The Impact of Ethnicity on an Employee`s Readiness to comply with a Code of Conduct: Differences between German/Austrian and Chinese Employees

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The authors assess how ethnicity impacts ethical choices of an employee towards corporate compliance behaviour as part of the ethical decision making process at work. An employee faces an ethical dilemma in business situations when he/she is caught in an ethical conflict between his/her individual moral standards and a Code of Conduct, representing the moral values of the company. The authors investigate potential connections between ethnicity and individual ethical decision making. This study obtained original data to analyze the potential impact of ethnicity on employees in Germany, Austria and the PR China.

INTRODUCTION

A wide variety of recent research has focused on Business Ethics trying to analyze the factors that impact ethical choices of employees at work. In this context, <u>corporate governance practices</u> play a very important role in management as internationally active companies have designed and implemented corporate governance schemes, especially Codes of Conducts or Codes of Ethics globally at their corporate entities within the recent years.[1] As a result of the global presence of companies managing anything like international sales, sourcing, production, engineering or service activities, - wherever people interact individual ethical decision making at work comes into play. An internationally active company employs staff in and from various countries, cultures, ethnicities across the world. How does an employees` ethnicity and culture impact his/her readiness to comply with a corporate Code of Conduct while taking decisions at work?

THEORETICAL BACKGROUND

Ethical Choices and Individual Ethical Decision Making

A Code of Conduct is a part of a corporate ethics program on the basis of voluntary commitments of the company. According to Trevino et al. ethics codes "typically identify the organization's conduct standards, the types of ethical and legal issues employees are likely to face in their organization, and the organization's core values".[2] Tjosvold et al. indicate that "ideally, these codes should 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."[3] Singh describes these Codes as instruments to reflect the firm's aim to create a positive ethical corporate climate and as parts of an overall ethics program of a corporation.[4] Nevertheless, despite the good intentions of these Codes and corporate compliance programmes in most cases, an individual employee often struggles while making ethical choices at work – finding himself quite often between a Code of Conduct on the one hand and his own moral standards, deeply rooted in his culture, on the other hand. This field of tension has inspired many researcher in the past years to further investigate the individual ethical decision making process of employees at work.

As a resulting consequence, *Business Ethics* has become a well-established field of research in management science. Weiss notes that "ethics is not something value-added to business operations, it is integral, necessary and central to managing successfully."[5] Trevino describes the main goal of academic research in the field of Business Ethics as the development of organizational science in management theory.[6] Albach went even one step further in developing an ethical approach which defines and identifies management science as being inherently ethical anyway: "Betriebswirtschaftslehre *ist* Unternehmensethik".[7]

The Impact of Culture and Ethnicity on Individual Ethical Decision Making

Previous research results confirm the influence of ethnicity and culture as a predominant factor on the individual decision making process at work. Rausch et al. conclude their research by stating that "members of different cultures will differ in how they perceive the ethics of a business decision with moral implications."[8] Dunn emphasize while interpreting his empirical findings regarding cultural effects on the resolution of ethical business dilemmas in China, that "socially acceptable behaviours in one culture may be unacceptable in other parts of the world" and "these cross-cultural differences can give rise to ethical dilemmas."[9] Like many other researchers also Dunn differentiates between Western and Chinese cultural standards in this context and makes clear that depending on the cultural standard of an individual, an employees' actions may differ, because he may have different views about which behaviour is ethically acceptable. His findings show this fact very clearly by indicating that Chinese participants of his study approve certain behaviours and business practices as ethically acceptable where Canadian participants disagree and show disturbing emotions.[10] Also the empirical findings of Simga-Mugan et al. show that nationality impacts the ethical sensitivity of an individual regarding certain ethical duties towards a principal in the sense of an employer, a business owner or a client.[11] Jeffrey et al investigated the perceived importance of a compliance codex on auditor's judgments about ethical dilemmas in a collectivistic culture (Taiwan) underlines the need for further research on ethical judgements and ethical decision making in the context of a collectivistic culture.[12] On the other hand, some earlier studies comparing ethical decision making processes of Western and Eastern culture participants did not produce significant different results or highlight the enormous complexity of this kind of research – such as O'Fallon and Butterfield. They conclude that nationality seems to influence ethical decision making, but stress the difficulty to get a clearer picture of this topic as many researchers compare different nationalities and ethnicities.[13] In summary, it can be retained that there is a widespread academic consensus in management science that culture is a very important impact factor regarding ethical decision making, but empirical results are often mixed and many scientists call for further research in this context.

Following on from this various research the authors of this study investigated potential differences between ethical choices in terms of corporate compliance behaviour of German and Austrian employees versus Chinese employees.

House et al. define Germany and Austria as Germanic Europe culture, together with the German-speaking part of Switzerland and the Netherlands, and they define PR China as Confucian Asia culture.[14] Inter alia, these cultural clusters have been identified by the international research project GLOBE.[15] Gupta et al. note that "societies in the Germanic cluster rely on more masculine, assertive, and individualistic approaches, which are futuristic, well-defined, result-oriented, and often harsh."[16] In comparison, Monkhouse et al. describe the Confucian Asia cultural cluster as focusing on Confucian values including "face saving, humility, a sense of group orientation, respect for social hierarchy and reciprocity in exchange."[17] In terms of potential ethnicity differences comparing the Germanic cluster respondents and the Confucian Asian cluster respondents, this research can be defined as a cross-cultural study.

Application of the Theory of Planned Behaviour (TpB) and the Person-Situation Interactionist Model (PSIM) as Theoretical Frameworks of Individual Ethical Decision Making

The individual decision making process to form a behavioural intention and the subsequent behaviour within an ethical context is quite complex. As already summarized by Lind in 1983 – and this stands to this day – an integrated, fully elaborated and empirically evident overall theory of moral development, individual ethical decision making as well as of behavioural intention is currently not yet existing.[18] For this research the authors rely on the Theory of planned Behaviour by Ajzen and the Person-Situation Interactionist Model, developed by Trevino, as theoretical frameworks to investigate the individual ethical decision making process of employees in three countries. Both theoretical frameworks have been found very useful to predict unethical decision making.

A large number of empirical studies testing Ajzen´s Theory of planned Behaviour provided strong support for the proposition that intention to perform a targeted behaviour can be predicted from the constructs (1) Attitude, (2) Subjective Norm and (3) Perceived Behavioural Control.[19] Trevino`s PSIM model emphasizes the interactive influences of individual as well as situational variables on an individual´s cognitive moral development stage and thus offers an explanation for the performance of ethical or unethical behaviour in business while individuals make decisions in organizations.[20]

STATEMENT OF HYPOTHESES

The authors will analyze whether ethnicity has any impact on attitudes and intention of employees to accept a corporate Code of Conduct by comparing a research population of German/Austrian employees on the one hand and Chinese employees on the other hand. Trevino et al. mention that "researchers need to know much more about the effect of ethics codes on attitudes and behaviour."[21] This applies in particular for intercultural and cross-country Code-related management research as academic management literature is still very rudimentary in this context. The authors of this paper aim to contribute to fill this research gap.

The influence of ethnicity will be tested by a difference hypothesis as follows:

H_0 Ethnicity has no impact on the employees` Intention to comply (Germanic versus Chinese ethnicities).

H_1 Ethnicity has an impact on the employees` Intention to comply (Germanic versus Chinese ethnicities).

Research Population and Instruments

Given the goals of this research, the authors adapted a quantitative research design using a self-administered trilingual online survey questionnaire to collect data from 421 employees in Germany, Austria and PR China.

Research Methodology

The authors rely on structual equation modelling, the so called PLS-SEM statistical modeling technique, which is increasingly relevant in management science. An analysis, conducted by Hair et al. shows that from 2005 til 2010 the number of PLS-SEM studies per anno has quadrupled.[22] As the authors of this paper aim to investigate in particular the influences of control variables such as gender and the mere existence of a Code, the selection and application of PLS-SEM for statistical analysis of the data, collected for this study in three countries, seems to be highly appropriate.

FINDINGS & DISCUSSIONS

The authors have tested every relationship between two variables of the underlying research model regarding a potential difference for a group specific result.

H_1 is supported.

Regarding the descriptive statistical results, the ethnicity identification was 50% Germans and Austrian ($n = 212$) compared to a 50% Mainland Chinese ($n = 209$) ratio.

The Partial Least Squares Multi-Group Analysis (PLS-MGA) shows the following results:

TABLE 1
PLS-MGA ETHNICITY

	Path coefficients-difference: Germanic Ethnicity – Chinese Ethnicity	p-value: Germanic Ethnicity – Chinese Ethnicity
Attitude → Intention	**0,205**	**0,021**
Guanxi Orientation → Perceived Behavioural Control	0,162	0,959
Guanxi Orientation → Subjective Norm	**0,258**	**0,995**
Moral Disengagment → Attitude	0,02	0,574
Pereived Behavioural Control → Intention	0,052	0,686
Subjective Norm → Intention	0,102	0,841
Supervisor-Subordinate Guanxi → Perceived Behavioural Control	0,075	0,225
Supervisor- Subordinate Guanxi → Subjective Norm	0,231	0,156

Source: authors

The findings show two group-specific differences:

The path coefficient **Attitude →Intention** shows for the Germanic group > Chinese group a value of 0,205 and a p-value difference of 0,021, which is smaller than the reference limit of 0.05 (5%).

The path coefficient **Guanxi Orientation →Subjective Norm** shows for the Germanic group < Chinese group a value of 0,258 and a p-value difference of 0,995, which is larger than the reference limit of 0,95 (95%).

The first finding indicates that Germanic employees have a more favourable evaluation of Code compliance in comparison to Chinese employees, because the individual Attitude of Germans and Austrians towards a Code-related behavioural Intention shows a stronger effect.

The second finding indicates that Guanxi Orientation plays a more important role for Chinese employees with regard to their own perceptions of what important others would expect them to do in terms of Code compliance. This means, Guanxi Orientation impacts Chinese employees` perceived social pressure more intensively than the perceived social pressure of Germanic employees to perform according to a Code.

One argument to explain the first finding, why Germanic employees have a more favourable evaluation of Code compliance, could be their more positive Attitude towards rule observance in general and a better understanding of the concept of a Code in particular. Rivers` emphasize that Chinese employees might have the view that a Code is more an optional tool and that it`s ok to find a way around, whereas employees, influenced and educated by Western laws and Western rules observance values see a Code as a corporate communication tool for the purpose to influence and guide employees, which is not optional, but binding for every employee.[23] Rivers notes that Chinese employees may see a Code as a limiting factor as it is important to "try every possible way" to make business in contemporary China.[24] Furthermore, as Rivers concludes, many Chinese employees don`t even link the intent of a Code to their own behaviour, they even „expressed a belief that the code's purpose was to earn income for the company or to facilitate market entry."[25] It is important to understand that Business Ethics in general and the concept of Codes of Conduct in particular are quite new in contemporary China. For more than 2000 years, China had no history in terms of a rule of law. China was ruled by the authority of the emperor and guided by Confucian philosophy. Yeung and Tung emphasize that „under Confucianism, governance by ethics is preferred over governance by law, which developed into a general and deeply rooted aversion to law and litigation.[26] For centuries, personal relationships have been by far more important than rules or laws. Legal regulations hardly existed in China for more than 2000 years. The opposite is true for Germany and Austria, where our legal tradition dates back more than 2000 years. Against this background, it`s not surprising that some Chinese employees may lack a deeper understanding, what the idea of a Code of Conduct is all about. This is in particular the case, if foreign corporate Codes hadn`t been carefully adapted to the Chinese values and needs.

Von Weltzien Hoivik criticises that „ many Western companies still simply translate Codes into Chinese, while paying little attention to what is really considered ethical by the Chinese themselves" and argues that Chinese employees` aren`t comfortable with the individualistic focus of Western Codes at all.[27] After implementing a judicial system based on laws for the last about 30 years, Lu summarizes the current situation in China as „we have many laws [now], but Chinese corporations still need to build their own mature ideology and ethics."[28] In this context, von Weltzien Hovik note that Chinese employees „ have learned to be fast-forgetting about company codes because they learned to be fast-forgetting about Chinese laws, which are powerfully enforced in the first month following enactment, but are weakly enforced thereafter." [29] So, if Chinese employees are used to circumvent the laws, for several reasons, it`s no wonder, that they also view a Code as a law which to circumvent is appropriate and common practice.

In contrast, Westerman et al.`s empirical results confirm that decisions in German speaking culture are mainly based on rules and regulations, because "norms and principles are commonly accepted".[30] Against this background, the first finding of this section, that Chinese employees developed a weaker Attitude towards Code-related Intention is not surprising at all. To take these arguments further, one could add, that employees socialized in a more individualistic culture such as Germany and Austria have strong individualistic values, emphasize autonomy, independence and individual initiative.[31] This is also confirmed by Triandis, who defines individualism as "a social pattern that consists of loosely linked individuals who view themselves as independent of collectives [and] are primarily motivated by their own preferences, needs, rights, and the contracts they have established with others", whereas - in contrary -, Triandis describes collectivism as a "social pattern consisting of closely linked individuals who see themselves as parts of one or more collectives (family, co-workers, tribe, nation) [and] are primarily motivated by the norms of, and duties imposed by, those collectives."[32] Therefore, the empirical finding is

not surprising that Germans and Austrians focus mainly on their individualistic values and consequently show a stronger individual Attitude towards code-related behavioral Intention.

The second finding indicates, that Guanxi Orientation plays a more important role for Chinese employees with regard to their own perceptions of what others would expect them to do in terms of Code compliance. Guanxi Orientation means an orientation focused on social networks and peer connections. Westerman et al.`s findings confirm the significant impact of national culture as well as peers on an employees` ethical choices, whereas peer impact even shows a stronger influence than national culture, but the degree of peer impact depends on cultural constructs such as individualism and power distance in each country according to the authors.[33] Phau and Kea summarize that "among several determinants identified to influence business ethical attitudes, most practitioners and researchers have attributed culture to be the predominant factor influencing the differences in Business Ethics attitudes across countries."[34] This is also confirmed by Triandis` definition of collectivism as mentioned above. Au and Wong`s findings provide evidence for the impact of Guanxi on ethical judgement, whereby the intensity of the Guanxi impact depends on the level of cognitive moral development/moral reasoning of the individual.[35]

Moreover, Au and Wong's findings show that not only the level of ethical reasoning influence ethical judgement, but also Guanxi.[36] The empirical finding of this study confirms the results of prior research in this way. Liu et al. refer to previous Chinese management research results of Zheng et al., by emphasizing that „in highly Guanxi-oriented China less than 20 % of those who had engaged in unethical behaviors evaluated their ethical judgment based on their ethical beliefs, while most evaluated their actions based on the quality of their Guanxi with each other regardless of ethical norms."[37] Regarding the Chinese work context, also Law et al. summarize that for Chinese employees "it`s extremely hard to imagine working in an organization in the absence of broad or far-reaching personal interactions with co-workers".[38]

Against this background it`s merely being consistent, that the empirical finding of this study confirms a stronger impact of social Guanxi network relations on Subjective Norm for the Chinese employees. Furthermore, Ajzen recognizes that Subjective Norm is a stronger predictor of Intention in collectivistic cultures due to the more significant impacts of social networks and reference others on an employee socialized in a collectivistic culture.[39] Also this argument is confirmed by the empirical finding of this study.

CONCLUSIONS

As the Chinese society is very much relationship-oriented and characterized by a collectivistic culture in comparison to the individualistic cultural values in Germanic ethnicity, the empirical findings of this research are not surprising: social network and peer relations impact tremendously the ethical decision making process of Chinese employees at work. The loyalty to the group overrides the independence of mind of each employee when facing an ethical dilemma and his capacity to follow a rules-oriented compliance Code. Outside the Guanxi group moral obligations against third parties are drastically reduced in comparison to Western cultures. As the Chinese society traditionally never has been rules-oriented like the Germanic ethnicity, a corporate compliance codex itself may not show any positive effect as „circumventing the rules" is a typical traditional Chinese reflex when confronted with written regulations. Previous management research results regarding the particularities of ethnicity on the individual ethical decision making process at work can be confirmed:

Particularities of the Germanic ethnicity as an individualistic culture ethnicity: The authors conclude that Germanic employees have a more favourable evaluation of Code compliance in comparison to Chinese employees. This conclusion is reached because of the more individualistic, rules-oriented approach of Germans and Austrians towards compliance Codes. Due to a centuries` long legal tradition in those countries, individuals are not used to circumvent the laws, like in China, but to follow the laws and regulations. Furthermore, the Germanic ethnicities focus more on their individualistic values, more independent from social influences, and consequently show a stronger individual Attitude towards compliance.

Particularities of the Chinese ethnicity as a collectivistic culture ethnicity: The immensely relationship oriented, collectivistic Chinese ethnicity shows a more significant impact and reflection of social influences on their ethical decision making process at work. For Chinese employees, peer relationships and peer pressure play a far greater role with regard to their own perceptions of what others would expect them to do in terms of Code compliance in business.

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