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### Moral atmosphere and moral influence in China's transitional economy

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**MORAL ATMOSPHERE AND  
MORAL INFLUENCE IN  
CHINA'S TRANSITIONAL ECONOMY**

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# MORAL ATMOSPHERE AND MORAL INFLUENCE IN CHINA'S TRANSITIONAL ECONOMY

## ABSTRACT

We conducted a predominantly qualitative study of organizational moral atmosphere (OMA) in seven companies in the city of Wuhan, on the Chinese mainland. Our findings were consistent with other commentaries that have identified the mainland as a problematic context in which to achieve organizational integrity because of market distortions, public cynicism, and substantial weaknesses in the legal system and in civic accountability. We discovered also that in-company propagation of moral ideology appeared to have little beneficial impact on OMA, because of ideological incoherence and incompatibility with unofficial values and practices such as *guanxi* that are regarded as survival imperatives under network Capitalism. Ideology also failed to address the felt distributive inequity that fuelled various forms of fraud and deception. Disciplinary regimes that were extensively punishment-oriented failed to resolve this and other endemic problems of dependency and lack of work discipline in the SOEs. There were glimmers of hope in at least one Joint Venture Company that had adopted a robust system of rational-legal administration introduced by a foreign partner. Developmental approaches to improving OMA remain largely untried.

Descriptors: ideology, ethics, leadership, morality, China, Communist.

## INTRODUCTION

In this paper, we examine moral atmosphere (moral ethos) in seven enterprises in the Chinese mainland, in order to identify what may be done to achieve and maintain organizational integrity within a wider context that is, by all accounts, problematic. Moral atmosphere is a force-field of norms, aspirations, assumptions and expectations among members of a social entity about good or bad, and right or wrong, channelling how they define, construe and tackle everyday issues and dilemmas (Snell 2000: 267). We assume that *organisational* moral atmosphere (OMA) subsumes, in addition, an enterprise's theory-in-use of justice, embodied in systems of regulation, resource allocation, remuneration, and discipline. We assume also that OMA influences whether organizational behaviour is honest or corrupt, reliable or fraudulent; whether resource allocation is equitable or tainted with cronyism; whether systems create value or produce substandard outputs; and whether environmental policies are socially responsible or entail despoliation. Scrutinized from a critical, *ethical* stance (de George 1995), OMA may be adjudged sound, questionable, or problematic in terms of conduciveness for high integrity policies, practices and conduct.

Figure 1 represents the components of OMA and the main influences upon it. The model derives from Snell (2000: 280), but has been considerably modified and elaborated in the light of the qualitatively oriented research reported in this paper. Guided by the revised model, we now review the morally problematic contemporary social, economic and political context of OMA in Chinese mainland enterprises.

### ***The Legal, Political and Social Background***

Figure 1 implies that if governments were accountable to empowered, critically informed electorates, if businesses were accountable to market forces, and if both were subject to an independently and systematically administered body of law, OMA would be sound, and less corruption and more social responsibility would ensue. Findings by Transparency International (2000) lend some support to that proposition. They show, for example, that among mixed economy nations, the Scandinavian countries (high accountability societies) are perceived to have low levels of corruption, whereas the Chinese mainland (a relatively low accountability society) has a comparatively high perceived level of corruption.

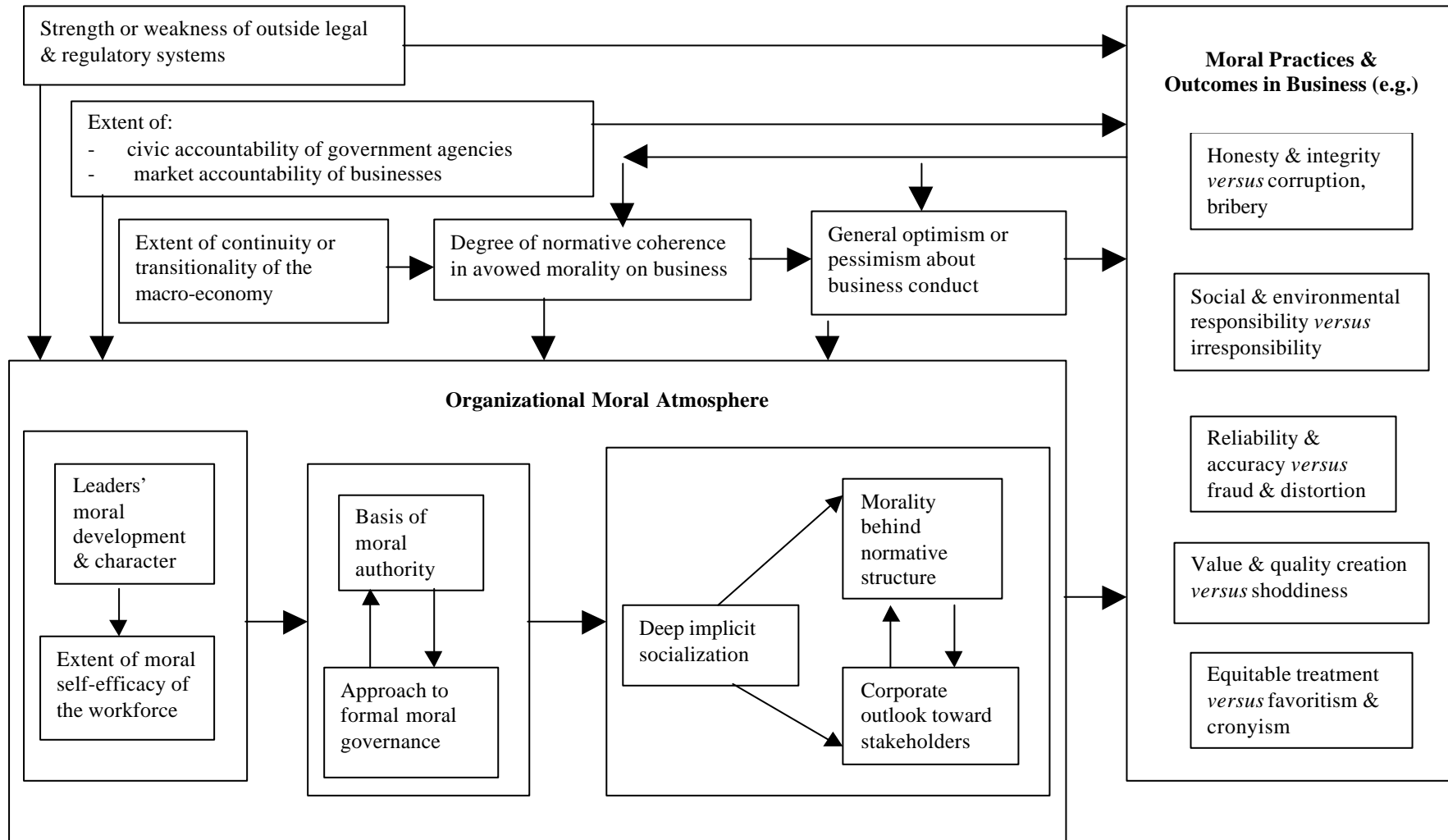


Figure 1. Relationships Among Antecedents, Aspects, and Outcomes of Organisational Moral Atmosphere

### Weak Legal System

The Chinese mainland historically lacks a systematic, mature legal system. In Imperial China, the District Magistrate administered law (also tax collection, education and a host of other local services) within a territory approximately the size of an English county. Exercising ‘rule by man’, yet without specialist legal training, he ‘combined the roles of detective, police chief, prosecutor, judge and jury’ (Dawson 2000: 45). Those pursuing litigation were subjected to cruelty, humiliation and extortion by government runners (messengers, policemen, guards, etc.), and were expected to tremble in court. Local communities thus kept the law at arm’s length, and as far as possible justice was administered within the clan or guild (Dawson 2000: 161-162). The Imperial legal system failed to develop independently of government and its local administrative apparatus (Dawson 2000: 163-164). It was abolished after Liberation, and a new legal system was not introduced until 1982 (Davies 1995). Laws in the Chinese mainland abound but are not fully or systematically applied. A long, slow journey from ‘rule by man’ to ‘rule of law’ may be underway (Hao 1999: 417). According to Figure 1, a weak legal system discourages development of sound OMAs.

### Weak Civic Accountability

Political pluralism, and administrative transparency, rigour and professionalism are hallmarks of civic accountability (Tanzi 1998). In the Chinese mainland, however, there is one-Party rule, and at local level, *guanxi* (connection-based) factions and networks run the Party machine. The legacy of the Imperial system, when junior clerks corruptly derived all their income from predatory fees (Dawson 2000: 49) pervades government administration. Further up the hierarchy, self-serving collusion between state officials and leaders of State Owned Enterprises (SOEs) is endemic (Walder 1995: 285; Nimerius 1997; He 1998; Hao 1999). In attempts to build civic accountability, the central government introduced a code of ethics for cadres in 1993, subsequently elaborated this (Ma 1998: 1287; Hao 1999: 414), and set up complaint hotlines for the public (McDonald 1995: 185). There were crackdowns on corrupt low-ranking officials, then higher-ranking ‘moral degenerates’ were targeted (Becker 1995, 1998; South China Morning Post 1996; China Business Information Network 1998; China Daily 2000a). Critics, however, dismissed such campaigns as the token purging of showcase targets in the play of factional politics (China News Analysis 1995; Mirsky 1995;

Lam 2000; South China Morning Post 2000). Civic accountability appears to remain weak, which, according to Figure 1, discourages the development of sound OMAs.

### Market Distortions

Sweeping economic de-regulation and market reforms have not created a level playing field for market competition. Local officials tend to block private businesses from entering or growing in the market, unless they give kickbacks or red packets in exchange for permits, financial capital and trading rights (McDonald 1995: 182; Wank 1995: 166-167). For some protection against arbitrary ‘rule by law’ (not ‘rule of law’) harassment, leaders of private companies maintain relationships with networks of officials, by giving them gifts, banquets, employment positions and free company shares (Wank 1995: 168-171). Thus *guanxi*, the cultivation of trust through gift-giving and social connections, is used as a competitive weapon. Some contend that *guanxi*, by ‘oiling the wheels’, supports rather than subverts the development of free markets (Davies 1995; Tan 1999; Wank 1995: 155). Tsang (1998: 69) thus uses the term *organizational guanxi* to refer to the cultivation of cooperative relationships between a company as a whole and the agencies with which it deals. However, the official position of the government is that all forms of *guanxi* are corrupt because of their inherent favouritism (Wong and Chan 1999: 114), and this is an assumption that we share: according to Figure 1, such market distortion and injustice discourages the sound development of OMAs. Nonetheless, in the absence of strong legal and regulatory systems, *guanxi*, whether at individual or organizational level, is driven underground rather than purged (Xin and Pearce 1996: 1654-1655), and indeed may be an inherent feature of the Chinese mainland’s ‘network capitalism’ (Boisot and Child 1996).

### Transitionality and Possible Normative Incoherence in Avowed Morality

Whitcomb, Erdener and Li (1998) identify Confucianism, Maoism and the pragmatic market enterprise ethic of Deng Xiaoping (1904-1997) as the three main strands of thought relevant to business ethics in the Chinese mainland, and we summarise these next. Confucianism represents traditional Chinese ethics, absorbing much of Taoism (Carnogurska 1998: 211). Traditional social norms include reciprocity with others (de Bary 1991: 3-4), avoidance of selfishness (Pye 1995: 41), the Golden Rule (Confucius 1979: 135), and respect for social hierarchy through face giving and face-saving (Bond and Huang 1987: 247-248).

Notably, law (*fa*) was traditionally regarded as an evil, necessary only for controlling the morally bankrupt (Steidlmeier 1997). Notably also, *guanxi* was seen as honourable so long as the parties acted in principled manner (Pye, 1995: 45-46; Lovett, Simmonds and Kali 1999: 236; Steidlmeier 1999): ‘people who share a *guanxi* relationship are committed to one another by an invisible and unwritten code of reciprocity and equity’ (Luo 1997: 44).

Under Mao Zedong (1893-1976), traditional Chinese ethics were officially rejected. *Guanxi* was disapproved (Pye 1995) but re-emerged under cover (Walder 1986). Loyalty to the people, the Party and the leader replaced filial respect of parents and loyalty to the emperor (Fairbank and Reischauer 1978: 491). Hierarchical rank and promotion were downplayed and workers were urged to challenge line authority, but there was, nonetheless, some continuity with Confucianism, in that material incentives were disdained, as was individual glorification or self-interest (Shenkar and Ronen 1987). SOEs were set up as an ‘iron rice bowl’ system of guaranteed employment, egalitarian rewards and lifelong welfare, centring on the *danwei* or work-unit (Lü and Perry 1997). A profound non-market ethic was created that persists in many contemporary SOEs (Ding, Goodall and Warner 2000: 222).

The economic reforms that began in 1978 overturned core Maoist values. Deng Xiaoping’s famous proclamations: ‘To get rich is glorious’ (Ralston, Egri, Stewart, Terpstra and Yu 1999: 417), and ‘Whether a cat is black or white makes no difference —as long as it catches mice, it is a good cat’ (CNN 2001) encapsulated pragmatic market enterprise values. While transformation of the Chinese mainland’s economic system into network capitalism has thus entailed further moral upheaval, some Confucian values persist (Ralston, Egri, Stewart, Terpstra and Yu 1999). Maoist values have nonetheless waned as the post plus skills payment system (*gangji gonzi zhi*) replaced wage egalitarianism (Easterby-Smith, Malina and Lu 1995; Warner 1996b: 204). Money has become the primary source of work motivation (Fisher and Yuan 1998), and there is sympathy for legally questionable business methods (Whitcomb, Erdener and Li 1998). It is possible that morality on the Chinese mainland has fallen into normlessness or anomie (Passas and Agnew 1997), paralleling what commentators claim has happened in Western industrial nations, where tradition-based normative consensus has broken into half-forgotten fragments (MacIntyre 1988; Taylor 1991; Feldman 1998). Unlike the West, however, the Chinese mainland lacks a mature legal system that could serve as an alternative basis of social and economic order. Figure 1 suggests that unless, somehow, a



coherent body of avowed morality persists, then the development of sound OMAs is impaired, precipitating high levels of corruption (Shih 1994; He 1998; Husted 1999).

### *Official Moral Optimism —and General Public Cynicism*

Rather than embracing political democracy as a means of constraining corruption while fostering economic growth (Ehrlich and Lui 1999), the Party has attempted to provide moral leadership through ideology and propaganda. Socialist spiritual civilization construction (SSCC) became Party policy in 1982 (Dirlik 1989: 35; Lu 1996). A central SSCC programme began in 1986 (Lynch 1999), aiming to cultivate ‘healthy personality’ (Xu 1997: 90) and to implant the ‘Five Stresses’: civil manners, propriety, cleanliness, order and morality; and the ‘Four Beauties’: of spirit, language, behaviour and environment (Dirlik 1989: 36). SSCC envisages a groundswell of high morale, cultural pursuits, and ‘a healthy atmosphere of opposing superstition and ignorance and resisting crooked ideas and evil thoughts of all kinds’ (Ding 1999). SSCC attributes wrongdoing to weak culture and individual moral turpitude, rather than to institutional failure, and has sought remedies in deviance control, ideological education and thought reform (Shih 1994; Einwalter 1998; He 1998; Hao 1999: 411-412; Lynch 1999). SSCC remains a Party priority (McDonald 1995: 175-6). Indications are, however, that SSCC lacks credibility among the public (Lynch 1999). It is widely perceived that there is reluctance to tackle corruption among the most senior officials, who are protected (Burns 1994: 57-58; Root 1996: 752). A common saying is that those in power are stupid if they do not use it to earn as much as possible (Huang 2001: 34). According to Figure 1, moral cynicism among the general public discourages the sound development of OMA.

### *Aspects of Organizational Moral Ethos*

Our review suggests that in the Chinese mainland, weak legal and regulatory systems, poor civic and market accountability, economic transitionality, and public cynicism all militate against the sound development of OMA. Our own research will, besides examining internal aspects of OMA, also consider the coherence or otherwise of avowed business values, which could, according to our model, be a potential saving grace. We assume that a soundly developed OMA would be a strong force for enterprise practices that are honest, reliable, equitable, value enhancing and environmentally responsible. We now introduce and explain

the elements of OMA, as represented in Figure 1, commenting where literature suggests likely patterns in Chinese organizations.

### *Leaders' Moral Development and Character*

By this, we mean the virtue or otherwise of leaders in the organization in question, indicated, for example, by whether they fight, resist or collude with corruption. In Confucianism, only the virtuous should become leaders and role models (Shafer 1997). The proposition, represented in Figure 1, that the character of leaders effects OMA, has theoretical support (Graham 1995; Lichtenstein, Smith and Torbert 1995). Gini (1998) argues that leaders who are positive models and mentors inspire moral self-efficacy among the workforce. There is, however, a wide gap between ideals and reality in and around many Chinese organizations, especially SOEs, which are illegally 'milked' by their supposed leaders and monitors (The Economist 2000), and are said to have become 'poor temple(s) with a rich monk' (Lee 1999: 57). Once again, this phenomenon may be a legacy from Imperial China, where higher officials took advantage of being stationed above much of the law (Dawson 2000: 162), rather than acting as the 'gentlemen' that they were supposed to be. According to Figure 1, conduct by leaders that lacks integrity, or is corrupt, discourages the sound development of other aspects of OMA.

### *Moral Self-Efficacy of the Workforce*

By this, we mean the extent to which employees are confident in exercising principled, autonomous moral judgement in relation to workplace moral issues and dilemmas. Such spiritual sovereignty contrasts with dependency, or retreat into self-serving, self-preoccupied subservience (Gini 1998: 308). The *danwei* system induced extreme dependency (Walder 1986); and even enforced infantilism (Giddens 1988) akin to the helplessness of long-term psychiatric patients and prison inmates (Shenkar 1996). Arguably, this was also a legacy of the tragic Cultural Revolution (1966-1976). SOEs no longer function as total institutions (Goffman 1961; Shenkar 1996), but some still serve as shelters (Shenkar 1996: 900). Commentators argue that organisational inertia (Ding, Goodall and Warner 2000), and political concern about weakness in the national social security system (Lau 1997; China Daily 1999) sustains a dependency ethos not only in SOEs (Warner 1995; Francis 1996), but also in some foreign-invested Joint Venture Companies (JVCs) (Chan 1997: 105-106). It

would follow from this, that many enterprises house a mass of middle-aged and older employees, who have spent their entire careers under a combination of political subservience and economic sheltering, which may not have fostered the development of moral self-efficacy. According to Figure 1, low moral self-efficacy among the workforce would discourage the sound development of other aspects of OMA.

### Formal Moral Governance

Snell (2000: 281) defines formal moral governance (FMG) as the ‘systems for determining and enforcing official ethical standards within an organisation’, and implies that among possible approaches to FMG, arbitrary coercive imposition or ‘rule by law’ may little better than laxity in encouraging the sound development of other aspects of OMA. Our own research, reported more fully in the ‘findings’ section, generated the following non mutually exclusive FMG categories: (a) laxity (b) arbitrary coercive imposition (c) ideology or identification, (d) open dialogue and (e) procedurally just, consensually legitimate, systematic and transparent regulation, a kind of ‘rule of law’ within the enterprise.

Historically, the SOEs functioned as quasi religious orders, boarding schools and prisons (Shenkar 1996), with FMG based on arbitrary coercion and ideology, but this became lax as politicization de-intensified. More recent reforms may have encouraged a shift back toward arbitrary coercion by managements that have enjoyed empowerment. The threats of *xiagang* [the sending home of off-duty workers (Lee 1999)], privatization (Lau 1999), contract based hiring and even layoffs (Warner 1996a; Ding, Goodall and Warner 2000), combined with a lack of wider employability, have rendered SOE workforces vulnerable to coercive imposition. SOE directors have gained ‘one pen, one mouth’ authority (Lee 1999: 57). Their cross-appointment to Party secretary or Union chair posts (Lee 1999: 59) has reduced even the token power of Union and Party branches to resist managerial imposition (Lu and Child 1995; Shenkar 1996: 901; Ding, Goodall and Warner 2000: 221). Union branches have lost credibility (Lee 1999: 58-59), and the Party’s role has been redefined as that of assisting management in raising productivity (Lee 1999: 59). The tone of Lee’s (1999) account of disciplinary regimes in Chinese enterprises, featuring meticulous and somewhat harsh rules and controls, backed by heavy fines, suggests that management have been inclined to leverage their power, adopting FMG based on arbitrary coercion, rather than developing just and systematic regulation. Accounts of ‘sweatshop’ factories, often overseas Chinese-

invested and Western-backed, where rural migrants suffer humiliating punishments (Asia Monitor Resource Centre and Hong Kong Christian Industrial Committee 1997; Chan and Senser 1997; Solinger 1997; Boje 1998), convey this message emphatically. Coercive imposition may not foster high levels of integrity, and also raises questions of rights violations.

### *Basis of Moral Authority*

According to Snell (2000: 282-283) moral authority in an organization means power to define what is acceptable and what is not. Three bases of moral authority (BMA) are: (a) the political play of domination, manipulation and ‘headship’, (b) deferential trust, and (c) critical trust. After Snell (2000), we would rank these in ascending order, according to their expected contribution to sound OMA development. Under deferential trust, authorities are assumed, by default, to act with integrity, care, and wisdom, in accordance with moral tradition. Critical trust stems from transparency and openness, where justice is seen to be done. However, in the Chinese mainland, headship (Westwood and Chan 1992), under which those in positions of authority are protected by *guanxi*, may predominate. Huang (2001) found, for example, even below head of department level, that incompetent staff, who moonlighted during working hours, were protected by Party connections.

### *Other Aspects of Organizational Moral Atmosphere*

Other aspects of OMA mentioned in Figure 1 lay beyond the scope of the research reported here. According to Snell (2000: 283), deep, implicit socialization (DIS) ‘proceeds day to day as a hidden curriculum of controls, rewards, mentoring, implicit role modelling, and informal storytelling’. Snell (2000: 285) defines morality behind normative structure (MBNS) as the set of norms, values and moral motivations that people in an organization perceive others to embrace in actual day to day practice. Corporate outlook toward stakeholders (COTS) is the mode through which competing needs and moral claims among various stakeholder groups are adjudicated and catered for (Snell 2000: 286).

## THE RESEARCH

Our research was conducted in Wuhan, the largest city in Central China, with 7 million people in an area of 8,467 square kilometres. Wuhan ranks fifth or sixth among Chinese cities in terms of economic production, having enjoyed average GDP growth of over 8 percent per annum since 1982 (Flood 1996). Although not in the vanguard of early economic reforms, Wuhan has been at the forefront of the downsizing of government agencies and the redefinition of their role ‘from micro-management to macroeconomic supervision’ (Gu Jiaqi 1996: 123). For example, Wuhan’s municipal industrial bureaux have become state asset management companies, able to sell equities in their subsidiaries, and to set up joint ventures involving them (Yang 2000). Solinger (1999) reports that the non-state sector in Wuhan is ‘vibrant’, although the state sector still accounted for as much as 80.6% of employment in 1996. Wuhan’s problems during economic transition have included a wave of early retirements (Paul and Paul 1995), rates of *xiagang* reaching 13.7% of the total employees in enterprises (Solinger 1999), plus an above average unemployment rate of 6.5% (Bottelier 1998). In the late 1990s, Wuhan, like many other cities across the Chinese mainland, was wrestling with tension between pressing on with market reforms and enterprise restructuring, and the need to arrange the orderly resettlement of displaced urban workers (Solinger 1999). The local political and social background was not atypical of large Chinese cities.

The original, Western-originated OMA model had not crystallized until after data collection began, and in any case was modified substantially during data analysis. Adopting a predominantly qualitative approach, we sought to understand OMA in a small number of companies of varying ownership types. In order to make the research manageable, we focused on an accessible selection of antecedents and aspects of OMA. The research questions, themselves emergent, addressed in this paper are:

1. (Relating to normative coherence of avowed morality). What business values were avowed? How do the values link to the main moral traditions? To what extent do they form a coherent whole? How compatible are they with prevailing unofficial values?
2. (Partially relating to moral self-efficacy of the workforce). As perceived by management, how strong is the legacy of the ‘iron rice bowl’ in terms of the lack of an internalized work ethic among the workforce?

3. (Relating to FMG). Who are the agents of company moral ideology? How is moral ideology promulgated at company level? What is the perceived impact on moral conduct?
4. (Also relating to FMG). Do internal systems of regulation and justice emphasise arbitrary 'rule by law' or consensual 'rule of law'? Where do rules come from? How strictly are they applied?
5. (Relating to BMA). What empowers/disempowers enterprise leaders when establishing what is morally acceptable and what is not?
6. Overall, what aspects of (internal) OMA appear to make a difference to organizational integrity in the problematic context of China's business environment?

### *Focal Companies*

Our seven case study companies, accessed through local connections, comprised two large SOEs, two smaller SOEs with shareholding structures, two foreign-invested JVCs and one large private company. Table 1 summarizes background data about them.

The two large SOEs were Wuhan Iron & Steel (Group) Corporation (WISCO) and Changjiang Energy Group Corporation (CE). WISCO was founded in 1958 as an icon of socialism (Tomlinson 1997). With 120,000 employees, 18 steel mills and 35 supporting factories engaged in iron mining, and steel smelting, casting & rolling, it is a steel town in itself (The Economist 1992; Smith and Heim 1995). A parent-subsidiary structure with 14 subsidiaries was created in the mid 1990s. At the time of research, WISCO was planning to sell-off non-core assets (Tomlinson 1998). CE was founded in 1958 and has 14,000 employees in Wuhan. Its core business is designing, manufacturing and installing turbo-generator machines for power stations and ships. Under government supervision, the company made various acquisitions and has 17 subsidiaries.

The two smaller, shareholder-invested SOEs were Wuhan Department Store Group (WDS) and Wuhan HiTech Venture Company (HVC). WDS was founded in 1959, supervised by Wuhan commercial commission. In 1986, it became a limited company, with minority shares owned by 15 large enterprises in Wuhan, three banks, and 16 retail stores outside Wuhan. WDS was the first company outside Shenzhen Special Economic Zone to get approval to list on its stock market (Asian Wall Street Journal 1992), majority shareholdings

remaining with state-invested organs. Its core business is retail chain stores across Hubei province, but it also has wholesale, property, recreation, and clothing businesses. Of 12 subsidiaries, eight are foreign-invested JVCs, four are wholly owned. Our focus was on WDS' s wholly owned main departmental store in the city centre of Wuhan, with 3,500 employees, and on the minority Hong Kong Chinese invested shopping plaza situated alongside it, employing another 1,000 people. Wuhan City Committee and 4 other state organs founded HVC in 1992 as a state-invested enterprise. After HVC became a joint stock company in October 1997, a private Hong Kong-backed, Shenzhen-based company bought 31% of the shares and private individuals another 20%. The company produces welding mask covers, current and voltage control devices, and designs and installs fire prevention systems for high rise buildings.

The two JVCs were Eurobeer (EB) and Dongfeng-Citroen Automobile Company (DCA). EB is a Sino-French JVC set up in 1997 by Wuhan Dongxihu Brewery Group and Danone, the former with a 40% stake, the latter with 60%. The company employs 3,500 people in its beer manufacturing and bottling factory. The Chinese parent began manufacturing in 1982, and after two factories merged in 1991, became a shareholder company in 1993. DCA is a Wuhan-based Sino-French JVC car factory with 2,600 employees, set up in 1992 by Dongfeng (Second Motor Co.) and Citroen, and is the largest foreign-funded project in Wuhan. The French have a 30% stake (25% from Citroen, 5% from two French banks). The Dongfeng parent company is a large SOE, comprising 9 divisions, with its wholly owned truck factory located in NW Hubei.

Our private company was Red Heart King (RHK). RHK began with seven founder-partners as a private business in 1994, manufacturing and distributing an iron tonic. It grew rapidly, becoming a listed company (Leggett 1998), with 10,000 employees in 22 province-based branches and 3000 county level branches across the Chinese mainland. Our focus was on Hubei province branch and the central HQ offices in Wuhan.

**Table 1**  
**Focal Companies**

Company	Ownership Structure	Core Business	Established	Employees
WISCO	Very large SOE	Iron & steel processing	1958	120,000
CE	Large SOE	Manufacturing turbo-generating machines	1958	14,000
WDS	Partially floated SOE	Department store and shopping plaza; retail chain stores	1959	4,500
HVC	Majority privatized SOE	Electrical equipment	1992	2,000
EB	60% French, 40% Chinese JVC	Beer manufacturing and bottling	1981 (Chinese) 1997 (JVC)	3,500
DCA	30% French, 70% Chinese JVC	Automobile manufacturing	1992	2,600
RHK	Listed stockholding company	Manufacturing and distributing an iron tonic	1994	10,000 at group level

**Data Gathering Procedures**

From December 1998 to April 1999, 65 interviews were conducted in Wuhan, with a total of 87 senior and middle managers/officers, 3 workers and one commentator. All respondents were Mainland Chinese, with the exception of one Hong Kong/Canadian Chinese, who was present at part of a group interview. Respondents are listed in Table 2.

**Table 2**  
**Interviews Conducted**

Company	Interviews
WISCO	Group of 12 (plant managers and company level Party officers) Solo with plant manager/secretary of the Party committee at one plant Solo with 8 middle managers
CE	Group of 3 (general manager/Union chairman, 2 assistant general managers) Solo with 8 middle managers
WDS	Solo with chairman of the board Group of 5 middle managers Follow-up interview with one of the departmental managers Solo with 9 middle managers Solo with a local University professor as commentator
HVC	Group of 3 (general manager, capital operation manager, company secretary) Solo with 6 middle managers
EB	Group of 3 (general manager, Union president, Union vice president) Solo with 4 middle managers
DCA	Solo with deputy general manager



	Group of 3 officers from personnel management section
	Group of 5 (Party secretary, middle manager and 3 workers)
	Solo with 8 middle managers
RHK	Solo with Party secretary (twice)
	Solo with vice president /Union chairman
	Solo with 8 middle managers

We developed a structured interview guide for the senior respondents, covering ownership structure, business strategies, ideological and ethical education, company values, payment schemes, regulatory and disciplinary procedures, involvement in anti-corruption and SSCC activities and campaigns, and hypothetical ethical dilemmas. We intended that discussion of the hypothetical cases would ease the interviews toward disclosure of actual ethical problems within the organization or in its transactions with stakeholders. Interviews with middle managers were structured around the moral ethos questionnaire (MEQ) (Snell, Taylor, Chu and Drummond 1999), translated into simplified Chinese characters. The MEQ contains nine multiple-choice items covering ethical aspects of management and organizational behaviour, each with six options matching the Kohlbergian moral stages at organizational level. The MEQ also includes five Likert scale items relating to moral practices and outcomes noted in Figure 1: these are detailed at an appropriate point in the findings section below. In this research study, given doubts about the applicability of Kohlberg to the Chinese mainland (Dien 1982), the MEQ was employed mainly as a catalyst for obtaining examples and illustrations from respondents, in explanation and justification of their MEQ selections and ratings. One author together with local investigators interviewed all senior respondents, and some middle managers. Local investigators interviewed most of the middle managers alone, after training by the authors. Given the sensitivity of the topic, and the importance of ‘face’ (Shenkar 1994: 23), tape recording was not attempted. Extensive notes were taken in Chinese and English. Company reports, newsletters, brochures, booklets, speeches and video extracts, and local press cuttings were translated into English and used as supplementary documentary sources.

### **Data Interpretation**

Transcript material was sorted according to emergent themes, regardless of their relationship to extant category schemes. Data was then marshalled into qualitative tables comparing each enterprise across the emergent themes. Once initial thematic groupings had

been identified, the Snell (2000) model provided a provisional basis for constructing synthesized coherence (Golden-Biddle and Locke 1997: 29-30) among otherwise unconnected categories. The model facilitated inter-linkage between what would otherwise have remained an intuitively bundled miscellany of items on value aspirations, model workers, control systems, punishments and incentives, welfare and dependency, anti-corruption, *guanxi*, ‘scandal’, etc. One principal investigator, less familiar with the Chinese mainland context, developed initial extensive data categorizations and arrived at a higher-order inter-category synthesis. That work was then checked and refined by the other principal investigator, on the basis of the latter’s intimate familiarity with the language, culture and unofficial business practices on the Chinese mainland.

## FINDINGS

### *The Normative Coherence of Avowed Morality*

We begin analysis of normative coherence by identifying clusters of avowed organizational values and their possible links to the traditions of Confucianism/Taoism, neo-Maoism, pragmatic market enterprise, and modernism. After noting inter-company differences, we assess whether the overall set of avowed organizational values forms a coherent whole and is compatible with prevailing unofficial values.

### *Avowed Organizational Values*

Among values avowed as slogans or proverbs in brochures, reports or speeches, and sometimes illustrated by storytelling, there were seven main generic clusters.

*Serving the Customer God, Marching to the Market*. All seven companies stressed the need to serve customers and to survive competitive markets. The slogan, ‘The customer is our God’, was repeated at four companies, including the two large SOEs. Several stories reflected this emphasis. At WDS, a middle manager related, ‘A customer’s child took a pee in the shop, the salesperson came to clean out before that customer could made an apology’. Another WDS manager reported, ‘A customer behaved badly when buying shoes. He threw a shoe onto the floor three times. Eventually he thanked the supervisor for picking it up three times for him’. The general manager/Party secretary at a WISCO steel mill said, ‘in the past, 50 tons

of silicon steel was the minimum delivery load. Recently, someone wanted just 300 kilograms. The workers package small loads and even use their own car to deliver'. Referring to a change in corporate identity, he claimed, 'The daughter of the Emperor has married the market'. WISCO was, according to its December 1996 brochure, 'marching to the market'. At CE, a middle manager reasoned, 'If we cannot sell services and products to our customers, the enterprise cannot make profits and survive, and eventually the staff will lose their jobs'.

*Quality and Technological Advance.* Reflecting government prompting (Zhang 2000), most companies officially aspired to high quality and technological advancement. While there may have been gaps between rhetoric and reality (Zhang 2000: 95-96) at least four companies, including the two large SOEs, had won quality prizes or competitions. WDS had the 'Mai Shou' system of strict quality inspection or 'customs areas'. At EB, a company formula was '1% = 100%: 1% quality failed means 100% quality failed to customers'. With it went a story that, at a time of insatiable consumer demand, the former EB general manager, discovering imperfection, halted all dispatches, called a factory meeting, and secured agreement on better quality inspection procedures.

*Unity and Co-operation.* All seven companies extolled unitary ideology (Fox 1974). Internally, this meant shared goals, co-operation, teamwork and collegiality. For example, the ex-general manager of EB had urged staff to: 'Break the barrier between classes, break the barrier between permanent and contract staff, break barriers of age and position, while HVC's general manager advocated 'working cohesively', through 'a unified set of committees, systems and mechanisms'. There were, however, differences between companies in how they construed their relationship with wider society. Slogans for the two large SOEs (WISCO and CE) subordinated enterprise interests to those of the nation. The converse applied at the private RHK and privatized HVC, where (in 'General Motors' fashion) a contribution to the company was held *per se* to be a contribution to society. A contract worker at DCA's paint shop, introduced to us by the Party, articulated a third kind of relationship between enterprise and society, portraying it as a Darwinian struggle that required internal unity:

'We have not established a social insurance system and business competition is very cruel. While unemployed workers receive benefit in the West, here they get nothing. The life or death of this company is at stake. Nearly all employees want to know how the business is really doing. We pay close attention to sales volume, and regard quality

as all-important, since we are a famous brand. People at the end of the line are always coming to check the quality of the work of the front line, because it will affect them. If they find problems at the front line, they request improvement. Only if we co-operate well can we have a high quality product.’

*Perseverance, Hard Work, Voluntarism, and Altruism.* Stories at one SOE, both JVCs and at RHK reflected the Maoist spirits of voluntarism and altruism (Hua 1995: 42-44). Even staff who were sick were said to have had joined heroic salvage operations at the WDS warehouse during the floods of 1998. At DCA, a story told of how teams overcame problems with new conveyor equipment by lifting automobiles manually. A company proverb at RHK advised: ‘If you persevere, you can turn an iron rod into a needle’. RHK’s Party secretary/regional chief executive recommended two articles by Mao Zedong: ‘Serve the People’, and ‘The Foolish Old Man Who Removed the Mountains’, the fable teaching the power of determination. He hailed Founder-president Xie Sheng-ming, whom he said spent a third of his time in rural villages, delivering by tricycle, a model of selflessness and service to society.

*Blending Spiritual and Material Motivation.* Two SOEs, WISCO and WDS, articulated Party policy (BBC Monitoring Asia Pacific 1999), by aspiring to both spiritual civilisation (as in SSCC) and material civilization (the creation of wealth and prosperity), presenting these as complementary projects, not as an either/or dichotomy. They were joined by the private RHK, whose vice president/Union secretary explained that he and the other co-founders had grown RHK in order to get rich, and that now, as one of Wuhan’s largest taxpayers and donor to flood relief and education funds, the company was giving back to the country. RHK’s Party secretary and regional chief executive said that Xie Sheng-ming ‘now a rich man, who can leave his money to two generations, still wants to carry on his work to serve society’. He added: ‘In China, if people only get spiritual rewards they are being fooled, but if they only get material rewards they are being damaged. Here we get both.’

*Continual Improvement.* Four companies (DCA, WISCO, WDS and RHK) officially aspired to work-related self-improvement. At DCA, a hagiographic booklet (Dongfeng-Citroen Automobile Company 1988) described model workers from the Wuhan plant, many of whom enacted this virtue in solving technical problems. At WISCO, an employee won a prize for the slogan, ‘The work today is better than yesterday, tomorrow it is better than

today'. A motto of WDS's chairman was 'If you don't change anything, you're not doing anything'. RHK's company logo had the shape of a comma, and one of its company proverbs ended with the instruction, 'Fulfil your duty and do it well, comma forever and never full stop'; another proverb advised: 'Don't contrast your virtues with others' defects, but compare your demerits with others' strengths'. In the spirit of collective learning, although literally in contradiction to the latter proverb, RHK had set up a failure research institute, and had produced case studies of other private companies on the traps and problems of expansion.

Rule of Law. This was advocated in the two JVCs and at WDS, whose management had learned about rational-legal administration from the Hong Kong based parent company of a subsidiary JVC. Evidently impressed by this *Weltanschauung*, Mao Dong-sheng and the Chinese leaders of DCA and EB firmly asserted that the rule of law supported both the operation of the market economy as a whole and the internal operations of companies. For example, DCA's Chinese general manager told us:

'It is necessary for China to go to the market economy. The development of China comes a little later than the developed countries. Many believe that the thinking and values of the people will develop along with the development of the economy. We think that the market economy is under the control of law, and that with the development of the economy, the people's ethics and values will also develop'.

#### Inter-Company Differences in Avowed Values

There were two main differences across enterprise types in terms of avowed values. Advocacy of the rule of law, as noted above, was one of them, and appeared to reflect learning from joint venture partners. The other pattern of difference concerned economic sheltering, which persisted as a fragile legacy of the 'iron rice bowl' at the larger SOEs and at the two JVCs, but not elsewhere. WISCO described itself as a 'total community' but had already retrained and redeployed 70,000 out of a total workforce of 140,000 (including 60,000 retirees), in subsidiaries earmarked for privatization. CE saw itself as provider of 'socially responsible, rational and open' welfare services, but the general manager quoted Zhu Rongji's ominous statement: 'Let enterprises close if they are going bankrupt'. The majority Chinese side at DCA had adopted a 'one company, two employment systems' arrangement. When facing economic difficulties (Seidlitz and Murphy 1998), DCA had sent some core workers

home on *xiagang* and had laid off contract workers, but regarded laying off core workers as politically impossible. At EB, it was with great reluctance that the Chinese had acceded to proposals by the majority French side to close one factory.

In contrast, at born-private RHK, the philanthropy of RHK founder-president Xie Sheng-ming reflected Confucian obligations of wealth (Anagnost 1989), rather than sheltering, so the company had had no compunction in laying off half of its 20,000 workforce in 1997, nor in regularly dismissing staff with poor sales figures. Mentioning this, RHK's Party secretary and regional chief executive, himself on a one-year contract, declared, 'The company is a young person's Shangri-La, they can develop here'. The two smaller SOEs, which had adopted shareholding structures, acclaimed the end of economic sheltering. At the *de facto* privatised HVC, a speech by the general manager announced that he would instigate job transfers, demotions and terminations, advising: 'Have no messiah, rely on yourself —no work, no pay!' At WDS, a company song employed the metaphor of a tidal wave to remind employees: 'Even in the safe city environment you are aware of crisis'. A newspaper item (Yang and Xiong 1999) on the philosophy of WDS's chairman, Mao Dong-sheng reported (somewhat wishfully):

'Traditionally, under the system of the planned economy, there were two big bowls of rice. Enterprises asked for funding from the government, and enjoyed the big bowl of rice from the government. Staff members working in the enterprises enjoyed the big bowl of rice from the enterprise. These two big bowls of rice seriously restricted enterprises' contribution to the country and staff members' creativity for the enterprise. Setting up a shareholding system instantaneously broke these two bowls. This resulted in a big shock for members of staff.'

### *Ideological Loose Coupling*

Table 3 heuristically relates avowed organizational values, all of which bar one (we touch on private property rights below) have been identified in the preceding text, to four moral traditions. Some values shown as new ones in the table may be linked, if not in terms of genealogy, then at least by imaginative association, to neo-Maoism or to traditional Confucianism/Taoism. For example, Confucian self-cultivation (Chan 1985: 230n; Ivanhoe

1993) may correspond to contemporary emphasis on self-improvement, as in this account by RHK' s Party secretary:

‘I wanted to fire a subordinate, but my counterpart in head office, whom I model myself on, advised me that if a person is essentially good, you can train him. I took his advice to heart. When my subordinate discovered that I was concerned that he should improve himself, he became motivated to do so’ .

**Table 3**  
**Avowed Values Matched to Moral Traditions**

Traditions	Transformed ideals	→	New manifestations	Persisting ideals
Confucian/ Taoist	Self-cultivation	→	Continual improvement	
	Obligations of wealth	→	Philanthropy, taxes	
	Harmony	→	Co-operation	
	Selflessness	→	Collegiality & teamwork	
Neo-Maoism	Serving the people	→	Serving the customer God	
	Iron rice bowl → Shelter	→	?????	Perseverance & hard work Voluntarism & altruism Spiritual civilization
Pragmatic market enterprise			Market competition Profit and wealth creation Quality Self-sufficiency Private property rights	
Modernism			Technological advancement The rule of law	

Our overall observation on Table 3 is that the avowed values are loosely coupled, in four respects. First, connecting new values to old traditions requires considerable leaps of moral imagination (for example spinning Maoist ‘serving the people’ into ‘serving the customer’, or Confucian ‘selflessness’ into ‘collegiality and teamwork’). Second, considered together, the avowed values are characterized by ‘eclectic richness and inconsistency’, a feature also of classical Chinese ethics (Hua 1995: 33-34). Third, key neo-Maoist values have lost their way, the shelter is crumbling and the nature of spiritual civilization is vague. Fourth, some pragmatic market enterprise values are controversial. Managers generally appeared to support them, but hinted at resistance among workforces —as Perry (1997: 53) notes, ‘even the humblest of China’ s workers (have) absorbed some lessons from decades of Communist discourse on exploitation and class struggle’ . For example, Mao Dong-sheng noted opposition to the principle of dividend payment:

‘We must, first and foremost, make money, for without profit, we can’t allocate anything to the shareholders. This is obvious, but some employees think that while it is reasonable to give the profits to the government, it’s unreasonable to give profits to other personal shareholders. It’s a problem of how they perceive private property rights. People do not easily come to accept this kind of right’.

### *Unofficial Guanxi Versus Avowed Values*

A final test of normative coherence of avowed morality is its compatibility with two prevailing unofficial norms, organizational *guanxi* and expediency.

*Organizational Guanxi*: Interviewees reinforced the impression, noted in the literature review, that under the Chinese mainland’s system of network capitalism, organizational *guanxi* is a necessary —underground —means of company role assertion (Waters and Bird 1989). This applied across all ownership types. For example, visiting officials from another province asked the general manager of CE, the large SOE, to install a machine within 4 months, rather than the standard 12 months. He agreed, and when the deadline was met, the client company sent CE 14,000 wine bottles, one for each employee. CE responded by deducting the price of the wine from the project charges. When the client needed additional installation, CE secured the contract against stiff competition, even though the new work was not part of their core expertise. At born-private RHK, the vice president/Union chairman explained that organizational *guanxi* with officials was ‘essential for our business expansion’, but that the company sought to stamp out individual *guanxi* involving self-serving deals between individual salespeople and distributors. Organizational *guanxi* appeared to be embedded in the ownership structure of HVC, the small, privatized SOE, where it was reported that government officials were major shareholders but also represented major customers. An unwelcome manifestation of organizational *guanxi* involved ‘recommendations’ by high-level government officials for relatives or friends to be given employment. Both JVCs (EB and DCA) had acceded, as had the born-private RHK. Mao Dong-sheng of WDS, a smaller, shareholder invested SOE, admitted that it was hard to say no:

‘One of the difficulties is the relationship net is too complicated. A great many high officials recommend people to my company, but I have rejected them strictly.



Sometimes, it is not easy to refuse, and I have to use some tricks to reject personal recommendations’.

*Expediency*: Expediency may be regarded as an umbrella value, subsuming questionable practices such as organizational *guanxi*, and conflicting with spiritual civilization, for all the vagueness of that concept. Interviewees reported various pragmatic ways of furthering company interests, which they did not explicitly link to Deng Xiaoping’s ‘black or white cat’ maxim. For example, a middle manager, who described RHK as a Confucian company declared also:

‘I was a teacher in a University before I came here, but I changed myself from a Confucian to a businessman. As a teacher, I seldom borrowed money and once I borrowed, I would try to pay back as soon as possible, but as a businessman, I will try to put off the payment because the competition is merciless.’

### **Formal Moral Governance by Ideology**

Much energy and ingenuity went into moral propaganda, which, while drawing on employees’ participation, sought, as in the West (Boyce 1996) to manipulate meaning rather than to nurture co-enquiry. In all companies except the private HVC and RHK, the task of transmitting ideology, the content of which has already been presented and summarized in Table 3, was the domain of the Party. At WISCO, for example, the Party-run department of corporate culture re-engineering disseminated propaganda via a TV station and a daily newspaper, and provided ideological ethics training for all staff. Even at born private RHK, where a ‘Confucius Business Institute’ provided ideological training, this apparently was done under Party supervision. In this section, we describe the main propaganda vehicles and assess their overall impact on employee conduct.

### **Model Workers**

Model Workers (MWs) are a Maoist legacy (Hua 1995: 43) and remain propaganda vehicles (Palmer 1997; China Daily 2000b). Legendary MWs include soldier Lei Feng (Ebrey 1993; Yang 1998), a selfless ‘cog in a wheel’ (Chan 1985: 66), who ‘was perfectly altruistic, without the slightest self interested calculations or self-doubts, righteousness incarnate’ (Chan

1985: 61), and Canadian physician Dr. Norman Bethune (Pai-ch'iu-en) (Mao 1990). Emphasis on pure altruism distinguished these icons from Stalin's Russian Stakhanovites, who received material benefits (Sil 1997: 126). Most case companies participated in MW competitions —WISCO, for example, boasted 51 national MWs, 60 municipal level MWs, and 8000 company level MWs. Prizes tended to remain 'spiritual', little more than souvenir photographs (except at RHK). Historically, because of this, and the association with political conformity, such competitions have failed to motivate workers (Chan 1997: 97). We found that by focusing on technical achievement, and on sales and productivity results, contemporary selection criteria reflected the new emphases on modernism and pragmatic market enterprise. Indeed, one case company, the private RHK, departed from Maoist tradition entirely, adopting a Western 'sales conference' approach, under which the top ten winners received 30,000 Yuan each, nearly as much as SOE workers earned in their whole career.

### Hero Stories

Some MWs received special praise. Two leaders of our case companies had received MW awards: Mao Dong-sheng, chairman of WDS, was portrayed as a visionary SOE reformer, while RHK's president, Xie Sheng-ming, was hailed an entrepreneur committed to meeting people's needs. Hero stories also featured grassroots MWs, such as Liu Li at WDS, who learned several languages in order to handle foreign customers, and who understood the needs of blind and deaf people. Wang Tao, a car mechanic from DCA's parent Dongfeng factory in Northern Hubei, combined altruism, perseverance and technical excellence with a zest for self improvement (China Daily 1998) and came top of the 1998 national list of MWs. Later that year, in honour of Wang Tao and Lei Feng, the Party branch at DCA's Wuhan factory organized a MW competition titled 'Learning from Wang Tao to raise our standards'. The winners, a model team (Youth Civilization Line) of paint shop workers, had heroically shaved their heads after one found a strand of hair on the paintwork. They and six individual MWs feature in a hagiographic booklet (Dongfeng-Citroen Automobile Company 1998). One chapter tells of hard-working, helpful and ingenious electrician Lee Hong Kit, 'the very Wang Tao of ours', who helped set up the Wuhan factory. When outside foreign equipment suppliers invited him to dinner, 'Lee politely declined all such invitations, because he knew that accepting entertainment might give rise to conflict of interest and ethical dilemmas'. Another chapter tells of Lee Wang Pang, who gives all his wages to his widowed mother. For

him, ‘Wang Tao is like a big brother in my heart, he has given me so much inspiration’. During our visit to DCA, the Party’s propaganda effort centred on the paint shop workers. Interviewees reported that both the French and the Chinese general managers had been moved by the team’s actions. A paint shop worker told us: ‘We didn’t think it was such a big thing, but when the (Chinese) general manager discovered what was going on, he decided that we were a good model worth using as propaganda’.

### *Slogans or Mottoes*

At RHK, a senior working group, in consultation with employees, had compiled a set of twelve proverbs that was referred to as ‘cultural rational knowledge’. Other companies held slogan competitions, for example, at WISCO’s cold rolled steel mill, competitions for a factory image and an employee motto had drawn 140 and 300 entries, respectively. At WDS, an employee was rewarded for suggesting the following for posting up in staff areas: ‘A scrap of paper on the ground, a piece of lost civilization found’, ‘Are you smiling to the customers today?’ ‘Make sure everything is done perfectly, even the minor details’. Slogans accumulated (as many as 40 at WISCO’s no. 3 steel plant), and there could be confusion about which ones were still in force, for example, at DCA both the Party secretary and human resource office said the company had only one slogan, but the Chinese general manager quoted four.

### *Negative Cases*

WISCO’s management used the occasion of annual factory meetings to present cases of corruption, such as that of a purchasing officer jailed for 14 years for taking bribes totalling 610,000 Yuan. RHK’s director of discipline took one hour at each annual sales meeting to discuss negative cases, such as that of a Hainan-based salesman who took a 40,000-Yuan kickback, and the company magazine reported these. At WDS, the story of a corrupt deputy general manager was similarly publicized.

### *Organized Dialogue and Self-learning*

There was only one mention of open dialogue. This was at WISCO, where the various plants arranged annual meetings to discuss SSCC, the most recent of which had considered

the demands of the market economy. The general manager/Party secretary at WISCO's cold rolled silicon steel mill, said, 'For the workers, it is self-learning. It is important that the management does not set out to teach, but rather seeks to make them learn from discussion'.

### *Questioning the Effectiveness of Moral Propaganda*

Party propaganda, as with Western corporate ideology (Collins 1999; Payne and Wayland 1999) may not have won hearts and minds. Managers implied, subtly, that it had little or no impact on employees' moral conduct. For example, at CE we were told, 'It is actual events that provide the most effective education. The workers now realize the reality of labour layoffs that arise from enterprise inefficiencies and they treasure their jobs'. A middle manager at WDS pointed out, 'Actually it is the competitive environment itself that makes the enterprise and its staff raise their ethical standards'. There were hints also of the erosion of the Party's credibility as a provider of moral leadership. As one Party secretary admitted, 'Generally speaking, the reputation of the labour Union and of the Party is not too bad, however ideological work is not a panacea'.

### *Moral Self Efficacy of the Workforce*

This element in our OMA model relates to the problem of dependency ethos, noted earlier, and was highlighted by comments by managers and Party officials in some of the case companies, about a poorly developed work ethic, manifest in indiscipline, lack of application, and reluctance to take responsibility. Interviewees attributed the problem to the legacies of the 'iron rice bowl' and the Cultural Revolution (1966-1976). This complaint applied especially to the large SOEs, WISCO and CE, described as deeply rooted in the planned economy, and still operating as near-total communities, on which the entire workforce and their families depended for free 'cradle to grave' services. Managers implied that they saw the SOEs' duty to provide care and sheltering as a bleak and thankless one; a WISCO middle manager said, for example: 'If we can feed all these people, we benefit society, because making so many people unemployed will cause social panic and disorder'. In the smaller SOE, WDS, managers also reported a syndrome of dependency. Despite hyperbole, reported earlier, about the breaking of the 'two big bowls of rice', most WDS employees still received extensive company-based welfare services, and could rely on continued employment so long as they did not break company rules. Data was not available for HVC.

Among the non-SOEs, EB had inherited its workforce, and possibly with it the ‘iron rice bowl’ legacy, from the Chinese parent company, but descriptions of the workforces at DCA and RHK contrasted sharply with those of the SOEs, in that they had grown up during new times. At DCA, 85% of employees were under 28, many of them, including front line workers in production and marketing, recruited from Universities or colleges. Managers spoke of DCA’s elite company culture: ‘We really feel that Dongfeng Co. and this one are different’, said one. Managers at RHK also claimed that their company had an elite culture. One explained that although staff of ‘variable’ quality had been recruited during a period of rapid expansion, after the mass layoffs that followed a slump in demand, the best-educated staff with the ‘best ethical records’ remained. RHK’s company brochure reported that 88% of staff had a college background and that the average age was 28.

### **Formal Moral Governance Through Systems of Regulation**

Organizational systems of regulation cover a wide gamut, including purchasing and sales, resource allocation, compensation, and workplace discipline. A common analytical issue underpinning these otherwise miscellaneous arrangements concerns how justly they are conceived and administered. We now assess the procedural consistency (strictness versus laxity) and arbitrariness (imposed ‘rule by law’ versus consensually just ‘rule of law’) of the regulatory systems adopted in the case study companies. We also note the origins of the more consensually just systems. Since there were considerable variations in FMG practices between the companies, we present our findings according to clusters of companies.

### **FMG Through Regulation at the Two Large SOEs**

Accounts suggested that there was a blend of imposed rule by law and procedural laxity at both WISCO and CE. Managers at both companies appeared impatient with egalitarian reward systems, experiencing them as rule by law impositions. There were also reports of arbitrary punishments for workers who made mistakes or performed poorly. At WISCO’s Cold-Rolled Silicon Steel Mill, workers were punished for delivering steel of the wrong thickness by having to re-do the job at *xiagang* rate wages, which in one case took six months. At CE, if workers arrived three minutes late, they lost bonus and salary. Interviewees at both companies reported that a blind eye was being turned to corruption and that it was

being covered up. Criticisms of procedural laxity were especially severe at WISCO where, for example, one manager complained:

‘There are numerous rules and procedures, but leaders don’t use them to check subordinates’ performance. Since they are irrelevant to employees’ income and promotion, no one will obey them’.

#### *FMG Through Regulation at the Two JVCs and WDS*

It appeared, at these companies, that compared with others, systems of regulation were seen as less arbitrary, more just. Reward systems at DCA were, for example, accepted by managers as equitable, because those at the top received twice the average salary of ordinary DCA employees, which itself was high in relation to the Wuhan average. Non pay-related systems of rules and procedures at DCA and EB that had been introduced by the respective French partners were also praised as fair and rational and strict (i.e. consistently applied). For example, one DCA middle manager said:

‘There are 3 situations in our company, which require total obedience. The first is the application of the law of country and the rules of the enterprise. Second are the new problems that are discussed and it is ensured that everyone in the company understands what to do. Third, in an emergency situation, management gives direct orders and staff obey.’

Middle managers at EB also reported that rules were strictly enforced and procedures strictly applied, and that rewards and punishments were equitable. This may have left some room for draconian improvisation: EB’s previous general manager had applied ‘feeling, reason and law’, arbitrarily doubling the fine if he judged a breach to be serious, in one case a quality inspector incurred a 1000-Yuan fine for a ‘large mistake’.

WDS, as noted earlier, modelled its systems of regulation on the Hong Kong based parent company of a subsidiary JVC. This required the formal documentation and approval by the general manager of all financial decisions and rested on the principles: ‘all income belongs to the company’, and ‘the system is bigger than the general manager’. Regarding employee work discipline, a WDS middle manager explained:

‘We prioritise law, reason and sympathy in that order, not the reverse. For example, general manager Hu, when patrolling on the 3<sup>d</sup> Floor before opening time, found a male staff member in his mid 30s sitting on the floor. This is not allowed under the rules. She asked the man what was going on, and the man replied that he had no money, had not eaten breakfast, and felt weak. Hu instructed the man’s manager to punish him by recording a serious mistake and fining him 50 Yuan, according to the rules. After further inquiries, Hu discovered that the man’s wife had recently given birth to twins, and that she had been laid off. Life was sad and difficult for them. The company still applied the punishment. However, the company Union visited his family, gave gifts to his two children and the company arranged for him to receive an extra 100-Yuan monthly allowance, and assigned him to a better post. Subsequently the staff member’s behaviour improved, and he told others that the company’s system of law, reason and sympathy made him improve upon his very poor prior conduct.

Thus the WDS management was said to be consistently strict in the application of disciplinary rules, but could exercise clemency, although employees had no right to expect this. For example, three high-performing staff who were caught smoking in the washroom were dismissed on the spot. One middle manager recounted the story, also reported in a popular book by general manager Hu (1999: 168), of a sales supervisor who quarrelled with a customer over a return and refund request for an 18,000-Yuan diamond ring that had been an unwanted present. The supervisor received a fine and was also made to suffer the humiliation of going the customer’s home to apologize and return the money. Middle managers at WDS reported, accordingly, that employees were frightened of punishment. WDS sought to administer an equitable performance-based reward system, under which basic pay was as low as 350 Yuan per month for ordinary shop workers, and a variable element, based on objective measures of sales performance and on line supervisors’ appraisal judgements, could exceed that amount. Some middle managers reported, however, that shop workers, obsessed with money, engaged in gamesmanship and ‘window dressing’, thus distorting the system.

#### *FMG Through Regulation at RHK and HVC*

Born-private RHK had, like WDS, adopted a reward system heavily based on sales performance, but unlike WDS there were no reports of problems with it, possibly because RHK’s average take home pay (in Wuhan) was twice the Wuhan average, much higher than

that of WDS. RHK had benchmarked many of its other regulatory systems indirectly on a Hong Kong company, and appeared to aspire to procedural consistency, with less concern for whether the systems were arbitrary or consensually just. A middle manager claimed, ‘Our regulation system covers almost every corner of management. Our president has emphasized that we’d rather not do anything if the necessary regulation is not established’. For example, there were fines (termination for the third offence) for lateness, poor hygiene and failing to wear an identity badge. The Party secretary/regional chief executive claimed that the company practised military management, at least in the Wuhan area: ‘Subordinates aren’t allowed to argue with or question their supervisor’s command.’ Another middle manager spoke of assemblies at RHK headquarters:

‘Every Monday morning, the president holds a meeting in the yard of the HQ. Sometimes he will ask a staff member, at random, to report his work arrangement for the week. If he cannot present this clearly, he will be criticized. Once a young man’s answer was so bad that the president declared a punishment on the spot: 3 month’s bonus was removed.’

RHK also had a legal department, an audit department and financial and fiscal committee at headquarters, reporting directly to the president. Despite all this regulatory machinery, comments suggested that it operated in a lax manner, much as in the two large SOEs. One middle manager estimated, for example, that each level in the hierarchy obeyed only 80% of instructions received, so that only about 40% of what front-line staff did actually conformed with official procedures and rules.

There appeared to be much less satisfaction with HVC’s reward system than with RHK’s. HVC’s middle managers regarded the differential between their salaries and those of ordinary workers to be unjust. While they reported that the managing director corrected for this by rewarding managers for special projects, they complained that this was not done in a just and transparent manner. Other aspects of regulation at HVC were seen as unsystematic and arbitrary. There were complaints that the general manager made up all the rules, that these were not always clear, fair and reasonable and that as a consequence, the company culture (in our terms, the DIS and NBNS aspects of OMA) was characterized by blame avoidance, ‘politics’ and lack of initiative.



### *Basis of Moral Authority*

In this section, we focus, where data was available, on the BMA of the leading figureheads of each case company. We and assess whether their authority was of a disempowering nature (based on the politics of domination, manipulation or headship), or whether it was trust-oriented (grounded in deferential or critical trust).

### *Problematic BMA at the Two Large SOEs*

A legacy of disempowerment was reported at both large SOEs. At CE, according to Ha Saikit, the current general manager, his predecessor ‘had supreme authority, his words were the company’s policy and decision’, implying a BMA of domination, the disempowerment of others. That person had also set himself above the law having transferred the ownership of a Philippines-based subsidiary worth \$650,000 to a personal friend, he had disappeared shortly before his compulsory retirement was due. This incident, a manifestation of the so-called ‘59 phenomenon’ (Jiang 2000), is also reported by Xin and Chen (1999: 50-51). Mr. Ha was said by middle managers to adopt a more transparent, rational and consultative approach to decision making than his predecessor had done. Mr. Ha, nonetheless, saw nothing wrong in exercising leadership that might be considered ‘forceful’. For example, he reported that in the case of one rushed deadline, he had pressurized senior managers by withholding their salaries, paying them only the *xiagang* rate until the job had been completed. They finished in time, and got their money back with 10% interest.

WISCO’s problematic BMA legacy was the converse of that at CE: a system of headship served to neutralize the leadership, disempowering the top. *Guanxi* networks protected managers at various levels in the organizational hierarchy from scrutiny and accountability. A middle manager reported:

‘Our company’s inner circle relationship network is very complicated and has lasted more than 40 years. When a newcomer joins the company, he has to follow existing informal rules. The Premier Vice-President, appointed two years ago, paid much attention to internal corruption. Once he was informed that a sales manager received a bribe in a deal with a customer from Guangdong province. He asked his subordinates to investigate the case thoroughly. But soon, the subordinates found that the case

involved many employees, including some senior managers. The investigation was obstructed and eventually stalled. He discovered that his power was limited compared with that of an established system. He was frustrated deeply. Half a year ago, he resigned from his post.’

### *Deferential Trust at the Two JVCs and at WDS*

At the two JVCs, EB and DCA, deferential trust centred on the integrity of the regulatory systems imported by the foreign partners, and appeared to spill over into trust in the integrity of the leaders themselves. For example, a middle manager at EB said, about the general manager, who was a Hong Kong Chinese, Canadian passport holder, ‘He is Canadian, he abides by the laws strictly!’ At DCA, the Chinese general manager declared that employees should be loyal to the company, rather than to himself. Middle managers at DCA expressed confidence that regulatory systems were followed at all levels; annual external auditing by Hong Kong based accountants and a regulatory code of conduct for cadres may have reinforced their confidence. At WDS, where regulatory systems were modelled on a subsidiary JVC, as noted earlier, middle managers were also confident that everyone was subject to the rules. For the chairman, Mao Dong-sheng, saw management’s accountability to the shareholders as a foundation for trust.

‘We always say the regulations have more power than the general manager. So I as a general manager, must obey the regulations first and foremost. If I didn’t obey the regulations, no one would obey them. So we must have something to supervise the general manager.’

### *Contrasting BMA at RHK and HVC*

At RHK, there appeared to be strong deference to the moral authority of Founder-president Xie Sheng-ming, He was seen as the charismatic force behind the company’s success, and had achieved the rare honour for a private businessman of being appointed as a non Party member to the National People’s Congress. Unlike WISCO, the laxity of RHK’s regulatory systems was not attributed to failure of leadership authority, nor to a corrupt counter-culture, but rather to the unique control problems entailed by the geographical dispersion of operations across rural areas throughout China. The BMA at HVC appeared, by

contrast, to be domination based. HVC's general manager, a former Wuhan government official, had a substantial personal shareholding, and according to middle managers, he hoarded all decision making authority, required unquestioning obedience, and treated them as mere 'wage earners'. A middle manager reported:

'Since its foundation, the company has had three general managers and has recruited three distinct batches of employees. The general managers have had different business beliefs and approaches, so employees' values differ correspondingly. Frankly speaking, in this situation, people just learn to obey'.

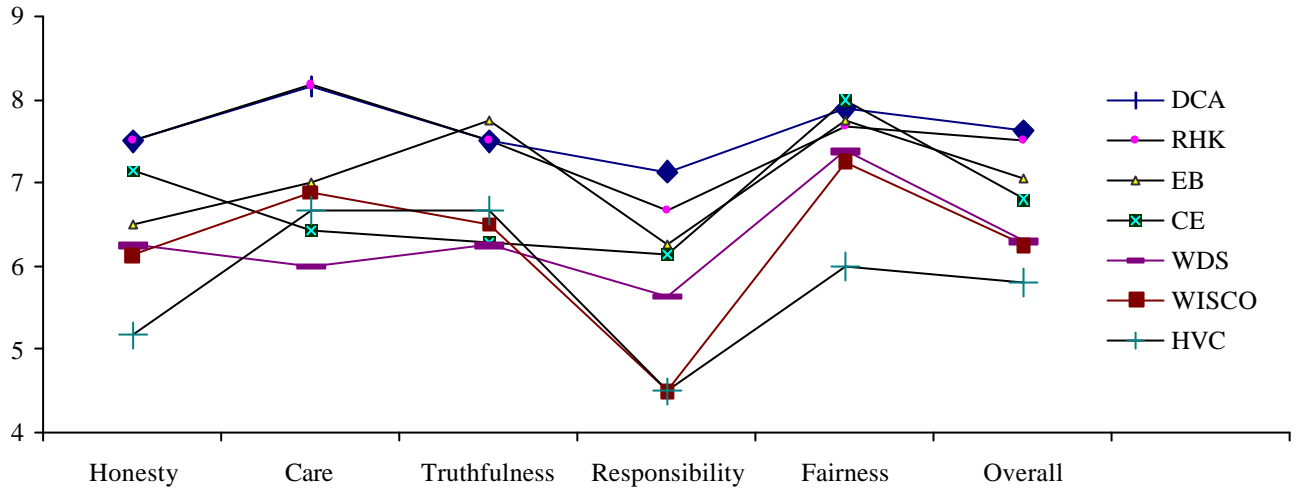
### *Assessments of Moral Conduct*

MEQs were completed by 47 of the middle management interviewees. The MEQs included five nine-point Likert scales on perceived moral conduct (1 = totally disagree, 9 = totally agree). The items in question were:

- (On honesty). If I act honestly in every aspect of my present job, I will be praised
- (On care). My overall impression is that my colleagues will take greatest care to avoid any damage to the community or to the environment
- (On truthfulness). I believe that my staff always keep reliable and accurate records when they have business meetings
- (On responsibility). Staff take responsibility to do everything properly, even when such work is not specified in their duties
- (On fairness) I am confident that my company treats every customer and supplier in a fair manner.

Figure 2 summarizes the ratings by middle managers, placing born-private RHK, and the two JVCs (DCA and EB), above the four SOEs in terms of integrity. Mann-Whitney U tests (Siegel 1956) indicated that the differences between DCA and HVC [ $U(8,6) = 3, P < 0.01$ ], DCA and WISCO [ $U(8,8) = 2, P < 0.001$ ], and DCA and WDS [ $U(8,8) = 14, P < 0.05$ ] were statistically significant. Differences between RHK and HVC [ $U(6,6) = 4, P < 0.01$ ], and RHK and WISCO [ $U(8,6) = 6, P = 0.01$ ] were also significant.

**Figure 2**  
**Ratings of Moral Conduct**



**Table 4**  
**Aspects of Moral Atmosphere at the Focal Companies**

Company	Workforce quality	Non-ideological FMG (excluding reward system)	Perceived equity of the reward system	BMA of the leadership
DCA	Educated elite	Consensual rule of law Procedural rigour	Equitable	Trusted to conform to a robust regulatory system
RHK	Educated elite	Some consensual rule of law Some imposed rule by law Procedural laxity	Equitable	Trusted through charismatic authority
EB	Legacy of dependency	Mostly consensual rule of law Procedural rigour	Equitable	Trusted to conform to a robust regulatory system
CE	Dependency ethos	Imposed rule by law Procedural laxity	Inequitable	Forceful
WDS	Legacy of dependency	Consensual rule of law Procedural rigour	Equitable on paper Possible distortions	Trusted to conform to a robust regulatory system
WISCO	Dependency ethos	Imposed rule by law Procedural laxity	Inequitable	Disempowered
HVC	?	Imposed rule by law Procedural laxity	Inequitable	Domination

## CONCLUSIONS

### How Problematic is the Wider Context?

The wider context of network Capitalism appears to make it very difficult to uphold high standards of organizational integrity. Propagation of moral ideology through Party channels may have been intended as a surrogate for a legal system, but that ideology appears too loosely coupled, incoherent and incompatible with unofficial values, to govern social and economic order. *Organizational guanxi* and other questionable business practices, some not mentioned here, were regarded as survival imperatives, even by employees at RHK, rated second out of seven companies in terms of overall integrity.

Normative incoherence prevents the Party from convincingly differentiating legitimate from illegitimate means of wealth accumulation. A related problem in SOEs is that of distributive injustice, for managers reject the Maoist legacy of equality-based salaries and benefits, but are unable, owing to lack of funds, to implement market-based or formal equity-based remuneration. SOE employees use idiosyncratic and illegitimate tactics, such as moonlighting, ‘window-dressing’, commission taking, and at the very top the ‘59 phenomenon’, to restore equity through the back door.

A further problem, especially at the large SOEs, is that of employee dependency and an associated lack of work discipline. DCA avoided the problem by negotiating an elite recruitment policy, and RHK could hire and fire at will, but these options were not open to CE and WISCO, and if translated into mass layoffs merely create other social problems. The large SOEs lacked resources to reward punctuality, diligence, accuracy, etc., and could not dismiss those who fell short of standards. Managers there appeared to regard fines as the only disciplinary tool open to them. Punishment does not, however, instruct the culprit on how to improve, it ‘requires constant vigilance on the part of a supervisor’, and it “encourages efforts to ‘beat the system’” (Blanchard and Thacker 1999: 91). With no incentives for supervisors to police their lifelong neighbours, it is no surprise that punishment-based regulation at WISCO and CE was lax and ineffective.

### **What Might be Done to Achieve and Maintain Organizational Integrity?**

Managers looked beyond the Party for moral leadership. At WDS, and at the two JVCs, DCA and EB, they had a high regard for rational-legal systems of administration brought in by overseas partners. These differed, on paper at least, from the punishment-oriented disciplinary regimes practised (and evaded) at CE, WISCO, RHK and HVC, in that they entailed a more complete system of internal rule of law. Thus they aspired to the transparent, open, and rigorous enforcement of a set of rules and procedures seen to be fair and reasonable, independently of the idiosyncratic will of individual administrators, and its application to everyone, with no exemptions, regardless of rank or connections. The significant difference in conduct ratings between DCA and WDS suggests that such systems may require hands-on collaboration by a non-mainland partner (as at DCA) in order to operate as intended, and not be skewed toward a self-fulfilling version of ‘theory X’. That they are not a panacea may also be appreciated by extrapolating from the case of RHK, where geographical dispersion was a barrier to the operation of any system.

The only mention of developmental approaches to building OMA was at WISCO, where there had been some attempt to foster open dialogue among employees. It could be that open dialogue with no ‘right answer’ contrasts with the traditional *modus operandi* of the Party, and that the potential benefits of dialogue are overshadowed if one-way propaganda predominates. Developmental approaches, essentially alien and untried, entailing freedom of thought and voice, may yet provide a means of resolving otherwise intractable OMA problems on the Chinese mainland.

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