

## **Guanxi and the Ethical Judgments and Moral Reasoning of Hong Kong Managers**

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### **ABSTRACT**

*The importance of personal connections and relationships, or “guanxi”, when doing business with the Chinese is widely acknowledged amongst Western academics and business managers alike. However, aspects of guanxi related behaviours in the workplace are often misunderstood by Westerners with some going so far as to equate guanxi with forms of corruption. This study investigates the underlying modes of moral reasoning in ethical decisions relating to aspects of guanxi, amongst Hong Kong managers. Managers’ ethical judgements and underlying moral reasoning relating to a series of guanxi related behaviours, were recorded. Content analysis yielded categories that correspond with categories of moral reasoning described in Kohlberg’s (1969) model. As hypothesised, it was found that harsher ethical evaluations of guanxi-related behaviours were positively correlated with the stage of moral reasoning. The most common types of reasoning were those corresponding to Kohlberg’s stages four and five which relate to moral reasoning based on law and order, and on reason rather than emotion. Stage six, concerned with universal moral principles, was utilized considerably less than other stages. This finding supports the literature on ethical ideology across countries and cultures whereby Eastern cultures are generally found to be more relativistic or less universal than their Western counterparts.*

**Keywords:** business ethics, Chinese, guanxi, individual values

Since the reversion of Hong Kong to Chinese sovereignty in 1997, Hong Kong’s trade and investments with the mainland have grown at an unprecedented pace, with economic integration with mainland China having become one of the main elements of Hong Kong’s economic strategy (Sung, 2005, xv). The economic integration between the two states has resulted in more frequent and intense contact between Hong Kong and mainland Chinese. In recent years, the Chinese word ‘guanxi’ has become a buzzword in Chinese business life in Hong Kong. ‘Guanxi’ is literally translated as ‘social connections’ which are highly regarded as a key determinant of business success in Chinese society (Luo 2000). However, some authors have suggested that if used inappropriately, guanxi may result in unethical behaviours, such as nepotism and corruption in Chinese society (e.g. Fan 2002; Wright, Szeto & Cheng 2002).

Previous studies have shown that Hong Kong executives perceive guanxi as a major determinant for successful business in China (e.g. Leung, Wong & Wong 1996). Given the cultural differences between the East and the West, guanxi influenced business practices have been viewed with some

ambivalence by Westerners who do business with the Chinese. This has prompted a strong interest in research examining ethical judgements and guanxi-related behaviour (Ang & Leong 2000; Au & Wong 2000; Dunfee & Warren 2001; Su & Littlefield 2001; Fan 2002; Chan, Cheng, & Szeto 2002; Tan and Snell 2002; Su, Sirgy & Littlefield 2003; Millington, Eberhardt & Wilkinson 2005).

There is considerable empirical support in the literature to suggest that the structure of an individual's moral judgements, that is, those aspects which determine whether decision or behaviour is ethical or unethical, are not consistent across all decisions, (Jackson, David, Deshpande, Jones, Joseph & Lau 2000; Whitcomb, Erdener & Li 1998) and that individuals draw on a number of ethical philosophies when making a single ethical decision. There have been a limited number of studies looking at the modes of moral reasoning underlying ethical judgements (e.g. Tan & Snell 2002) in Chinese populations. This study investigates the underlying modes of moral reasoning in ethical decisions relating to aspects of guanxi, amongst Hong Kong managers.

This study draws on data collected from managers working in a large international bank in Hong Kong. A number of short scenarios, or vignettes, depicting guanxi-related ethical dilemmas, were presented to the managers. Ethical judgements of behaviours depicted in the vignettes, as well as the reasons given by the managers for their judgements, were obtained. A study conducted by Ho, Redfern and Crawford (2006) used data collected from the same sample to examine the relationships between the managers' ethical judgements and their individual values, as measured by the Chinese Value Survey (Chinese Culture Connection 1987). This study will focus on an analysis of reasoning behind the ethical judgements that managers gave for each of the vignettes. In addition, the relationships between the types of ethical reasoning and the ethical judgements made will also be investigated.

Previous studies that have investigated the reasoning behind ethical judgements have utilized a variety of existing normative models. These models include Kohlberg's (1969) six-stage model of moral reasoning (e.g. Weber & Green 1991; Snell 1996), Rest's (1986) Defining Issue Test (e.g. Au and Wong, 2000; Su, Sirgy and Littlefield, 2003), and Jones's (1991) Issue-Contingency Model (e.g. Morris and McDonald, 1995; Singer, 1996; Singhapakdi, Vitell, Kraft, 1996; Davis, Johnson, and Ohmer, 1998; Singer, Mitchell, and Turner, 1998; Frey, 2000; Dukerich, Waller, George, and Huber, 2000; May and Pauli, 2002). In this study, content analysis was carried out using open coding which does not rely on the use of previous theoretical frameworks. However, inspection of the categories obtained made it clear that the types of ethical reasoning used could be readily classified according to the various stages of moral reasoning, as defined in Kohlberg's (1969) six-stage model. Therefore Kohlberg's framework was adapted for further analysis aimed at linking the nature of ethical reasons given to the actual ethical judgements given for each of the vignettes.

## **Guanxi**

The term 'guanxi' is a complex concept with multiple meanings in the Chinese context. It is commonly defined as the "relationship" between two people (Fan 2002). The traditional concept of guanxi emphasizes the five cardinal relationships defined in Confucian ideology. These relationships are emperor-subject, father-son, husband-wife, elder brother-younger brother, and friend-friend. Such relationships are role specific, dictated by the Confucian concept of *li* (propriety). According to the principle of *li*, individuals must follow the 'proper' way and 'proper' rituals of social integration, respect for age, authority, and social norms (Hong and Engstrom 2004). In order to be a good role player, each actor has to perform their role in such a way that they are sometimes required to hide their own feelings and act in accordance to what is expected for their role (Tsui & Farh 1997).

Familial guanxi, or guanxi related to connections within one's family, refers to a set of Confucian relational principles which are generally regarded as moral and desirable. In Chinese society, family relationships and the moral rules governing them are replicated in one's place of work (Law, Wong, Wang & Wang 2000; Michailova & Hutchings 2006). For example, senior employees are obliged to protect subordinates at work. In return, the junior employees respect and obey their superiors in much the same way as one would treat their own parents (Hofstede and Bond, 1988; Bakken, 2000). In Chinese society, 'respecting superiors' is of overriding importance in the maintenance of effective relationships. However, it has been suggested that an overemphasis of the rule of 'respecting superiors' can serve to encourage subordinates to blindly support and follow superiors' unethical behaviour without question (Wright et al. 2002).

Guanxi in its contemporary sense is defined as 'connections'. It is dominated by the sense of group orientation (in-group and out-group). In business, guanxi-related behaviours involve giving gifts, offering to pay expenses for a trip, and entertaining executives with a sumptuous banquet, etc. (Dunfee & Warren 2001). In the Chinese culture, such behaviours might be regarded as polite gestures and normal. However, in the eyes of the Westerners, it has been suggested that some of these guanxi-related practices could be seen as forms of bribery (Su, Sirgy & Littlefield 2003). The conflict created by guanxi practice raises some questions for Westerners as to the etiquette and ethics of doing business with Chinese. Leading up to China being officially admitted to the World Trade Organization (WTO) in 2001, studies on guanxi and business ethics started to increase markedly (see Ang & Leong 2000; Au & Wong 2000; Dunfee & Warren 2001; Su & Littlefield 2001; Fan 2002; Tan and Snell 2002; Su, Sirgy & Littlefield 2003; Millington, Eberhardt & Wilkinson 2005).

In an attempt to examine the role of *guanxi* and morality in the workplace, Tan and Snell (2002) developed four ethical scenarios, or vignettes, to examine whether Chinese cultural heritage would

lead managers of Chinese descent to adopt an ethical framework that is different to that used by expatriate managers from Western countries. Each of the four scenarios represents a unique ethical dilemma that is commonly experienced in the workplace. They involved the principles of “trust” (xin), “benevolence” (ren), “filial conduct” (xiao), and “loyalty” (zhong). That study found that the Singaporean Chinese managers were significantly more lenient than the expatriate managers from Western countries on their ethical judgements of behaviours that were influenced by the *guanxi* principle of “trust” and “loyalty” respectively.

### **Kohlberg’s Model of Moral Reasoning**

Lawrence Kohlberg’s (1969) six-stage model of moral development is a widely used approach to examine variation in moral reasoning amongst individuals. The model represents a developmental hierarchy of underlying conceptual bases that people draw on when judging what is the morally right thing to do in a given situation. Kohlberg identified three levels and six stages in the process of ethical judgements. These levels and stages are outlined in Table 1. The first Level is called the ‘Preconventional Level’ where reasoning is based on self-interest. For example, winning rewards or avoid punishment. Level 2 is described as the ‘Conventional Level’ where reasoning is based on conformity of social norm. For example, subject to family or peer-group pressure. The third level is coined as the ‘Postconventional Level’ where reasoning is based on universal ethical principles which is underpinned by the notion of justice.

The model was developed in the U.S. and has been tested in different locations, including rural villages in Taiwan and Malaysia. Respondents were required to indicate what they think should be done in particular hypothetical dilemma situations, and then to explain the reasons behind their judgements (Snell 1996).

Kohlberg’s (1969) model has been used to provide a theoretical foundation for an understanding as to how managers approach different ethical dilemmas (e.g. McDonald & Pak 1996; Snell 1996; Weber & Green 1991). However, the model has received some criticism in the literature (Snell 1996). Firstly, it has been criticized for its preoccupation with justice. Some scholars argue that universal caring and love may be as worthy a force in ethical reasoning as justice (Snell 1996). Secondly, it has been criticized for lacking logical connection to actual decision making because it was concerned about what ‘ought to be done’ and ignored ‘what people will actually do’. Thirdly, it was criticized for having a “Western” cultural bias. Regardless of this criticism, Snell (1996) and McDonald and Pak (1996) found Kohlberg’s six-stage model can be utilized to portray the ethical reasoning of Hong Kong Chinese managers.

## THE STUDY: AIMS AND HYPOTHESIS

The aim of the study is twofold. Firstly, it aims to explore the moral reasoning behind the respondents' ethical judgements on guanxi-related behaviours in the workplace, as depicted in a series of four vignettes, in a sample of Hong Kong managers. Secondly, it intends to investigate the relationship between the nature of the ethical reasoning and the ethical judgements. The vignettes used were taken from Tan & Snell (2002), which were designed to represent the different degrees of principles of guanxi in typical organizational settings.

**Table 1: Kohlberg's six stage model of moral reasoning**

Level and stage	Description
<i>Level I - the Preconventional level</i>	
Level I, Stage 1 Obedience	Whatever is rewarded is good; whatever is punished is bad.
Level I, Stage 2 Instrumental egoism and simple exchange	I'll do something good for you if you do something good for me. Fairness means treating everyone the same.
<i>Level II — the Conventional level</i>	
Level II, Stage 3 Personal concordance	Good is conformity to a stereotype of "good" people, or to peer approval.
Level II, Stage 4 Law, and duty to the social order	Good is defined by the laws of society, by doing one's duty. A law should be obeyed even if it's not fair.
<i>Level III — the Postconventional (principled) level</i>	
Level III, Stage 5 Societal consensus	Good is understood in terms of abstract principles that the society has agreed upon. An unfair law ought to be changed.
Level III, Stage 6 Universal ethical principles	Good is understood in terms of abstract principles whether or not societies agree with them. An emphasis on human rights.

Inspection of the nature of Kohlberg's six stages model of moral reasoning shows that lower levels (see Table 1) are associated with reasoning based on self interest or the fostering of social relations. This is highlighted through a more detailed description of the vignettes in the Instruments section which follows. Higher levels relate more to the following of the rule of law or other formal rules/regulations, or to more general abstract ethical principles. Vignettes one, three and four depict behaviours that could be interpreted as being 'wrong' by virtue of their being inconsistent with the law or general ethical principles (such as telling the truth). Therefore, for these vignettes it is expected that managers that used ethical reasoning corresponding to the higher stages of development would give harsher ethical evaluations. However, Vignette two depicts a manager acting in a way that is consistent with such legal and general ethical principles, but at the expense of social obligations (guanxi) to an employee. Thus, for this vignette, respondents who are in the higher levels of

Kohlberg's stages would be expected to be less critical of the behaviour depicted in Vignette two and so they will judge the behaviour to be less unethical. Hence, the following hypothesis is formed:

*Hypothesis 1: For Vignettes 1, 3 and 4, Kohlberg's (1969) stage of moral reasoning will be positively correlated with harsher ethical judgements of the behaviours depicted in the vignettes, while for Vignette 2 the stage of moral reasoning will be negatively correlated with harsher ethical judgements.*

## METHODS

### Sample and Data Collection

A total of 180 questionnaires, written in Chinese, were handed out to bank managers of a large international Hong Kong bank by the CEO's executive secretary. In order to avoid issues with mistranslation, the survey was translated and back-translated by two bi-lingual research assistants and checked for accuracy by a bi-lingual academic. A total of 165 questionnaires were completed and returned to the executive secretary in the first two weeks, representing a response rate of 91.6%. Five were incomplete and were discarded, resulting in a final sample of 160 usable questionnaires, and a final response rate of 88.8%. In the final sample, 59% of the respondents were male. The sample was highly educated, with 73% of the subjects holding a Bachelors' or other higher degree. Subjects worked in a variety of departments, with 27% from the accounts department, 39% from the marketing department and 8% from the risk department. The remainder were spread across other departments. A majority of the subjects held senior positions in the organization, with 34% of the subjects being vice president or above, 10% were assistant vice presidents, 37% were managers and 9% were officers.

### Instruments

A self-administered questionnaire, written in Chinese, was used to collect the required information. The questionnaire comprised three sections relevant to this study. The first of these contained four short descriptions of questionably unethical behaviour ("vignettes"), taken from Tan and Snell (2002). These vignettes were designed so that subjects' ethical judgements are influenced by what Tan and Snell (2002) termed 'guanxi role-related duties and responsibilities'. These vignettes were pre-tested, and reported by Tan and Snell (2002).

Each vignette represented a different aspect of guanxi. The vignettes are briefly outlined below.

- The first vignette related to conforming to the *guanxi* principle of "peer trust", in which the moral agent failed to report his peers' unethical practice of corruption to higher management.
- The second vignette is about violating the *guanxi* principle of "benevolent authority". In this vignette the moral agent sacked an underperforming subordinate after several extortions, regardless of the employee's need to support his family.

- The third vignette was about conforming to the *guanxi* principle “filial conduct” of a subordinate towards superior. As a means to please his superior, the moral agent accepted his superior’s implicit request to not report the latest research that contains unfavourable statistics to the board of directors.
- The last vignette was about conforming to the *guanxi* principle of “loyalty to superior”. As a means to reciprocate his superior’s mentoring in the past, the moral agent was willing to accept his superior’s explicit request for making himself the scapegoat for his superior’s traffic infringement with 6-demerit points.

Respondents were asked to rate the behaviour depicted in each vignette on a 7-point rating scale (1 represents “totally ethical”, 7 represents “extremely unethical”). With the exception of Vignette two, in each of these vignettes, the behaviours would be judged less unethical by those respondents who were more strongly influenced by the *guanxi* principles. Since Vignette two was about violating the *guanxi* principle of “benevolent authority”, the depicted behaviour would be judged MORE unethical by those respondents who were more influenced by the *guanxi* principle of “authority benevolence”. Since the type of reasoning used could vary from one vignette to another, the method adopted by Tan and Snell (2002) was used and an open-ended question asking the respondents to explain their judgement was presented for each vignette.

### **Data Analysis**

Responses to the open-ended questions on reasons for the ethical judgements were content analysed using the methods described by Berg (2004). Each vignette was analysed individually, following McDonald and Zepp’s (1988:843) suggestion that since ‘...there is little consistency in perceptions of unethical situations, each circumstance should be examined separately. Acceptance of unethical behaviour in one situation cannot be used as an indicator of likely agreement to unethical behaviour in other situations, nor can it be taken as a measure of overall agreement to unethical behaviour’.

Initially, open-coding was used as it was judged that there was not a model or framework that could be relied upon to validly categorize the ethical reasoning of Hong Kong managers. However, inspection of the categories obtained from this open coding suggested that responses could actually be readily classified according to the stages of moral reasoning as presented in Kohlberg’s (1969) six-stage model of moral reasoning. This is consistent with Trevino (1992) who suggested that Kohlberg’s stages of moral reasoning could be used to classify different modes or categories of ethical reasoning.

The SPSS statistical software, Version 12 (Coakes 2005) was used for data analysis. For each vignette, and for each respondent, the stage number was entered into the SPSS statistical software package. The frequency distributions of the categories of ethical reasoning for each of the vignettes were calculated.



The ethical judgements of the managers for each of the vignettes were also entered into the SPSS program. Bivariate correlation coefficients were used to examine the relationships between the Kohlberg stage of moral reasoning used and the managers' ethical judgements of the behaviours displayed in each of the vignettes.

## RESULTS

Table 2 displays the results of the content analysis of the managers' responses to the open-ended question regarding the reasons for their ethical judgements. The labels given to each of the response categories are shown as well as examples (translated into English) extracted from the managers' written responses. For each category, the corresponding stage of moral reasoning, as defined by Kohlberg's model, is also shown in Table 2.

**Table 2: Content analysis of responses to the open-ended questions on reasons for ethical judgements**

<b>Category from content analysis, and corresponding Kohlberg stage of moral reasoning</b>	<b>Examples of quotes from Managers</b>
Obedient to Authority (Stage 1)	<p>“Ah Meng only followed his superior’s instruction” (Vignette 3)</p> <p>“Ah Ming was only carrying out his superior’s instruction” (Vignette 3)</p> <p>“An subordinate needs to obey guidelines from superior” (Vignette 3)</p>
Guilt reaction are ignored (Stage 2)	<p>“Most people will do the same thing as Chung” (Vignette 1)</p> <p>“It is common” (vignette 1)</p> <p>“If he is only a staff, it is his superior who needs to bear the consequence”. (Vignette 3)</p> <p>“This situation is very common” (vignette 4)</p>
Playing a good role (Stage 3)	<p>“Not wanting to offend one’s colleagues” (Vignette 1)</p> <p>“Chung should be thankful for being treated as in-group” (Vignette 2)</p> <p>“Ah Man in fact can use a more positive (effective) method to help the underperformed staff so as to create a win-win situation” (Vignette 2)</p>
Stereotypes of virtue (Stage 3)	<p>“Ah Ming did not lie, he just did not reveal all the truth” (Vignette 3)</p> <p>“Ah Ming did not tell the board of director everything, but he did not lie” (Vignette 3)</p> <p>“Not ethical but did not affect other people” (vignette 4)</p> <p>“No one was hurt therefore we can’t say Ah Peng is unethical” (vignette 4)</p> <p>“His did not hurt other people” (Vignette 4)</p>

**Table 2, continued.**

<b>Category from content analysis, and corresponding Kohlberg stage of moral reasoning</b>	<b>Examples of quotes from Managers</b>
Doing one's duty (Stage 4)	"It is Chung's responsibility to report the incident" (Vignette 1) "Chung should put the organisation's interest first" (Vignette 1) "Chung should protect the company's interest" (Vignette 1) "Ah Man was only doing his job" (Vignette 2) "It is Ah Man's job responsibility" (Vignette 2) "This is Ah Man's job to sack underperformed staff" (Vignette 2) "Ah Man was doing what the job requires him to do" (Vignette 2)
Law and Order (Stage 4)	"It violates the law" (Vignette 1) "It is a corruption" (Vignette 1) "Covering the fact is a serious crime" (Vignette 3) "To massage the figure is illegal" (Vignette 3) "It is a criminal case" (Vignette 4) "It is infringing the laws" (Vignette 4) "Acting as someone's scapegoat is a criminal case" (Vignette 4)
Community-defined principle of Justice (Stage 5)	"Reporting unethical practice is not unethical" (Vignette 1) "Everything should be competed fairly and squarely" (Vignette 1) "This has resulted in unfair competition" (Vignette 1) "It is unfair" (Vignette 1) "Everybody needs to be responsible for their own " (Vignette 4) "Cheating is cheating" (Vignette 4)
Based on reasons rather than emotions (Stage 5)	"One cannot use 'treat me as someone who is trust worthy' as an excuse to right the wrong" (Vignette 1) "Should not help him with such unreasonable request" (vignette 4)
Universal Moral Principle (Stage 6)	"Integrity should come before trust" (Vignette 1) "Selective disclosure amounts to deceiving" (Vignette 3) "Should tell the truth" (Vignette 3) "Telling lie is wrong" (Vignette 4) "Should maintain integrity" (Vignette 4)

Table 3 shows the frequency distribution of types of ethical reasoning used for each of the vignettes. Unlike the findings of Tan and Snell (2002), only a few respondents in the present study displayed more than one type of moral justification in their open-ended responses. In order to simplify the process of analysis, for those few subjects who gave more than one type of moral justification, only the response given the greatest emphasis was coded for analysis. About a third of the managers did not answer these open-ended questions, and the responses have been coded as missing values. In addition, a small number of respondents gave responses that were not appropriate answers to the question asked, and these too were coded as missing data. For simplicity they have been grouped in

Table 3 under the heading “No Response”. (Ten respondents for Vignette 3 focused on the boss’s behaviour, rather than that of the moral agent and 7 subjects did not give appropriate responses to the open-ended question for Vignette 4.)

**Table 3 : Frequency distributions of modes of ethical reasoning in reasons given managers for their ethical judgements**

<b>Kohlberg’s six-stage Moral Reasoning</b>	<b>Vignette 1 (Peer Trust) (N=160)</b>	<b>Vignette 2 (Benevolent) (N=160)</b>	<b>Vignette 3 (Filial Conduct) (N=160)</b>	<b>Vignette 4 (Loyalty to Superior) (N=160)</b>
Stage 1 Avoidance of punishment Literal Obedience to rules/authority	0 (0%)	0 (0%)	3(6.9%)	0 (0%)
Stage 2 Instrumental Exchange Guilt reactions are ignored	10(6.3%)	0 (0%)	10(6.3%)	5(3.1%)
Stage 3 (Guanxi Principle) Mutual interpersonal expectation Stereotypes of virtue	18(11.3%)	16 (10%)	3(1.9%)	4(2.5%)
Stage 4 Law and Order Doing one’s duty	34(21.3%)	26(16.4%)	14(8.8%)	38(23.8%)
Stage 5 : Base on Reason rather than emotion Being rational and purposive	22(13.8%)	58 (36.5%)	36(22.5%)	32(20%)
Stage 6 Universal moral principle Holding on one’s own principles	22(13.8%)	3 (1.9%)	37(23.1%)	11(6.9%)
No Response	54(33.8%)	56(35.0%)	57(36%)	70(43.7%)

As can be seen from Table 3, for each vignette, more than one third of the respondents did not provide a rationale of their evaluation (33.8% for vignette 1, 31.4% for vignette 2, 36% for vignette 3, and 37.5% for vignette 4). While only a small proportion of respondents adhered to the guanxi principle, most of them were concentrated in Vignette 1 “Peer Trust” (11%) and Vignette 2 “Benevolent Authority” (10%). There were only 2% for Vignette 3 “Filial Conduct”, and 2.5 % for Vignette 4 “Loyalty to Superior”. A majority of the respondents fell into Stages 4, 5 and 6. This result suggests that most of the respondents were at a higher stage of moral reasoning as defined by Kohlberg’s model.

To address Hypothesis 1, for each vignette the correlation coefficient between the managers' ethical judgements and the level of moral reasoning used in the reasons given for his or her rating were calculated. These correlations are shown in Table 4. The hypothesis will be supported if positive associations are found for Vignettes 1, 3 and 4, and a negative association is found for Vignette 2. Statistically significant ( $p < .01$ ) correlations, ranging in absolute size from .35 to .55, were obtained. Consistent with the hypothesis, positive correlations were found for Vignettes 1, 3 and 4, and a negative correlation for Vignette 2. Hence Hypothesis 1 is supported.

**Table 4: Correlations between the stage of moral reasoning and ethical judgements, for each of the vignettes**

Vignette	R
Vignette 1 "Peer Trust"	.40**
Vignette 2 "Authority Benevolent"	-.41**
Vignette 3 "Filial Conduct"	.55**
Vignette 4 "Loyalty to superior"	.35**

\*\*  $p < 0.01$

## DISCUSSION AND CONCLUSION

This study builds on the findings of Snell (1996) and McDonald and Pak (1996) who found that Kohlberg's six-stage model of moral reasoning can be used to describe the modes of ethical reasoning in samples of Hong Kong Chinese managers. The results suggest that, across all the vignettes, the most common types of reasoning were those corresponding to Kohlberg's stages four and five. Stage four refers to moral reasoning based on law and order, and doing one's duty. Stage five refers to moral reasoning based on reason rather than emotion, in other words being guided by rational thinking and a clear sense of purpose. The lower level stages, or what Kohlberg referred to as the "Pre-Conventional" stages, were utilized by a very small number of managers only.

In addition, stage six, being concerned with universal moral principles, was utilized considerably less than stages four and five. This supports the literature on the variation of ethical ideology across countries and cultures which suggests that the more collectivist Eastern cultures are generally more relativistic, that is, that there are no moral absolutes and ethical behaviour depends on the situation (Dolecheck & Dolecheck 1987; Hampden-Turner & Trompenaars 1993; Ralston, Giacalone & Terpstra 1994; Singhapakdi & Vitell 1994; Jackson et al. 2000).

It is interesting to note the dominant modes of ethical reasoning which managers used for each vignette, in light of the particular nature of the vignette itself. For instance, for the vignette relating to peer trust, respondents were more likely to draw on Stage four moral reasoning, relating to upholding law and order. This is perhaps due to the nature of the vignette, in which the behaviour of not reporting unethical behaviour to senior management might be thought as a violation of organizational rules or at least management expectations of employees. However, for the second vignette, which is related to a lack of benevolent authority (the sacking of an underperforming employee who needs to support his family) respondents were more likely to draw on a higher level of reasoning, stage five. According to Kohlberg's theory, reasoning at this level is thought to go over and above the mere adherence to law and order and involve more consideration and rational thought about the decision dilemma. Thus, the results appear to suggest that different modes of moral reasoning are applied to different vignettes, contingent on the situation. This supports Trevino's (1986) interactionist model, which argues that moral judgements are influenced by a combination of both individual moral values or philosophies and situational contingencies arising from the issue itself.

Also of interest was how the types of ethical reasoning used for a particular vignette was related to the ethical judgements made for that vignette. As predicted by Hypothesis 1, for three of the four vignettes (numbers 1, 3 and 4), ethical reasoning characteristic of higher levels of Kohlberg's model were found to be associated with harsher ethical judgements. However, as predicted for the second vignette, the opposite trend was observed. Managers using ethical reasoning characteristic of higher Kohlberg's stages were found to judge the behaviour depicted in the vignette as less unethical.

The results of this study have important implications for organizations conducting business with Hong Kong Chinese. The study contributes to an improved understanding of the complexity of the notion of guanxi, Chinese value systems and approaches to business problems, particularly those with a moral, or ethical, dimension. More specifically it provides valuable insight into the strong influence of guanxi on common moral decisions made in Chinese organizations, and suggests a need for a situation-specific approach to the interpretation of questionably unethical behaviour in this rapidly changing society.

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