to people’s imagination and intuition, some take a more promising path. Motorola, for example, made it the focus of a special ethics training program. Acknowledging that their “fundamental objective” of “total customer satisfaction” cannot be achieved without “constant respect for people” and “uncompromising integrity” (Moorthy, 1998, p. 11).

Motorola pursued an unusual path toward elucidating integrity. Instead of starting from a straight-forward definition that might neither do justice to the conceptual complexity of the concept nor to its ever changing contexts of application, they set out to explore its various aspects through a series of 24 case studies that would sharpen the participants’ moral sensitivity and judgment. The opening case sets the tone for the discussion with regard to their key belief of respect for people. While integrity is compromised by someone stealing company property, its enforcement would require cultural sensitivity so as not simply to transfer standards developed e.g. in the United States “without qualification elsewhere.” The case commentators conclude that the principle of integrity must be upheld without falling into the trap of value ethnocentrism. Instead it is suggested that “local conditions and customs” are knowledgeably taken into account (Moorthy, 1998, p. 41).

The Core Notion of Integrity

The meaning and moral implications of integrity can be brought to light when we follow more closely the various etymological links it offers. ‘Integrity’ and its cognates ‘integral’ and ‘integration’ all have the same etymological root in the Latin term ‘integer’. It has been taken for granted that “etymologically, integrity is oneness” (Korsgaard, 1996, p. 102) and that this implies the meaning of completeness or wholeness.

Integrity is the state of being “undivided; an integral whole” (McFall, 1987, p. 7). It signifies “wholeness of virtue, wholeness as a person, wholeness in the sense of being an integral part of something larger than the person – the community, the corporation, society, humanity, the cosmos...” (Solomon, 1999, p. 38).

Yet the etymology of integrity comprises also the meaning of soundness and purity. At first glance, this seems to add quite a different aspect whose relationship to oneness is not obvious as “completeness and purity [...] are by no means equivalent” (Audi & Murphy, 2006, p. 8). That both meanings are, however, related can be gleaned from ‘integer’, which is derived from the Latin verb ‘tangere’, i.e. ‘to touch’ and whose meaning extends from ‘to touch upon a subject’, ‘to affect the feelings’, all the way to ‘to defile’; the prefix ‘in’ signifies the negation ‘not’. The root meaning of ‘integer’ is therefore: ‘untouched’, ‘unhurt’, ‘undamaged’, and something of this condition is ‘one’ and ‘identical’ with itself and as such ‘whole’ and ‘complete’.

The Moral Basis of Integrity

These etymological clues are still significant and reflected in the various strands of meaning the term integrity covers; they can explain, at least to some extent, its inherent relationship to ethics. In other words, integrity denotes “three distinct but interrelated dimensions: the quality or state of being complete, the entire, unimpaired or perfect state or quality of anything, and the quality or state of being of sound moral principle” (Dudzinski, 2004, p. 300). Yet, oneness, wholeness, and completeness are not merely descriptive terms but also carry normative connotations as they imply that something of this nature is intrinsically valuable and must not be willfully destroyed; instead it is to be protected and preserved.

The normative implication of integrity in this sense is confirmed by our common practice of requiring good reasons and moral justification for any such act of destruction. This is clearly the case with living organisms, which are constituted by the functional interrelationship and integration of numerous elements and parts which together make the specific organism whole and complete and give it its identity. The view that the unity of organic systems increases qualitatively along a scale that extends from plants to animals and reaches its highest level in human beings inspired already the ethics of Aristotle. Ecological sensitivity and environmental concerns have added a new sense of urgency to this basic insight of common morality. Apparently, integration reaches its peak and a new quality in humans. Human beings are individuals in the full sense of the term, i. e. indivisible wholes whose individuality is more than the sum of their parts or constitutive elements.

They are, however, not only individuals but persons. This term does not primarily describe some higher complexity an individual may have, but signifies a specific moral status. ‘Person’ is a normative term denoting a moral claim. The acknowledgment of person-status is therefore equivalent to an act of recognition of moral and legal inviolability with the implication that the integrity, above all the physical or bodily integrity, of such beings must not be interfered with but respected. In Kant’s terminology, persons don’t have value that could be determined by the market and set down in a specific price someone may be prepared to pay. Instead they have dignity that requires moral respect (Achtung) and endows them with legal rights.

Though the integrity of persons and the integrity of individuals both point toward a common ground that was first indicated in the etymology of the term, they are by no means simply identical. The integrity of persons has objective connotations as it refers us to the foundational dimension constitutive of persons as

moral subjects. Their integrity entails the moral obligation to reciprocally recognize each other simply as human beings stripped as it were of all qualities, including individual or communal characteristics, except for one, that of being human. It indicates the moral worth of persons that entails the obligation to recognize it in all human beings. Recognition as members of humanity is the foundation of morality and the precondition for life as individuals in specific communities. Integrity in this most basic, “objective” sense denotes the moral status of persons as autonomous agents just as bodily integrity denotes that of the body (Rinderle, 1994).

In both cases, integrity stands for the objective quality of personal oneness and wholeness, which implies the inviolability of such oneness. The various specific virtues that have been associated with integrity can only be “secondary” as long as they are not grounded in the integrity of persons as autonomous moral subjects. Without such foundation in the moral respect for persons, they are merely “virtues of form,” as Rawls has pointed out, since their definition would “allow for most any content” and even “a tyrant might display these attributes to a high degree.” But joined to the ethics of respect for persons or – as Rawls has it – to “the appropriate conception of justice, one that allows for autonomy and objectivity correctly understood, they come into their own” (Rawls, 1971, p. 519-20).

On this account, neither does integrity have a “soft core” nor can integration be its “core notion” (Audi & Murphy, 2006, p. 8, p. 10) without finding direction and measure in the integrity of persons as moral subjects. It shares some of the assumptions with what has been called the self-integration view of integrity (Calhoun, 1995, p. 235) that regards integrity as a matter of persons integrating various parts of their personality into a harmonious, intact whole. It differs from it, however, by its insistence on the moral standard with which such integration must comply. Not any sort of integration will do, but only one that is not in violation of fundamental moral obligations or the kind of recognition and respect we owe to persons qua persons. While integration is certainly a necessary requirement of a person of integrity, it is not sufficient if it is not grounded in the moral respect for persons. Without such moral anchorage, integration would be merely a formal requirement that lacks the standard by which “defects of character” could be identified and assessed.

It is only on the substantive account of moral respect for persons that “a lack of integration between affirmation and belief” or “between behavior and intention” displays a moral deficit (Audi & Murphy, 2006, p. 10). While it seems correct to argue that integrity should be characterized “in the light of our best understanding of the demands of a sound morality,” it is difficult to see how this could be achieved through an inquiry that is “neutral with respect to the major kinds of moral theories.” Rather than being “a complement to certain more specific concepts” (Audi & Murphy, 2006, p. 11), integrity derives its significance from its moral basis in the integrity of persons.

Personal Integrity

The moral function of the idea of personal integrity is grounded in and derived from the integrity of persons and stands for “a certain kind of unity in character” (Audi & Murphy, 2006, p. 16). Though it has identity-conferring functions as people of integrity can be expected to hold steadfastly true to their commitments or “ground projects” (Williams, 1981, p. 12) with which they identify, their integrity would be undermined if those commitments were in conflict with the moral respect for persons. On Williams’s identity-view of integrity (Calhoun, 1995, p. 235), integrity is the result of people being “propelled forward

by the conatus of desire, project, and interest” without which “it is unclear why [they] should go on at all.” Yet unless the identity-conferring ground projects are consistent (‘integrated’) with the ethics of respect, such integrity would only be formal and without deserving the moral praise that generally comes with it.

While it can be argued that all actions define one’s personal identity and shape one’s character, only those in compliance with the moral respect owed to persons generate personal integrity. To be persons of integrity, agents must not only have a character but a sure grasp of their real moral obligations and the commitment to act on them in practical life. The moral self-conception must be grounded in the person’s actually leading a morally decent life and abiding by the moral commitments that are centrally constitutive of the person’s identity and the sense of the meaningfulness of the person’s life (Ashford, 2000, p. 245-6).

Integrity extends to conscience and character of the moral person and provides the focal point in which all the innumerable moral threads run together. It represents the moral ideal that grounds all our visions of the good and its embodiments in personal and social life. This ideal may be stronger or weaker in some, yet all their life plans are expected to be inspired by it and receive from it their unity, if they rightly deserve moral praise. As an ideal, integrity necessarily transcends codification.

Personal integrity, then, is consistency between one’s personal principles and the moral respect for persons; it is the free and sustained recognition of the moral obligation to personhood. It entails both the commitment to constitute ourselves as moral subjects (by “becoming” what we “are”) and to enable the moral autonomy of others. In relationship to others, its function is first of all protective and defensive as it rejects on moral grounds all forms of interference that prevent, undermine, or destroy the basic conditions on which persons can develop their genuine sense of identity and wholeness and build up self-respect.

Self-respect has a dual focus by holding oneself to moral standards and by demanding rightful treatment from others. It involves “having both a proper regard for one’s own moral status (and thus the right relation to oneself) and a proper regard for one’s place among other moral beings (and thus the right relation to others” (Calhoun, 1995, p. 253). In this sense, McFall is right: it is an essential feature of integrity “that there are things that one is not prepared to do, or some things one must do,” which is to say some of our commitments are unconditional (McFall, 1987, p. 11).

While moral respect for persons includes the positive obligations of establishing and securing the objective conditions for self-respect on an open-ended scale, its main function is rather negative and one of restraint: personal integrity demands not to humiliate, if humiliation “denotes injury to one’s self-respect” and to “one’s sense of intrinsic value.” Thus personal integrity is incompatible with all forms of humiliation, particularly those whose intention is the “rejection from the human commonwealth” (Margalit, 1996, p. 120, 112). In line with Axel Honneth’s “systematic classification of three forms of disrespect,” integrity is incompatible, firstly, with humiliation that has a “profoundly destructive impact on an individual’s practical relationship to self” by seeking to take “control of a person’s body;” secondly with “forms of degradation that affect a person’s normative understanding of self,” and that entail, thirdly, “negative consequences for the social value of individuals or groups” (Honneth, 1992, p. 190).

In positive terms, personal integrity requires continued endorsement of the fundamental respect for persons as the moral compass that guides personal life. The firm and continued commitment to this recognition and its practical implementation in all areas of life characterize someone people rightly admire as a person of integrity. Only in this sense, integrity can be said to be more or less synonymous with ethics (De George, 1993).

In conclusion, personal integrity is both the moral obligation to respect others as human beings and the moral standard against which everyone is to be assessed as a moral person. The reflection on the etymological foundation of integrity enables us to discover the inherent relationship between the descriptive and the normative senses of integrity and reminds us also of fundamental intuitions of (modern) morality. It is not an insignificant characteristic common to all versions of contemporary moral theory that they preclude the construction of any non-egalitarian conception of human personhood or the moral relevance of distinctions between persons on the basis of race, gender, or social status.

The universal declaration of human rights is the most significant confirmation of the moral implication of the idea of personal integrity and its relevance for civil society. While the ontological status of persons may be controversial, with no unifying theory in sight, contemporary secular morality is grounded in the respect for persons and its foremost task is the protection of the specific conditions through which the integrity of persons can be upheld and preserved.

Individual and Professional Integrity

In contrast, the integrity of individuals delineates the space within which persons realize their identity in their fundamental roles as members of specific moral communities and traditions, as legal subjects, and as citizens in a specific political community. In each of those fundamental roles persons form their unique personality and develop a particular individual identity (individuality) as the result of their beliefs and actions. Their integrity as individuals will therefore not only differ with regard to the specific life-worlds within which their life unfolds but also have its standard in the degree of integration of the various particular character traits into a coherent and harmonious whole that defines that person's individuality.

The integrity of a member of a religious community, for example, will depend on the integration of behavioral characteristics that are representative of this particular community and these may differ from the civic and social qualities representative of the integrity of a citizen qua citizen. This conception shares with the self-integration view of integrity the idea that integrity is a matter of persons integrating various parts of their personality into a harmonious, intact whole. Yet unlike this view, it insists that integrity cannot merely be a formal process of integration void of the moral obligations of respect for persons.

Sine the integrity of persons is constitutive of moral agency and thus makes moral demands on every person "prior" to the individual roles performed, there may be tension between the various types of personal and individual integrity but no fundamental conflict is expected. The integrity of individuals in their various roles will always have to be judged against their integrity as persons.

On this view, the conflict between the integrity of a citizen and a racist is not a conflict between two different types of integrity but between genuine integrity and a chimera. The demands of so-called racist integrity are inconsistent with the most basic demands of morality that define personal integrity. Genuine differences between various types of individual integrity can only occur within the moral parameters of reciprocally recognized personhood. They are therefore merely instances of the ineliminable pluralism of the human life-world, but not an indication of a genuine moral conflict between personal and individual integrity. Acknowledging integrity in someone amounts to a kind of moral praise that is grounded in the respect we owe to human beings as human beings, or persons as persons. While this respect is indivisible, the respect for individual integrity is proportional to the degree of integration of particular characteristics in the life of an individual.

Drawing on a helpful distinction suggested by Stephen Darwall, the latter kind of respect can be called “appraisal respect.” “Recognition respect” is based on the respect for persons by virtue of their being persons, “appraisal respect” is due by virtue of an individual’s integration of particular praiseworthy characteristics. While “all persons are entitled to respect just by virtue of their being persons”, they are “deserving of more or less respect by virtue of their personal characteristics” (Darwall, 1977, p. 46). Regardless which specific roles we may perform in individual and professional life, we are all fragile but autonomous human beings with inherent dignity who are owed “recognition respect.”

Finally, professional integrity is a sub-category of individual integrity and very much a matter of the extent to which a person displays personal integrity in professional life. It is relative to the duties and obligations defined by the specific professional context within which it has to be acquired as well as by the characterization of the kinds of challenges and hazards encountered in the relevant fields of action. While differences in professional integrity suggest that the display of integrity “in one profession need not (...) carry over to other professions,” those differences are not that fundamental as to preclude “a common currency with what it is to act with integrity in another context” (Cox, 2001).

If they are indeed genuine types of integrity that deserve our praise, they too will have to be anchored in the basic integrity of persons as moral subjects. Even if they could be placed on a continuum ranging from mere forms of etiquette (Godlovitch, 1993, p. 580) to specifically moral characteristics of individual behavior relevant to the professional context, all such types would have to find their standard in the moral recognition of persons if they at all deserve to be called forms of integrity. Professional integrity “is greater if it involves not just following the demands of the profession, but doing so in such a way that one does not diminish others’ lives” (Cox, 2001).

Integrity in Business

Obviously, only a die-hard homo oeconomicus would deny that integrity in its reconstructed comprehensive sense had any implication for business and the economy. The global economic crisis has severely undermined the traditional assumption of a strict separation between market economy and civil society and with it the claim that business operates in an ethics-free zone where only its own rules apply. On this premise, the economy would evolve with some kind of necessity exclusively in accordance with the laws of its own rationality and stand outside the realm of ethics and morality.

The crisis has brought home what is missing in this construct. It is the perspective that business people are not only role-bearers and functionaries of the economic system but also social beings with a socially shared history of beliefs about “the good life” that ultimately defines the purpose of the economy. Like anyone else, people in business are not exclusively profit-calculating beings but beings with “animal spirits,” i.e. with emotions, hopes, and expectations as well as anxieties which do influence their economic rationality and communal prudence. As George Akerlof and Robert J. Shiller have pointed out, the human psychology that “drives the economy” is much richer and more complex than the one modelled on the small brain of the homo oeconomicus (Akerlof & Shiller, 2009).

There is this nagging suspicion that over the last few decades, the capitalist market economy and in particular its finance institutions have become unhooked from morality and ethics and have run their own independent course exclusively driven by the rationality of individual and corporate self-interest and the belief in infinite growth. As Amartya Sen has recently noted, the “assumption of the completely egoistic

human being has come to dominate much of mainstream economic theory, while many of the great practitioners of the discipline have also expressed their serious doubts about the veracity of that assumption” (Sen, 2009, p. 184).

Now, economists and business analysts seem no longer to shy away from inquiring about the role of the economy within and for a stable society. Is the economy a free-standing system that has to be left alone to run its own course or does it, especially in a globalized world, still need to be controlled by the moral principles of justice, solidarity, and responsibility? In a word: Does it need integrity? And if so, can we afford to relegate those principles to glossy company pamphlets and to entrust them to the moral conscience of the individual or do we have to translate them into legally binding and enforceable world-wide regulations? While many agree that this may be the only way to prevent crises of this magnitude from reoccurring, the deep differences that run through the negotiations of the G20 clearly dampen expectations. The alternative to laissez-fair economy and turbo capitalism is, however, not (or at least not primarily) external regulation of the economy through government, but a strengthening of the role of ethics in business.

After all, governmental interference and legal restrictions stifle the entrepreneurial spirit, obstruct the free exchange of goods and services, and ultimately undermine the economic system. They are therefore a major concern not merely of economists but of business people in general and would only grudgingly be accepted in emergency situations and as temporary measures of last resort. The disastrous effects of such interference on a massive scale are vividly illustrated by the collapse of the soviet economy.

Yet, economic freedom has its price. The interests of business can only be met on the conditions of a stable society. They will be served best when they are neither in conflict with the fundamental values of society as a whole nor ignore its genuine interests. Free markets will flourish only when societies in which they operate flourish as well. The price for economic freedom therefore is integrity. Integrity is not only “an ethically charged term” (De George, 1993, p. 6) but stands for “the quality of moral self-governance” (Paine, 1997, p. 335), and thus for the recognition of moral values as relevant for business; ultimately, it stands for an ethics of respect for persons. Only on the condition that business in free market economies has the capability for moral self-governance, reflects the moral values of society, and integrates them into its operations can it expect to be left alone from government interference and from the imposition of enforceable legal provisions. When business people are seen as persons of integrity, there is no need to interfere in their strategies or decisions. While this would not prevent conflicts of interests between the various players, they can be expected to be resolved peaceably and on terms of fairness that benefit all. Interference in the economic system, should it still be required, would only be technical adjustment to changing external circumstances.

Needless to say, this (utopian) ideal of a truly free market economy grounded in the moral values of a coherent, stable, and flourishing society stands in stark contrast to reality. It is, however, not without value as it helps to direct our view toward the goal that binds economy and society together in a common purpose. It also brings the role of ethics into sharp focus. Ethics is neither a luxury business could do without nor the club it would have to fear. Rather, ethics is the lubricant that makes the wheels of the economy run and run smoother and in tandem with the morally justified expectations of society. It is common knowledge that all business depends on ethics and cannot exist without it.

As John Keene put it, “no business, global business included, can properly function as business unless it draws freely upon, and nurtures, the non-market environment of civil society in which it is more or less embedded, or seeks to embed itself” (Keene, 2003, p. 82). Ethics provides the space for business to function. Without honesty, trust, a sense of fairness, and a modicum of respect for human dignity no social and economic transactions could succeed and no system of communication be sustainable. Ethics is therefore not only the lubricant for business but also and above all the necessary condition for the good life as it is its major “ingredient.”

By its very nature ethics is not a system of enforceable rules and regulations but has to rely on the voluntary compliance of autonomous moral subjects. While public opinion may reflect the ethical values of a particular society and thus apply pressure on otherwise morally uncooperative individuals, the resulting ethical compliance could at best meet the moral minimum but would still fall short of moral self-governance. Genuine ethical behavior is always based on the free and “informed consent” to moral principles. This consent must be based on the “right reasons.” People must not only be convinced that acting on moral principles is the right thing to do, but that it is also “good” for everyone as it will further what is in the best interest of all. Ethics hold up the justifiable vision of a life worth living in a “well-ordered society” where any social and economic inequalities are to be justified in accordance with the principles of a just society (Rawls, 2001, p. 8, 43).

Like all ethics, business ethics is in the precarious situation that it can only appeal to the insight and the conscience of the individual to conscientiously act on moral principles. It can suggest ethics checks for business strategies, help design values statements or ethics codes, and offer training in character development for managers. It can reflect on the various culturally based ethics traditions and search for a common ground among them or suggest frameworks for the harmonious coexistence of moral systems across the cultural divide. Even if all such systems could be transcended into something like a basic common morality or a truly global ethic (as Hans Küng among others has envisaged), in the real world of business those moral principles would, in all likelihood, be attractive only to the “converted” but unable to sway the unwilling to change their attitude. Instead of lamenting what seems to be the predicament of business ethics and of calling for the legislator to step in and impose legal sanctions, it is important to understand that it is the very nature of ethics only to appeal to the powers of reason and insight. The power of the “moral law” is grounded in reason and derives its motivational urge from the sympathy of a compassionate heart. This may appear little to those who only count as power the force that can break the will of anyone standing in its path. But it upholds the respect for the inherent dignity of the human person.

Thus integrity epitomizes the “core of sound business” (Koehn, 2005, p. 134). It functions as a moral ideal business has to aspire to if it is to serve society as whole in its quest for a life worth living. It functions as a benchmark for business by setting consistent ethical standards for individual, corporate, and market performance. As a moral ideal, it sharpens our view for the dangers of a free-market economy detached from the ethical basis of the society within which it operates. It reminds us that the “economy is not an independent system, but rather a subsystem embedded in other systems” (Brown, 2005, p. 32) on which it relies for its existence. As Robert Solomon has emphasized, “business is not just business.

It is not self-contained, with its own rational, its own rules, and its own reason for being. It is, essentially, a part of human life and human community.” First of all, business life “is a matter of civility” (Solomon, 1999, p. 37). As corporations are “embedded in larger systems” so is “the economy embedded in

civil society” (Brown, 2006, p. 12). Integrity sets the standard for a “civil market” in which competing actors agree to work for the common good and to base their decisions on “principles of justice and rules of fair competition” (Bruyn, 2000, p. 207). It marks the “difference between a civilized market economy and a total market society” (Ulrich, 2009, p. 254).

At the individual level, integrity is comprised of formal and substantive characteristics. The former implies consistency between words and action and thus displays “a certain kind of unity in character” (Audi & Murphy, 2006, p. 16). “There is wholeness in what the person with integrity says and does. There is consistency between his actions and what he purports to honor” (Watson, 1991, p. 171); business people with integrity “practice what they preach; they walk the talk” (Kouzes & Posner, 1993, p. 47). Consistency is as much the reflection of personal wholeness and the “integrated self in line with one’s convictions” (Worden, 2003, p. 34; Solomon, 1999, p. 39) as it generates and furthers such wholeness and enables authenticity.

Consistency signifies a commitment over time and a process of acting in line with one’s principles in varying circumstances that gradually becomes a distinct personal habit. There is “no single action that will definitively establish a person’s integrity” (Solomon, 1999, p. 40). Instead, integrity will be a life-long commitment as well as “a unifying process leading to a state of wholeness, completeness, or undividedness” (Srivastva & Cooperrider, 1988, p. 5). As a moral quality integrity can never be a possession but would be compromised by no longer striving for it.

People with integrity are expected to perform what Petrick and Quinn have called “integrity capacity”, i.e. “the capability for repeated process alignment of moral awareness, deliberation, character and conduct that demonstrates balanced judgment, enhances sustained moral development and promotes supportive systems for moral decision making” (Petrick & Quinn, 2000, p. 4). Yet it requires more than just adherence to convictions and principles and even more than mere “moral awareness” and “balanced judgment.” As a minimum, it demands “commitment in action to a morally justified set of principles and values” (Becker, 1998, p. 157).

The core notion of integrity, I have argued, derives its meaning from the firm commitment to the principles of an ethics of respect for the dignity of the human person. The specific implications of such commitment in the changing contexts of business decision-making have to be considered by practical reason, which includes not only “a proper understanding of the variables that caused a situation,” but also “of what a good life consists of” and how “movement in the direction of a good life” can be facilitated (Rossouw, 2008, p. 166). After all, we “praise people for having integrity not only because they are consistent, aware of relationships, and able to include different theories and claims, but also because they are pursuing something that is worthwhile” (Brown, 2005, p. 8).

The specific virtues associated with integrity derive their coherence and unity from their basis in the respect for human dignity. As “facets of integrity” they are as numerous as the moral virtues (Audi & Murphy, 2006, p. 14) and include honesty, sincerity, fairness, trust, and a sense of compassion. Since the economy is embedded in and depends on a functioning civil society with its values, interests, and aspirations, we can only expect to further our self-interest when we recognize the needs of others and respect their rights as citizens in a free society. Business people cognizant of and committed to their moral obligations will be aware that “acting with integrity extends beyond satisfying the bare moral minimum.” Integrity is inconsistent with “testing how close one can come to committing a prohibited action while

remaining on the permissible side of the line.” Instead, “it involves acting in accordance with moral norms willingly, knowingly, purposefully, and because one is in command of one’s action” (De George, 1993, p. 6-7).

Considerations about corporate (Brown, 2005) and organizational integrity (Paine 1994), then, will have to start from the assumption that a “corporation is also a ‘citizen’. Whatever the legalities may be, a corporation is a member of the larger community, which is inconceivable without it” (Solomon, 1999, p. 46). As such it has the moral duty to contribute to the overall good of society and to refrain from harming it. Integrity requires “that a corporation aims for something good. True, a corporation may not need a worthwhile purpose to be successful, but it needs one to ensure that it has integrity” (Brown, 2005, p. 144). It is therefore “a basic condition for corporate integrity” that a company’s mission, principles, and values are “aligned to the basic moral principles of society and basic human rights more generally” (Maak, 2008, p. 362).

Conclusion

Integrity translates the moral ideal into the normative language that guides specific social practices and ensures their functioning. It is concerned with the functional efficiency of individual social practices and with the flourishing of society as a whole. Thus integrity mediates between the moral ideal and its application to social and professional life. It stands at the interface between the comprehensive vision of the good life and its inchoative realization in specific social practices, particularly business practices. It appeals to individual conscience and voluntary compliance but also respects the law that seeks to ensure the sound functioning of the economy and social institutions against ignorance or selfishness.

In this sense, integrity has become the moral guidepost that not only directs the development of professional codes of conduct in various industries but also sets the moral standard for legal instruments in the fight against practices and engrained habits that are detrimental to society. While codes of ethics appeal to the conscience of the individual and rely on voluntary compliance, enforceable regulations and legal provisions impose the moral principles of society on the willing and unwilling alike. Integrity brings moral principles to bear especially in those areas of business and professional life that have proven most vulnerable to actions of individual selfishness likely to inflict lasting damage on society. The catchword that unites all such activities is, of course, corruption. It is therefore not surprising that integrity in the narrow sense has become synonymous with incorruptibility and the struggle against all kinds of corrupt practices. Yet even in this narrow and specific function, integrity comprises much more than anti-corruption strategies and regulations.

Concerned with the soundness of systems and their operation not merely from a functional but from a moral perspective, integrity has inspired all provisions that seek to ensure the flourishing of society as a whole. For business, this will imply restraints on exploitation, deception, and fraud as well as harms to society and the environment. “As we enter the new millennium, there is an overriding question facing global corporate free enterprise, and that is whether the corporations that now or will control and affect so much of the planet’s humanity and resources can demonstrate not only their profitability but their integrity” (Solomon, 2000, p. 339).

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BOOK REVIEW

When China Rules the World: The Rise of the Middle Kingdom and the End of the Western World

By Martin Jacques

London; New York: Allen Lane, 2009. Xxv + 550 pp.

ISBN 0713992549

If the objective of author Martin Jacques and his publisher is to shock the Western intellectual elite with the book's provocative title, they have certainly succeeded. Beneath the covers, his arguments pierced at the very bastion of Western complacency – the belief that China's first 30 years of market opening was the easy part and that to grow from here onwards, a modernizing China needed to embrace the Enlightenment guideposts set by the West. As Jacques puts it, the prevailing view is that the West need not worry because "for China to succeed, it must, in effect, become Western" (page 414).

Jacques' contrarian position has raised hackles and, as a result, won his book acres of valuable review space in English journals and resulted in a fierce debate between him and Will Hutton which ran over several issues of the Manchester Guardian. Hutton is the author of "The Writing on the Wall" (2007), which had taken the position that Enlightenment principles had universal application for the progress of human societies and therefore, they applied just as much to China as to the West.

In this well researched study – the "select bibliography" listed no less than 366 authors, which, if one counted multiple publications, amounted to over 400 references – Jacques staked out his arguments that a modernized and triumphant China would not follow along the path of the West towards the Enlightenment triumvirate of "Western-style rule of law, an independent judiciary and representative government" (page 415).

According to Jacques, from the 1970s onwards, the world was already moving away from the single towards a multiple pattern of "contested modernity". True, these newly modernizing societies borrowed heavily from the Western experience but they, especially Japan, combined this with their own history and culture towards a modernity that is characterized by "hybridity". Until the arrival of China, none of these other countries had the heft to challenge the Western model.

Eight Reasons Why China is Different

Jacques gave eight reasons why China's emergence as the world's next largest economy, will threaten Western hegemony. His first argument is that China is only reluctantly, a "nation state", just like all the other states formed under the Westphalian system, who are members of the United Nations. Historically, China had always seen itself as a "civilization state", one that is distinctly different from those of other civilizations. It was historically "the Middle Kingdom" – that shining empire on the hill that all other nations looked up to (at least, that was the view in East Asia).

It still sees itself as leader, not follower, so that to use a "scientific analogy, its DNA remains intact" (page 418), says Jacques. This history provides China with a totally different perspective from that of Western powers whose progeny resulted from the break-up of the Roman Empire. Despite attempts to re-unite, these fragmented European states continue to guard their independence jealously so that EU

regulations notwithstanding, national parliaments remain the final arbiter of national sovereignty. The fact that China is a member of the United Nations and as such is constituted under the Westphalian system of independent nations, is more a result of expediency than one that it prefers. According to Jacques, as a civilization state, China possessed of a past that “casts a huge shadow over its present”. It would, in his view, “increasingly search for inspiration, nourishment and parallels in its past”.

Tributary State

This argument naturally leads to Jacques’ second point – China’s millennia-old experience of having a “tributary-state” relationship with all its neighbors. Under this system, individual states arranged themselves into a hierarchy with China at the apex to which all others sent “tributes” and in return, received its protection from any marauding neighbor. A modern example of such a benevolent overlordship might have been China’s decision during the East Asian Financial Crisis in 1997/8, not to devalue its currency in line with those of its neighbors so as not to challenge their competitiveness at a time when they were at their weakest state. A more current example could be China’s offer to sign a coveted FTA (Free Trade Agreement) with ASEAN.

Already, in the current global economic crisis, China’s policy to generate domestic growth to replace falling exports, is helping its neighbors replace the fall in their own exports to the US by shipping more goods and services to China. Jacques’ third point is that Chinese civilization is “bolstered by a widespread belief that the difference between the Chinese and other peoples is not simply cultural or historical but also biological”. It implies that it may be this attitude that colors Chinese behavior towards minority groups such as the Tibetans and the Uighers.

In the view of this reviewer, this is contrary to Chinese history. For example, when China was conquered by the Mongols and Manchu peoples, they accepted the overlordship of these foreigners because they had acknowledged the superiority of Chinese civilization and adopted the Chinese way of governing. This implies that the Chinese are more concerned with culture than biology. In the case of the Tibetans and Uighers, it is possible that the roots of the problem are two – one, the Central Government’s perplexity as to why the minority groups did not appreciate the investments that had been poured into their regions, and two, the Han Chinese insensitivity to that fact that minority groups could be as protective towards their cultural heritage as the Chinese themselves.

The fourth point concerns the sheer size of China, not only in terms of population but in terms of geography as well. Jacques points out that scale has both advantages and disadvantages. It allowed, for example, Deng Xiaoping to conduct his experiments for reform of the economy in a few coastal regions before they were extended to the rest of the country. And for his “one country, two systems” policy which led to the incorporation of Hong Kong and Macau into the mainland and the offer to extend a similar privilege to Taiwan.

In his fifth point, Jacques points out that the Chinese “state did not, either in its imperial nor in its Communist form, share power with anyone else; it presided over society, supreme and unchallenged” (page 424). This was different in the West where the Emperor shared power with the Pope, where there was a Magna Carta to limit the power of the King of England as early as 1066 and where kings of European nations depended on nobles and merchants to finance their war chests. Such diverse sources of power provided fertile ground for the growth of civil society which has much more difficulty taking root in China.

In his sixth point, Jacques dealt with the speed of transformation of Chinese society. This has caused great disruption in society due to disparate rates of growth in regions and, as a result, in its people as well. The consequence is that within this one country, there are many regions at differing stages of development, from the modern metropolises of the eastern coast to the mediaeval conditions of the western countryside.

Pragmatic Communists

The seventh point is the Western experience of Communism – that it can never be positive, not especially after the collapse of Eastern Europe and the Soviet Union. This leads the West to believe, especially after the Tiananmen affair in 1989, that China was also “doomed to fail.”

In the author’s view, however, China’s Communist “must be viewed in a more pluralistic manner than was previously the case...” It has since 1978 “...displayed a flexibility and pragmatism which was alien to the Soviet Party”. While not mentioned in the book, it has, for instance, moved from a dictatorship of one man to one of a cabal of men who make up the Standing Politburo of the Central Committee of the Communist Party of China. The best confirmation of this important change was the smooth handover from Jiang Zemin to Hu Jintao in 2002, to be repeated in 2012 with the transition from Hu to the anointed heir, Xi Jinping.

Jacques’ last point is that China constitutes in its single state the perspectives of both a developed and a developing country. It will, when it becomes the world’s most economically powerful nation, have come from “the ‘wrong’ side of the great divide..... a creature of the colonized rather than the colonizers.....”

For all these eight factors, Jacques believes that “Chinese modernity will be very different from Western modernity, and that China will transform the world far more fundamentally than any other new global power in the last two centuries.” The fact that China has not yet asserted itself but preferred to downplay its rising power, is because they have “wisely chosen to play a very long game, constantly seeking to reassure the world that China’s rise will change relatively little.”

This book is indeed a tour de force providing powerful arguments to alert the Western intelligentsia to the possibility of an alternative future for the world as China’s power increases. The fact that it has attracted more attention in England than in the United States where reviews are few and scanty, must be disappointing for the author. This is a pity because his message is particularly pertinent to that section of the American public that had looked upon the teeming multitude of China as their nemesis, the “yellow peril” of their nightmares! In the final analysis, this book poses a challenge to Western leaders – when China “rules the world”, will the West be able to adapt their world view and learn from China to prevent the future from fulfilling the second half of the book’s subtitle “...the End of the Western World”!

Siew Thiam Low

Low Siew Thiam has spent a lifetime in identifying and managing talent, initially in the HR field in corporations such as Shell, Telecoms Singapore and Sime Darby; then for his own business, Homestead, which he grew to be the third largest furniture retailer in Singapore. Siew Thiam has built a management consultancy, specializing in management education and executive coaching. For the last four years, as Strategic Adviser to A.Baur & Co., a Swiss-owned company operating in Sri Lanka, he works with the CEO in identifying and promoting talent to ensure the long-term growth of the company.

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