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## What is Governance? The Ethical Dilemma for Leaders and Managers: Multiple Case Studies of Corruption from China

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### Abstract

The objective of the paper is to look deeper on how these emergent and fast growing factors affect the relationship between ethical dilemma and governance in a newly industrialised country from the corruption and bribery aspect. The paper is explorative in nature. It identifies the need for new governance thinking, based on stakeholder and stewardship theories and transparency as well as its impacts in reducing corruption. The empirical study involves multiple qualitative case studies of multinational corporations of transparency and governance in China (5 cases of multinational companies, and 1 corporate governance code). In this paper, we are not arguing on the role of governance as a control or reporting initiative for corruption, but its role to shun institutional weakness in reducing corruption and resource integration. The study will reveal the challenges of transforming the role of governance in fighting corruption. Strong governance system is a vital component of company efforts to reinforce the right incentives and practices and to address the corrupted practices that they confront and defy ethical dilemma. Governance takes account of all the interests that affect the viability, competence and moral character of an enterprise. Thus, the present results indicate, not only the positive relationship between governance and corruption, but also reveal the characteristics of dynamic governance thinking within a broader governance framework for developing values based service business. Future research in this area should focus on generalizing the present findings by studying the development and integration of governance and clearing the dilemma in other empirical settings and conceptualization, for instance developed economies.

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## 1. Introduction

The several corruption and bribery cases unfolding in the newly industrialized countries, especially China raises the basic question: What is Governance? and its ethical dilemma for managers and leaders. The scandal, by big corporations, in China is not a new thing, which hasn't been done before by companies considering themselves as most responsible ones, like IKEA, Olympus, GlaxoSmithKline etc. Corruption and bribery practices seem ubiquitous in the global economy. The United Nations Global Compact estimates that corruption adds up to a 10% total cost of doing business globally and 25% additional procurement cost of doing business with developing countries (Bajoria, 2011). Transparency International's (2013) global corruption barometer investigated the public attitudes towards corruption of more than 114,000 respondents in 107 countries, which indicates that the problem is increasing. The way business are handling corruption, ethics and governance may not be a sign of progressive changes in the way business are operating in the more globalized and transparent world. Roberts (2001) starts his article by indicating that ethics is not so much missing from corporate life entirely as obscured, deferred, and marginalized in the way that we seek to govern the issue and the systems of corporate governance. He is arguing that "the current proliferation of codes of business ethics and the associated development of new social and environmental metrics to audit and measure such conduct will serve, paradoxically, to inhibit rather than promote the exercise of moral sensibility within the conduct of corporate life" (Ibid, p.109). The current discussions and reports on corruption of different business organizations, at the top management level, justify this argument. This creates the need for further discussions on how to defy corruption and bribery through the governance systems by integrating new components to alleviate the ethical dilemma, i.e. resulting in new governance thinking.

Several researches and organization emphasized the harms of corruption against development in the public sector (Carr and Outhwaite, 2009; Wu, 2005; Hellman et al., 2000; Wei, 2000; LaPorta et al., 2000; Kauffman and Wei, 2000), but very few studies assess the importance of corporate governance in combating corruption in the world business (Wu, 2005; 2009) by integrating social responsibility thinking and assessing the role of NGOs (Sebhatu et al., 2012). There is a need for deeper studies on its influence in business.

In this paper, we are assessing the theoretical foundation of these different concepts to understand the role of governance in flouting corruption and bribery and the need for new governance influenced by corporate governance (CG) and corporate social responsibility (CSR) thinking. In this paper, we are arguing on the role of governance in avoiding the ethical dilemma for leaders and managers and the effect of corruption and as an integrator of different thinking and transparency. Accordingly, our research question is formulated in the following way: what is the role of governance in discounting corruption and the ethical dilemma? To answer this research question, we studied a case from China - Chinese CG code and the ethical dilemma among leaders and managers, as China is one of the countries highly influenced by corruption and distressed by different business scandals.

The paper is of an explorative nature, based on qualitative study. In this paper, we are assessing different studies on governance, corruption, business ethics, dilemma and corporate social responsibility, which construct our theoretical frame work in the first part. The second part assesses the research methodology and the research design of the empirical study based on the codes of business ethics and five organizations: SanLu Group Co., Ltd., Gujing Group Co., Ltd, China National Petroleum Corporation, GlaxoSmithKline in China, Tianjin Depp Co., .LTD, which is followed by the discussion and analysis. The last part presents the discussion and conclusion with limitations of the paper.

## 2. Theoretical framework

### 2.1. Governance, corporate governance and corruption

There are several definitions of corruption with interrelated meaning. Transparency International defines Corruption as the abuse of entrusted power for private gain (Transparency International, 2013). It was, frequently, regarded as "the abuse of public office" (Wu, 2005, p.5) until the Foreign Corrupt Practices Act introduced in the United States, in 1977 (Alford, 2012). Although corruption can lead to a gain in wealth and considered as a way of doing business with a short term perspective, it has an abundant amount of negative effects. Carr and Outhwaite (2009) in their report analysed the engagement of international business on corruption and its negative impacts

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