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Item Type	Article
Authors	Hanson, Kirk O.;Rothlin, Stephan
Publisher	American Scholars Press
Rights	With permission of the license/copyright holder
Download date	2026-11-16 12:05:59
Link to Item	http://hdl.handle.net/20.500.12424/175984

TAKING YOUR CODE TO CHINA

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Abstract: The proliferation of codes of conduct and ethical standards among American and European companies has been dramatic over the past twenty years. It is rare today to find a large publicly held company in the West that does not have some type of code and is not involved in the growing dialogue over global standards of conduct. But one of the most difficult challenges facing these companies is how to apply these codes and ethical standards to the companies' operations in developing countries, particularly in Africa, the Middle East and Asia. Perhaps the most urgent challenge is for each company to decide how to adapt and apply its code in China. Companies such as Rio Tinto, Google, and Honda are recent case studies in ethical conflicts arising from doing business in China. With pressures for human rights, environmental sensitivity, and the fight against corruption rising in their domestic homes and in global commerce, nothing is more critical to these companies' reputations and success than learning how "to take their codes to China." This article presents the learning of the two authors and the companies they have consulted and worked with over the last ten years in China. Our experience is that Western companies have generally progressed little in applying their codes to their operations in China. This article summarizes why it is so difficult to do so, and what the most successful companies are doing to make it work.

Keywords: ethical codes, ethical conflicts, adaptation, China

Introduction

The proliferation of codes of conduct and ethical standards among American and European companies has been dramatic over the past twenty years. It is rare today to find a large publicly held company in the West that does not have some type of ethics code and is not involved in the growing dialogue over global standards of conduct. But one of the most difficult challenges facing these companies is how to apply these codes and these ethical standards to the companies' operations in developing countries, particularly in Africa, the Middle East and Asia. Among these cases, perhaps the most urgent challenge is for each company to decide how to adapt and apply its code to operations in China. Companies such as Rio Tinto, Google, and Foxconn are recent case studies in ethical conflicts arising from doing business in China. With pressures for human rights, environmental sensitivity, and fighting corruption rising in their domestic homelands and in global commerce, nothing is more critical to these companies' reputation and success than learning how to "take their code to China."

This article presents the learning of the two authors and companies they have consulted and worked with over the last ten years in China. Our experience is that Western companies have generally progressed very slowly in applying their codes to their operations in China. This article summarizes why it is so difficult to do so, and what the most successful companies are doing to make it work.

Pressures for a Global Standard of Company Behavior

The fundamental problem any company faces in creating a global commitment to ethical behavior in its own organization is that cultural, competitive, economic and political conditions vary significantly from country to country. It is often said that ethical values themselves differ significantly between countries. From our experience, however, we believe values do not differ as much as common practice – or how companies typically behave. Actual behavior, of course, depends on historical patterns, government regulation and enforcement, social pressures and acceptance, and the moral resolve of the actors. While corruption is common in many countries of the world, one cannot really say that corruption is welcomed or valued anywhere. There are anti-corruption coalitions among domestic companies in almost every national setting. Even in those countries with the most corruption, there is an awareness of the corrosive effects it brings to the country, and the drag corruption creates for economic development.

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

Western companies really have little choice whether to "take their code to China" and to the other countries they operate in. They are facing four key developments which make "taking their codes" to wherever they operate more important and often more difficult. The first is that global companies are under increasingly insistent demands, both legal and from key constituencies in their home countries to adopt and implement standards of behavior abroad that match those at home. The United States' Foreign Corrupt Practices Act (FCPA), which was passed in 1977, makes some forms of corruption abroad crimes in the USA; in 1999 almost all OECD countries signed similar laws.

Because home country constituencies will not tolerate different (i.e. lower) ethical standards abroad, most large Western companies adopt and implement "global codes of conduct" which are expected to guide company behavior to be the same across all countries in which the firm operates. Many companies have commented that, from a purely practical point of view, adherence to a single global standard of behavior reduces the incidence of rogue local behavior, and rationalizations that the firm's conduct must be "adapted" to local conditions.

The second development is a growing global movement, reflected in an increasing number of developing countries, to deal seriously with bribery and corruption. Thirty-eight countries have now signed up to the OECD's 1997 anti-corruption convention, leading to a spatter of cross-border prosecutions. Local constituencies in host countries then pressure companies from developed Western countries to join the reform coalitions to counter corruption. Local affiliates of Transparency International are most significant in this development.

The third development is a growing global dialogue on "global standards" for business behavior. The United Nations Global Compact is an initiative launched in 1999 at the World Economic Forum in Davos by former Secretary General Kofi Anan but enthusiastically continued under his successor Ban Kee Moon. Companies and NGOs in over 80 countries have pledged to follow the ten principles of the Global Compact in the crucial area of human rights, labor conditions, environmental protection and anti-corruption. Similar efforts are being pursued in specific industries and in specific dimensions of corporate behavior such as employment policies and environmental behavior. Efforts such as these to promote a global standard of behavior are making it more difficult to operate under different practices in different countries. Such pressure requires companies to commit publicly to various global standards, which are then reinforced in their own company codes.

Finally, the explosive growth of the global media in all its forms has led to an increasing scrutiny of corporate behavior, even in the most distant and remote areas of the developing world. It has become difficult for a company to behave differently abroad without it coming to the attention of its home and host country constituencies. Corporate sweatshops, or environmental practices, can be documented by amateur reporters with cellphone cameras, even in the most restricted societies. Such disclosure dramatically increases pressures on Western companies to behave by a single global standard.

The Realities of Operating in Developing Countries

In each country where a company operates, it must confront a set of unique realities in applying its code of corporate behavior. Among the most important are the following:

Cultural expectations and standards – Each country has a set of cultural standards, or more informal expectations, that may conflict with the ethical standards the company operates by elsewhere. While some cultural expectations are benign – modes of greeting and signs of respect – others can be more problematic. In some societies, vendors are often selected primarily because they are a "related company" or are operated by a local employee's family or by a relative of a government official. In other societies, it is expected that potential business partners will develop a deep and reciprocal relationship before a contract is signed. In discussing China, the cultural tradition of gift giving to support such relationships can be a particularly problematic issue to manage.

Social and business community pressure to conform – Foreign companies operating in any society can be very disruptive, whether it is their pay scales or their insistence on arms-length contracting practices. When the foreign company operates by standards that challenge or constitute implied criticisms of local practices, there will be significant pressure on the foreign firm to conform to local practices, lest their presence create greater costs for indigenous firms, or create dissatisfaction in the local firm's workforce. The Western firm may find itself frozen out of business opportunities or subjected to selective regulatory enforcement if it is considered to be "disruptive."

Local management's comfort and loyalty to local standards – Foreign companies seek to hire local managers as quickly as possible and for as many positions as possible. Often local managers, particularly more senior managers already experienced in local companies, have adopted the local values and ways of doing things. Changing these managers' ways of operating can be particularly difficult.

Priorities of economic and political development – The national and local governments of host countries have many priorities and needs, and often choose to focus on issues unimportant to foreign firms while ignoring issues central to these newcomers. Chinese government decisions about how to deal with copyright violations, liberty issues such as access to the internet, and expressions of dissent may create significant difficulties for Western firms.

Western companies as targets of opportunity. Finally, any firm entering a developing country is a target for opportunistic individuals who seek to take advantage of the firm, particularly the substantial investment capital it plans to commit. They may negotiate deals overly favorable to the local partner, and may enmesh the firm in ethically questionable activities before it knows the local situation well enough to avoid such entanglements. Any firm must exercise particular caution until it develops an understanding of the local culture and acquires trusted business partners.

Special Reasons Why Operating in China is Harder

China, as the "Middle Kingdom," is acutely proud of its long and complex history and culture. There is a widespread conviction that everything which comes from outside China needs a profound process of adaptation and inculturation in order to become accepted and relevant in the Chinese context. Companies seeking to implement "global standards" are sometimes met with distrust and disdain.

A second consideration is that there is a respect for local hierarchies that appears to be all-pervasive in Chinese society. There is a perceived need to give face to influential officials and individuals, which reflects the history of Chinese dynasties and has become distinctly different than the democratic traditions of other countries. A number of behavior patterns reflect this Imperial style. There are rituals and cultural patterns designed primarily to maintain social stability through these hierarchical relationships. On the level of companies and institutions this means that company leaders tend to be given the status of benevolent dictators who are accountable to no one. The way up to the top positions in many organizations may be paved more by one's ability to flatter a senior person at the right moment than by one's competency.

A third consideration, drawn from the long and revered Confucian tradition is the focus of the morally refined person, a "qunzi", who is expected to inspire much more moral behavior than the mere observance of the law. It is felt that the law cannot quite be trusted to ensure that the rights of every individual to be safeguarded. In its place, family bonds remain the strongest social reference, as also reflected strongly in the Confucian tradition. Thus, doing business with family members is often preferred to conducting arms-length transactions.

Finally, it is also true that the recent history of foreign aggression toward China, such as during the Opium wars or the Japanese invasion and massacres in the 1930s and 1940s, are featured frequently in the media and emerge frequently in the memory of the Chinese. These concerns erupt periodically, and affect attitudes toward all Western companies, not just those from the United Kingdom or Japan. There is a particular sensitivity to the perceived aggression of US support for Taiwan, for example. Eruptions of such feelings can delay or derail deal making and normal operations at unexpected moments.

The Chinese Context in 2010

After the end of the so-called "Cultural Revolution" from 1966 until 1976 and the turmoil of the "Gang of Four", China has witnessed the strongest economic growth in history due to the policies the paramount leader Deng Xiaoping introduced in 1978. Special economic zones have been opened in Shenzhen and other cities in China and foreign companies from the United States and Europe now have substantial investments, as well as substantial manufacturing and outsourcing operations to China.

Not surprisingly, the prospect of getting their teeth into a new huge market created the illusion for many foreign firms that enormous and immediate profits would be theirs for the taking. This has been almost always proven to be an illusion from the very beginning. It has been an extremely difficult challenge to be able to compete in China where the web of relationships – "guanxi" in Chinese – especially with government officials – seems to be crucial for one's success. It took the Swiss Multinational firm Nestle, which settled into Mainland China in 1983, twenty years in order to reach profitability. Many joint ventures – such as Pepsi Cola with its partner in Sichuan, Danone with Wahaha – were arranged in haste and have experienced a long and dreadful divorce and seemingly endless litigation. The Chinese companies involved, mostly state owned enterprises, seemed able to appeal to some government body or appeal publicly to nationalistic pride and xenophobic resentment in order to justify an opportunistic escape from their foreign partnership obligations. Despite a still wide spread "Gold Rush Mentality" to make the big deal quickly, a large majority of foreign business ventures have ended in failure or only limited success.

A major element of discomfort of Western companies in 2010 stems from the ambiguous role of the Chinese government dealing with the phenomenon of wide spread corruption which seems to be deeply engrained in the society. On one side, there have been serious attempts from the Central Government since the 1990s to curb corruption with various anti-corruption campaigns. This has been more than lip service. Several actions have shown how steps have been taken. After the appointment of Zhu Rongji as Prime Minister in 1998 a whole empire of corruption, smuggling and prostitution collapsed in the Eastern province of Fujian as bold action were taken. The year 2006 sticks out as a year when a number of prominent multinationals such as Whirlpool, McKinsey, and ABB were punished by the Chinese government due to their kickback payments to the local government in Shanghai. In the same year the mayor, Mr. Cheng Liangyu, was sacked. During the last National Parliament Congress, blunt statements denouncing wide spread corruption stunned the public.

However, the same government – especially on lower levels – seems to represent a culture of deeply engrained patterns of soliciting favors and the rampant abuse of power. According to a survey among prominent business schools in China, including Hong Kong and Macau, a record number of 49% of the respondents thought that interacting with lower level government officials would most likely bring them into conflict with their personal value system.

There is a noticeable rise of public concern in China regarding business and government misbehavior. A number of recent incidents have had a significant impact on the Chinese public. When news broke out in 2007 that more than a thousand people, including children and disabled people, were being abused in kiln mines in the Shanxi province, it became surprising news coverage and a national tragedy. The link between the most brutal abuse of human beings and corrupt officials (and also local media) who have been paid to keep their mouth shut became obvious to everyone. An indigenous consumer movement,

already strong in Hong Kong and Macau, has grown stronger in the wake of the lead paint scandals in the toy industry, the tainted milk scandals in Anhui Province (2001) and Hebei Province (2008), and the gas explosion in Northern China on the Songhua River in November 2005. This explosion stands out as the most devastating ecological disaster in recent history. The clean up will take at least ten more years under the best circumstances.

It is said the Chinese citizen is also awakening to personal responsibility. The earthquake, which occurred in Wenchuan in the Sichuan province on May 12, 2009, provoked such a surprising outpouring of help and mutual assistance that even critical newspapers were hailing the birth of a civil society in China. Public philanthropy and public scrutiny of powerful companies and government officials are both evidence of a growing civil society.

While stories in the West emphasize limitations on the media in China, and there is the tight control from government censorship, it also seems that the so called "New Media" – a term for aggressive investigative journalism – with newspapers like Southern Weekly, Caijing, China Newsweek – has had a significant impact in featuring stories of the abuse of power by some local officials. This new media has presented stories about both exemplary and shoddy behavior by Western companies operating in China.

There is even an emerging study of ethics and responsibility for the next generation of Chinese leaders. The Central Party School has not only been engaged in integrating Business Ethics and Corporate Social Responsibilities program within their curriculum, but also invited law professors and other experts from other countries to their school in order to engage in a serious debate about the rule of law and how civil society may be implemented in China. And according to a survey conducted by Jiaotong University, Shanghai, 39% of the business schools in China do actually include CSR and business ethics in their program.

Background Issues in Implementing a Code in China

There is much debate in China on several major issues which influence how a code is implemented. The first is the question whether the values of a company's Chinese employees are similar to those of their Western counterparts. Some Party ideologues are strongly arguing that Chinese values are divergent from the rest of the world. If there were no common ground, it would indeed be hard to implement in China the same code used in the West. By contrast, when China joined the World Trade Organization (WTO), in July 2001 it was presumed that the internationally accepted standards of the WTO could be implemented in China, that there were enough common values.

Another debate has been developed regarding the term of "Dignity," a term commonly used in recent Chinese government statements. What in Western terminology might be termed as "human rights" appears quite similar to the Chinese term of "Dignity" ("zuiyan"). Some suggest this represents a commitment to common values and may provide a language to address concerns important to Western companies.

Many Western executives operating in China have come to believe the goal to achieve in implementing a code must be far more than the formal agreement and legal compliance sought in the West. We believe implementing global standards in China will only work if they are formally agreed to AND take into account several aspects of the exceeding complex Chinese organizational culture.

For example, it is a good rule in China to assume that at the beginning of a project or implementation that "Nothing Is Clear." A common source of irritation is that partnerships and projects are formally agreed to, but too hastily arranged. Western companies assume all important details have been taken care of, when they have not. Often, a kind of very brief honeymoon is celebrated, followed by a long and painful divorce due to neglect of informal relationships and agreements, which must also be developed. Countless case studies document this pattern. In the most notorious cases, such as the breakdown of the joint venture between the French company, Danone, with its Chinese partner Wahaha, the relationship deteriorated so badly that the respective governments felt compelled to step in and impose a truce. It is, therefore, wise to understand that any successful cooperation with Chinese partners, or even one's own employees, takes much more time. It is frequently a necessary strategy to adopt stronger methods of control if common agreements are to be properly understood and honored. It is unfortunately common that a Western company's first partnership ends up in failure.

When a misunderstanding arises, one should adopt the Confucian self-critical attitude in figuring out the reasons for such a failure rather than putting the blame on the Chinese side. Most often, it will be the neglect of informal agreements and relationships. Only in a deeper relationship and through much more informal and formal communication can the true meaning of agreements in China be clarified.

Another area of general concern in implementing codes is that Western companies often do not appreciate the strong divide between the city and the countryside in China. Implementing agreements and employee and partner standards can be harder in some rural conditions. Roughly two-thirds of the Chinese still live in the countryside where carefully orchestrated rituals are even more important to the successful implementation of agreements. For example, in some circumstances a host may insist on offering hospitality with excessive drinking. While in the cities the foreign guest may be able to politely refuse at some point to continue with the drinking games, in the countryside it may be considered rude to stop the dynamics of getting drunk together.[1] Clearly, a company must find ways of limiting participation in the most objectionable practices. Besides excessive drinking games, there are some banquets and karaoke sessions where women are hired to act as prostitutes. Such objectionable practices can create significant legal exposure for a company as well.

Codes must be written and implemented with an understanding of extensive new legislation in China addressing labor conditions, corruption, whistle-blowing, sexual harassment, consumer and environmental issues. Despite the difficulties of introducing a global ethics code in China, there are opportunities for Western companies to contribute significantly to the implementation and success of these new laws, all of which will make the companies' task easier in the future. There is an interest in growing segments of the government and the Chinese business community to see these laws made effective.

Finally, Western companies must keep abreast of developments in a growing commitment to the rule of law. In many ways, Hong Kong represents a model of the implementation of the Rule of Law in the Chinese context. Hong Kong, which revered to China in 1997, continues its role as a beacon of clean government. Forty years ago rampant cases of corruption were common in Hong Kong. However, due to the establishment of the Independent Commission against Corruption (ICAC), significant headway has been made in diminishing corruption so that now Hong Kong ranks besides Singapore as the cleanest country in Asia. This has encouraged greater transparency concerning corruption in other parts of China.

The conclusion of the recent publication of the Anti-Corruption report of Mr. Xiao Yang (2009) who served as Supreme Judge in the PRC has been very clear. He argued that corruption on Mainland China has strongly increased in the last fifteen years and has involved more and more Ministries. He argued for the implementation of an institution modeled on ICAC designed to investigate and prosecute cases of abuse cases of public.

Shaping Your Code to Fit China

The first choice every company faces is whether to operate by global standards or to adjust and adapt to local norms. Our experience suggests there is always some adherence to local norms, though not always by changing the actual words in the code, and hopefully, this adherence is within the framework of global standards a company claims to follow wherever it operates. However, in some settings, more adjustments and more recognition of the ethical traditions of the host country may be necessary. We think this is true of China.

We have observed the most successful Western firms in China following these steps to "take their codes to China":

Inculturate Your Code.

The term "inculturation" represents a compromise between unchanging global standards and complete local accommodation. "Inculturation" in China has a long history. The Roman Catholic Church has sought, since the time of Matteo Ricci, a Jesuit priest who came to China in 1583, of "inculturating" the Christian message to Chinese conditions. For Ricci and even for Catholics today, religious "inculturation" indicates the dynamic process when key values enshrined in the Gospel such as truth, honesty, and charity are not just imposed from outside, but get truly integrated within a given culture. This process makes possible global consistency with local sensitivity. This is most important in countries like China that have a history of foreign domination and a sensitivity to imperialistic behavior.

For the company choosing to operate in China, inculturation means adhering to global principles that have specific local meanings and therefore, local rules. The most obvious example is gift giving. In a gift giving culture like China, a company would find it hard to adhere to an absolute "no gift" policy as some companies adopt elsewhere in the world. An inculturated gift policy would permit gift giving, albeit tightly limited, but also scaled so that larger gifts, again within a firmly established upper limit, would be permitted to higher executives or officials. An inculturated Chinese policy would also even permit small but scaled gifts to government officials, as this is in China a show of respect. A top value of $75 or $100 for the highest corporate or government official visited is viable and allows the Western company to respect and adhere to local cultural gift-giving practice, but not to engage in bribery. The company also must make it absolutely clear that gifts of any greater value are forbidden.

Inculturation would also recognize the cultural tradition of relationship building and the necessary entertainment to that purpose. However, a Western company should very explicitly and clearly communicate the limits on the value and frequency of such entertainment. Inculturation in China should also recognize the particular context of ethics hotlines and of whistle blowing. With particular adjustments, even this Western concept can be made to work in China, as noted below.

Make the Company Code Consistent with Chinese Laws

China is proud of the progress made in recent years in promulgating and adopting regulatory standards and laws that protect the interests of employees, consumers, and shareholders. It is a necessary step in taking ones's code to China to assess the alignment of these local laws (many very recently adopted) and the company's code of conduct. This process must, of course, be an ongoing one, making future adjustments to the company's code as new laws are adopted in China.

Align Your Code with Chinese Concepts and Slogans of Key Government Officials

In addition to the laws adopted by the National Congress and Communist Party rules adopted by the every five year Central Party Congress, Chinese party and government leaders introduce key phrases or slogans which are meant to organize and direct the path of Chinese economic and social development.

Under Jiang Zemin the former President of the PRC, there was considerable attention to the "Three Represents," a doctrine by which the all-powerful Communist Party of China represented the masses of people, the productive forces of society, and the culture. The key message was the preeminence of the Party, but the detailed message gave room to cast corporate codes and decisions as advocating the masses, the development of productive capacity, and even the proper cultural development of China. Under the first 5-year term of Hu Jintao, the current President of China, the concept of "Harmonious Society" was adopted as a preeminent national goal. Later, Hu promoted the concept of "a Scientific Society" wherein, among other things, empirical data and facts should drive decisions more than bias or entrenched interests.

Tying corporate norms and standards of conduct to that objective can strengthen corporate efforts, both because employees understand the alignment of corporate objectives, but also because the company could occasionally secure government help in enforcing its code that it would not otherwise receive.

Incorporate References to Global Standards Embraced by the Chinese

Over the past ten years, the Chinese government has participated in the formulation of, and conferences on, many international codes and standards. The United Nations Global Compact has 195 signatories in China. The WTO code was widely publicized to Chinese industries in 2001 when China officially joined the WTO. References to these documents and standards strengthen acceptance of a company's global code.

Publish the Code in Bilingual Format

A company code should be published in both English and in Chinese language versions, perhaps side by side. Any Chinese company and every Western company operating in China will have English speakers, and they or other employees will be eager to *compare* the actual English words with the Chinese characters chosen as direct translations. And of course, any company will have Chinese speakers who do not read English. Translation into Chinese demonstrates a seriousness of purpose and a commitment to enforce the code, which must be addressed in the published document.

Introduce the Code in the Chinese Way

Too often, ethics codes are introduced in the United States and in Western Europe by email or by distribution of a printed booklet, perhaps with a card to return acknowledging receipt of the code. This approach will simply not work in China.

Chinese employees will expect that any code or standard they are actually expected to follow will be introduced with considerable time available for discussion, objection and clarification, and in a workshop conducted in their own dialect. At minimum, they will expect to be able to argue about adaptations to the Chinese context, and the particular Chinese characters used to translate the English or European language concepts. Rather than interpret this as dissent and obfuscation, those introducing the code should consider it a productive opportunity to explain the code and get good feedback on the application of the code to the Chinese context.

Other aspects of the introduction should proceed much as they do in the West. The code must be introduced by line officers of the company with a seriousness that convinces employees that these are actually to be the desired standards. Training must address the most common dilemmas employees will face to give clear and understandable signals about the type of behavior expected. Specific examples are more important in the Chinese context because employees will have generally experienced the rollout of multiple initiatives that have had little impact and less staying power.

Education regarding the code must be given to all new hires. Education in the code must be tailored to the several hierarchical levels within the firm, including senior executives, middle managers, and hourly employees.

Do Whistle-blowing the Chinese Way

Without giving up the principle of reporting violations, a Chinese hotline can be positioned and promoted as a "Help line" designed to advise employees on how a particular action should be taken. This approach has been used by many companies in the West. Further, because of the sensitivity to reporting on a senior, there must be greater opportunity for an employee to have his or her complaint treated as genuinely confidential and anonymous. There is a greater sensitivity to cases where the complaint, by its very nature, might be traced back to an individual employee. A Chinese help line will require more promotion and explanation, and may be more effective if it is structured to have complaints dealt with by the highest authority in a company – for example, by the board of directors. Because of deference to hierarchy, only the board can effectively address wrongdoing by senior level officials.

Extending the Code to Business Partners

There is a growing understanding among Chinese businesses that American and European companies must extend their standards and codes to their business partners, and have a right to expect their partners to adhere to the same standards. In the past, too many Western companies have thrown up their hands and despaired of actually influencing the behavior of business partners, accepting signed assurances of compliance but not really expecting adherence. Today, more Western companies are vetting their partners for their capacity and willingness to conform to codes, and then are monitoring and assessing compliance over time.

The first step in the process must be the selection of partners who have the basic capacity to be in alignment with the values and code of the Western firm. This requires due diligence, either by the company's own managers, or by a firm hired explicitly to evaluate potential partners. Such due diligence is usually hard to accomplish, and virtually every firm reports one or more disasters trying to integrate business partners into the business's activities. Nonetheless, Chinese firms, particularly those with experience operating in an international business environment, and firms with experience in previous

partnerships with Western companies, can be effective and ethical local partners. In China, there has developed a language often used to describe projects and companies capable of operating by such standards. This is known as operating by "international standards" as opposed to Chinese or local standards. Projects are said to be built to or operating by international standards. Chinese businesses are said to be "international standards companies." Such firms are more likely to be effective partners.

Preparing Local Leadership to Enforce Your Code in China

As in virtually all settings where a company seeks to infuse a code and its standards into actual behavior, local leadership will exercise the strongest influence in China. Chinese executives and managers will be anxious to adopt the latest developments in leadership. It is important to position the code as a key part of cutting edge and modern management.

An extended dialogue with the chief local official regarding the code before it is introduced is essential. Only a local executive can identify the unavoidable points of stress in the implementation of a code. A local executive will expect to be consulted on the "inculturation" process, and may be the best source of ideas for doing this successfully without abandoning the firm's global standards. And only a local executive can highlight where enforcement must be emphasized.

Much has been made regarding the wisdom of having a Chinese national or a foreign passport holder as a Western company's top officer in China. Both have risks for the implementation of a corporate code of conduct. The foreign executive enforcing the code may make the code seem more foreign and less practical in the local context. On the other hand, some Chinese executives may not believe in the code as fully, or may go through the motions without truly requiring adherence within the organization. A Chinese executive who genuinely believes in the code may be more effective in getting compliance from the organization, or recognizing lip service when it is being given.

Company leaders, both at the Western headquarters and in China, need to create a system of accountability – of monitoring and auditing compliance with the code. This is even more important in China than it is in the West. There are so many initiatives and slogans thrown at Chinese managers, that they are looking for signals that this one is not merely lip service. Too often they conclude that ethics codes are not serious because they are introduced in ineffective ways and without the accountability and follow-up.

It is absolutely essential to the success of any code that the offending employee or manager must be subject to firing, and that occasionally an employee does get fired for violating the code. Even more so than in the West, it is critical all understand that the behavior of senior managers and executives be subject to the code, and risk dismissal if they violate the code. There is a predisposition to believe the code is both lip service and/or applied selectively on lower level employees, and not to those higher in the hierarchy.

In summary, we believe Western companies following the preceding principles can and are making genuine progress "taking their codes to China" and establishing a truly global standard of behavior in their firms.

Notes

1. Obviously, such games may seriously harm the health of those who are unable to put a timely end to this ritual. Recently there have again been reports of death of government officials due to excessive drinking.

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