

CULTURAL INFLUENCES ON INTERNATIONAL BUSINESS PRACTICE: THICK BLACK THEORY AND CORPORATE SOCIAL RESPONSIBILITY IN CHINESE ORGANISATIONS¹

ABSTRACT

This investigation and discussion of corporate social responsibility (CSR) addresses the social and ethical dilemmas in new business environments, adapting to changing global business landscapes, learning and adaptation at multiple levels, institutional environment and business development, in the processes of Globalisation, culture, and diversity management, including international business and cross-cultural management, and contemporary perspectives on MNEs in China. The analysis focusses primarily upon international and local companies engaged in contract manufacturing where the manufacturing firm is located in Mainland China. I take the position that behaviour relating to a firms' CSR is influenced by the societal culture within which the firm is located. I specifically address historical, cultural, and contemporary institutional influences on attitudes toward CSR in China. I discuss relationships of CSR and international business issues. I also review a definition and models of ecological factors driving people, businesses, and governments towards engaging in CSR.

Acknowledgements: xxxxx

Sidebar: "Business cannot succeed in societies that fail. Likewise, where and when business is stifled, societies fail to thrive"... "Society cannot succeed without business as a committed solutions provider". --Bjorn Stigson, Chairman, Stigson & Partners AB, and former President, World Business Council for Sustainable Development (WBCSD) 1995 - 2011, © Copyright 2013 Stigson & Partners, <http://www.stigsonpartners.com/about-stigson-partners/>

¹ Author's note 1: Tables and Figures are in line with the body of text for this review manuscript to facilitate readability.

Author's note 2: In several decades of reading academic literature the author finds a lack of understanding and numerous citation and reference errors in the identification and formatting of Chinese surnames and given names. In this manuscript, Chinese surnames are in all caps.

The Economist (2017, 23 September) points out that “Even as China’s achievements inspire awe, there is growing concern that the world will be dominated by an economy that does not play fair.” WANG & Juslin (2009, p. 433) state, “We find that the Western CSR concepts do not adapt well to the Chinese market, because they have rarely defined the primary reason for CSR well, and the etic approach to CSR concepts does not take the Chinese perception of reality and culture into consideration.” Logsdon, Thomas, & Van Buren (2006) provide analyses and evidence indicating that the drivers of CSR are best understood by considering the role of a country’s social and political history in shaping the complex relationships amongst the business, government, and civil-society sectors, which leads to varying interpretations of CSR. While this provides insight into varieties of CSR policies and practice, Visser (2006) commented that a survey of CSR education in Europe found 50 different labels for CSR modules, 40 different labels for CSR programmes, and numerous CSR synonyms. From past reading and research, I have produced a generic definition encompassing a company's (of any size) overarching responsibility to its community, broadly defined. This is often expanded through various levels from the immediate local community to the country and to the world as a whole. A company's corporate citizenship includes passive acts such as avoiding pollution, and positive acts such as building kindergartens, public sports fields, and perhaps even schools near its buildings and grounds. A company may engage in CSR activities for charitable or philanthropic reasons, and may also do so in an attempt to protect its profits, in the belief that products and shares of stock from a company known for poor corporate citizenship are less attractive to consumers and stockholders.

DEFINING CSR

Merriam (2007: 12) states "The hegemony of the Western 'scientific' perspective is also in evidence in the schools and universities of the non-Western world where Western textbooks,

theories and research are valued over local or regional resources", and in an interview in Saudelli, Mogadime & Taber (2013: 7) she emphasised the need to "decentre the privileged, Western perspective" as many other places have ways of being and ways of knowing that have "worked for them for eons". I will first review Western definitions of CSR, and then relate some issues in Chinese culture.

The academic and media publications generally refer to CSR as engaging in good citizenship behaviour by a business, where, in contemporary discussions, the behaviour provides benefits to primarily external stakeholders and their communities, through primarily charitable activities. CSR generally refers to social rather than fiscal responsibility as it is not directly related to payment of wages to employees, purchasing inputs and services in the local economy, or selling the business' products. The models described below indicate that economic success of a business, i.e., profitability, is the foundation of a sustainable CSR programme, rather than CSR activities being a significant contributor to profitability.

Davis & Post model of CSR

Gonzalez-Perez (2015) describes an evolutionary process of development of charity and stewardship in societies. In her review of theoretical and conceptual issues in CSR she points out that Frederick, Davis & Post (1988) proposed two principles which contributed to our current views on CSR. The first is the *principle of charity*, which in "Western" society is rooted in the Christian and Judaic biblical tradition of wealth redistribution, which suggests that those who have plenty should give to those who do not have plenty. The philanthropy in the USA of both Carnegie and Rockefeller, for example, were strongly influenced by their religious beliefs (Chernowf, 1998; Fosdick, 1952). Under this principle, members of the business community use their corporate power and wealth for the social or collective good. A second principle that shapes CSR is the *principle of stewardship*. This principle asserts that organisations have an obligation to see that the public's interests are served by corporate

actions and through the way in which profits are spent. Corporations have significant power and wealth through their control of vast resources. As this power and wealth came from their operations within society, they have an obligation to serve, act as stewards of society's needs, the managers and corporations becoming the stewards, or trustees, of society.

Other models of CSR

An early model of CSR was developed by Hay & Gray (1974), discussed in Gonzalez-Perez (2105), who describes the evolution from this model to contemporary definitions progressing through several phases. The Hay and Gray model includes three *phases*.

Phase I is labelled the *Profit-Maximising Management Phase*. For contemporary developed countries this phase occurred during the period of general economic scarcity in the nineteenth century, when business managers believed that they should have one objective: to maximise profits. The origin of this view was Adam Smith's (1776) notion that each individual business person acting in his or her own selfish interest would be guided by an invisible hand (the market mechanism) to contribute to generating the greatest possible wealth of nations. Phase I thrived in the United States as the common national goal during this period was to eliminate economic scarcity. Neither the principle of charity nor the principle of stewardship played an influential role in shaping CSR during this period, as managers essentially felt that what was good for business was good for the country. This business ethos was shaken by the Great Depression of the 1930s.

Phase II can be characterised as a *Trusteeship Management Phase*; this phase in, for example, the USA in the 1920s and 1930s, responded to the growth of pluralism and the increasing spread of stock ownership in society. Continuing to employ the USA as an example, as a consequence of the Great Depression, the number of privately held United States corporations began to decline, and organisations had to respond to the demands of both internal and external groups, such as stockholders, customers, suppliers, creditors and

community, instead of to a single owner. This phase is characterised by the belief that corporate managers are not just responsible to the stockholders but are required to acknowledge accountability to all with a stake in the organisation, as time passes the list of stakeholders continues to expand (Freeman, 1984). Organisations had to shift their orientation from solely generating revenue and profit to additional aspects of social responsibility, resulting in emergence of *Trusteeship Management*. Trusteeship management proposes that the job of the corporate manager is to maintain an equitable balance amongst the competing interests of all groups with a stake in the organisation. Senior managers are seen as trustees for the various stakeholder groups rather than merely agents for the owners. Consequently, pressure from these groups led to the use of some of the economic wealth generated by businesses to meet wider societal needs.

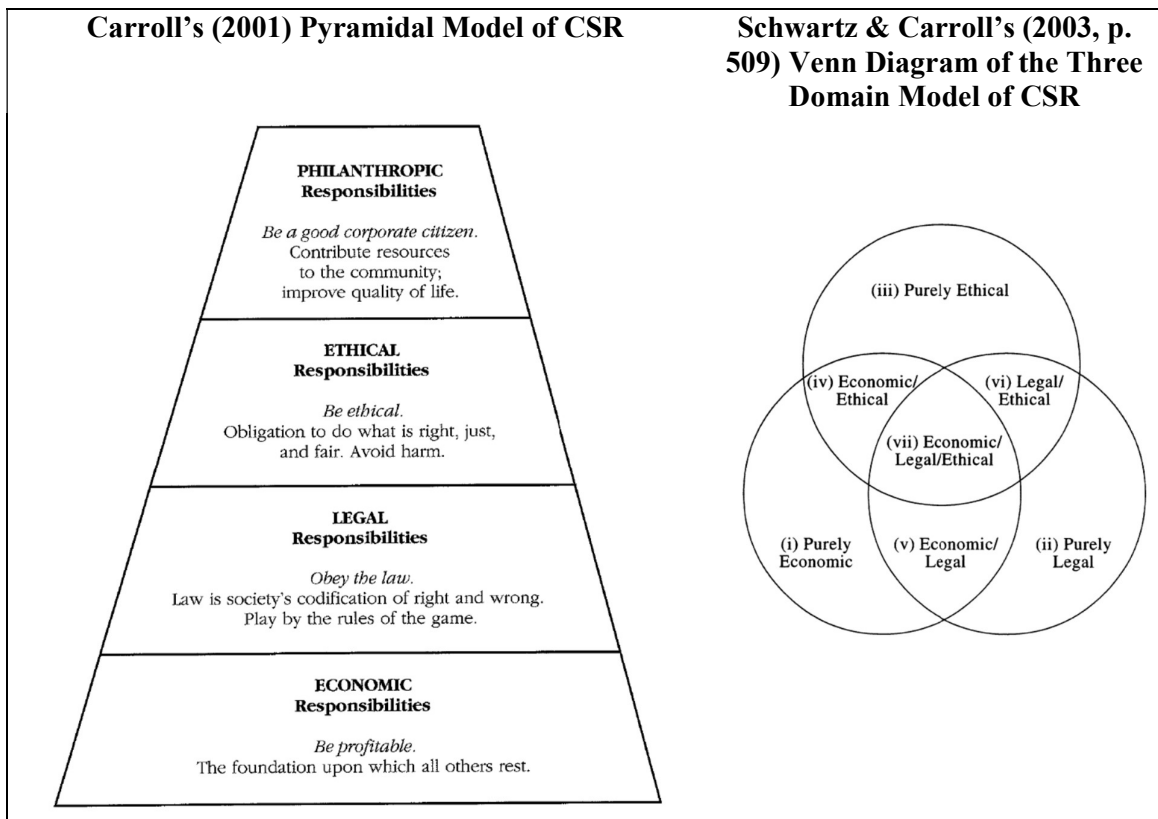
The *third phase* can be characterised as emphasising *Quality-of-Life Management*. By the 1960s, in the United States as an example and as the global economic leader, business had shifted focus from the issue of aggregate economic scarcity to issues such as environmental pollution, racial discrimination, poverty, worker and product safety, urban deterioration and other signs of social neglect. With this new set of priorities the pressure on managers to behave in socially responsible ways intensified. The consensus of society was that managers had to do more than achieve narrow economic goals. Activist portions of society were demanding that businesses play a larger role in meeting social needs, and helping to develop remedies for society's ills. In this phase the principles of both charity and stewardship were firmly in place, at least in the wealthy, developed USA.

In this three-phase model, each phase incorporates and expands from the essential elements of the earlier phases. As described by Hay & Gray (1974), managers holding a quality-of-life view understand the necessity for profits, and also to serve the demands of stakeholders, as well as working toward local, national, and global betterment.

There are other models of CSR that can be characterised by three (more or less) ideas (Garriga & Melé, 2013), supporting the idea that corporations have responsibilities towards society, suggesting that the sole responsibility of business is profit maximisation moderated by emphasising the roles and needs of stakeholders in influencing business plans, strategy, and behaviour. Support of the organisational economic basis of CSE is provided by Carroll’s (1991) model, a pyramid of CSR is a hierarchal model of increasing detachment from the shareholder value approach, depicted in Figure 1.

INSERT FIGURE 1 ABOUT HERE.

Figure 1. Carroll’s Models of CSR



Schwartz and Carroll (2003) propose folding philanthropic responsibilities into the ethical domain; see Figure 1, due to “giving to charitable organisations” argued to be ethical behaviour rather than needing a separate philanthropic domain as in the original model.

Dahlsrud’s (2008) five dimensions of CSR

For another model similar to Carroll's (1991), Dahlsrud (2008) identified thirty-seven definitions from a literature review and content analysis, and proposed that the large variety of definitions of CSR indicates they are socially constructed in a specific context. From his analysis, Dahlsrud derived five dimensions of CSR, in Table 1 below (Dahlsrud, 2008, p. 4). Dahlsrud's model parses CSR components well, focussing on the business organisation; see Table 1. The economic aspect is a given high priority in the models; if a business does not make profits they cannot share profits. The charity and stewardship model of Frederick, Davis & Post (1988) and the Hay & Gray (1974) three-phase model allow us to more easily consider national differences.

INSERT TABLE 1 ABOUT HERE.

Table 1. Dahlsrud's (2008) five dimensions of CSR with example phrases

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| <ul style="list-style-type: none"> • The environmental dimension (legal and ethical considerations), refers to the natural environment: “a cleaner environment”, “environmental stewardship”, “environmental concerns in business operations” • The social dimension (generally ethical considerations), refers to the relationship between business and society: “contribute to a better society”, “integrate social concerns in their business operations”, “consider the full scope of their impact on communities” • The economic dimension (the same as Carroll's model), refers to socio-economic or financial aspects, including describing CSR as a business operation: “contribute to economic development”, “preserving profitability”, “business operations”; • The stakeholder dimension (in some countries this is a legal responsibility), refers to interactions with stakeholders or stakeholder groups: “interaction with their stakeholders”, “how organisations interact with their employees, suppliers, customers and communities”, “treating the stakeholders of the firm”; • The voluntariness dimension (meeting philanthropic responsibilities), refers to actions not prescribed by law: “based on ethical values”, “beyond legal obligations”, “voluntary”. |
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Organisational economics of CSR

What is the relationships of CSR performance and corporate financial performance (CFP)? A favourite homily in international business publications is that companies can profit from

publicised CSR initiatives, “Doing well by doing good”. The idea does not have unequivocal support from research. LEE (2008: 64) finds, “...the last 30 years of research found no definite causal link between CSR and profit”. Ağan, Kuzey, Acar & Açıkgöz (2016) find, “There are mixed results in the extant literature regarding whether CSR has financial and/or other benefits for firms.”

The CSR literature provides support for positive, negative, and neutral impact of corporate social responsibility (CSR) on financial performance. McWilliams & Siegel (2000) see this inconsistency as possibly being due to flawed empirical analysis, and demonstrate a particular flaw in existing econometric studies of the relationship between social and financial performance. The studies reviewed estimate the effect of CSR by regressing firm performance on corporate social performance, and several control variables. This model is misspecified because it does not control for investment in R&D, which has been shown to be an important determinant of firm performance. This misspecification results in upwardly biased estimates of the financial impact of CSR. “*When the model is properly specified, we find that CSR has a neutral impact on financial performance*” (McWilliams & Siegel, 2000). In a recent thorough and thoughtful investigation of the financial impact of CSR, Nollet, Filis & Mitrokostas (2016) shed some light on the frequency of contradictory results. They find in a study of all the firms in the US S&P500 Stock Index for the period of 2007 to 2011, that no significant relationships can be reported between CSR performance (CSP) and Return on Assets (RoA), Return on Capital (RoC), and annual excess stock returns (Ex. Stock Returns) as a measure of market-based firms’ financial performance. CSR performance is approximated by the Bloomberg's ESG Disclosure score, which is based on publicly available company material and covers a wide range of data from CO2 emissions to the share of women on the board (Bloomberg, 2013, p. 16). Nollet et al. find evidence of a U-shaped relationship between CSR performance and accounting-based CFP. This relationship implies

that CSR pays off only after a certain threshold amount of investments and achievements regarding CSP have been made. Before this point is reached, additional CSR expenditures decrease CFP. Hence for a business enterprise, and for aggregates of business enterprises, e.g., companies headquartered in a particular nation, the measures are continually moving up, down, or unchanged, depending upon the time frame of companies' CSR expenditures. Scholtens (2008) supports Nollet et al. (2016); from a sample of 289 firms from the US covering the period 1991–2004, Scholtens found evidence that the direction of the “causation” of the interaction of CSR and financial performance predominantly runs from financial to social performance. That is, a business organisation must achieve a level of financial performance yielding a sufficient surplus such that those in governance are comfortable risking funds engaging in CSR, rather than expecting that engaging in CSR activities lead to increased revenue. Nollet et al.'s findings are not unequivocally supported, as the U-shaped performance curve may be driven by increasingly successful business practice, regardless of CSR practice, freeing increasing amounts of surplus revenue for CSR.

Focus on China

In our contemporary global societal environment, we have one very influential country that has a history of institutionalising avoidance of corporate social responsibility, that being Mainland China, see, for example, Waldman, Sully de Luque, Washburn, House & Adetoun, et al. (2006). My discussion will focus on both the historical and contemporary societal cultural context of companies in mainland China.

Deriving generalisations about a particular set of business organisations in a particular country is a significantly large task, which will be approached from the point of view that societal culture influences the opinions, attitudes, beliefs, and behaviours of the members of business organisations. See Harrison (2000) for support of this contention. The particular

ecology within which the discussion will focus is an institutional analysis of CSR in China in the contract manufacturing industry.

SOCIETAL CULTURAL VALUES AND CSR

Waldman, Sully de Luque, Washburn, House & Adetoun, et al. (2006) propose that societal-level values and beliefs held by members of a culture can influence more specific values and beliefs relevant to the functioning of organisations, such as how CSR enters the decision-making of executives. Institutional theory suggests that organisations will adopt societal-level values as a way to gain legitimacy within their environment. Waldman et al. therefore support the view that societal cultural values will influence the emergence and type of CSR values in organisations.

Organisational culture

CSR in business is affected by corporate culture (also referred to as organisational culture). There is a plethora of literature attempting to relate national or societal culture and organisational culture. Most find that country culture influences organisational culture, but that country culture does not constrain organisational culture to the degree that it prevented considerable variation. Discussions in this paper will consider the effects of some components of society, e.g., stakeholders directly related to a business organisation, on the behaviour of the management of the organisation, and, if we accept the validity of anthropomorphisation of the organisation, the *behaviour* of the corporation.

Waldman et al. form theoretical and empirical associations between CSR decision-making values and three dimensions of societal-level culture that have been prominent in the literature as a means of characterising cultures: (1) Institutional-Level Collectivism; (2) In-Group Collectivism; and (3) Power Distance (see http://globe.bus.sfu.ca/study_2004_2007 for definitions). Relative to this sub-set of the GLOBE model, findings indicate:

. **Managers in wealthier countries** are clearly less inclined to think about the welfare of the greater community or society in their business decision-making. Perhaps they focus their attention closer to home in terms of shareholders/owners, while leaving greater community or societal concerns to the government or other institutions. In contrast, in poorer countries, managers may feel more of a personal responsibility toward the community and national society at large, especially as governmental institutions or other agencies in poorer countries may be less able (or willing) to deal with these concerns.

. **Managers in cultures valuing Institutional Collectivism** value most aspects of CSR in their decision-making process; Waldman et al. found significant relationships between Institutional Collectivism values and each of the three dimensions of CSR values. Waldman et al. found no important relationships for In-Group Collectivism. CSR as an overall construct is more clearly relevant to broader collective or societal-level concerns, as is the case with Institutional Collectivism; in contrast, no significant relationship emerged between In-Group Collectivism values and concern for CSR. Such constituencies may be viewed as part of the out-group, and thus not consistently considered in the decision-making of managers in cultures stressing high in-group support values (for support also see Gelfand, Bhawuk, Nishii & Bechtold, 2004). Moreover, in such cultures, there is no consistent concern for community or societal issues, because such concerns are usually beyond the realm of the close in-groups. As a specific example, Midler (2010, 12 June, <http://www.paulmidler.com/>) pointed out that, “While on its way to become the world’s second largest economy, China...accepted funding for an initiative that might have been self-financed: The World Bank will provide a \$100 million loan to the People’s Republic of China to improve food safety efforts, *Food Production Daily* reported yesterday. The loan, the bank’s largest ever for a food safety initiative, will fund 70 percent of the China’s initiative to up the safety of agricultural commodities from the Jilin Province.” Reflecting the in-group/other distinctions,

Midler reports that the China Government contributed only US\$1.5 million towards the US\$5.3 billion collected for the Haiti earthquake relief fund, less than the cost of a house in some of the upscale suburbs of Shanghai.

. Waldman et al. found **managers in cultures stressing values of greater Power Distance** tend to devalue all three aspects of CSR. When there is a strong belief in society that there should be distance among people in terms of power, relatively high-level managers who have the power (such as Waldman et al.'s study participants) may be more self-centred or lacking in concern for shareholders/owners, broader stakeholder groups, and the community or society as a whole as they make decisions. Thus, in such societies, there may be more tendencies toward the manipulative use of power on the part of managers without concern for constituencies (Carl, Gupta & Javidan, 2004). Waldman et al.'s findings are especially suggestive that cultures with stronger Power Distance values may impel managers to show little concern for stakeholders such as employees, environmentalists, and customers. To the extent that stakeholder management is relevant to profitability (Hillman & Keim, 2001) firms in such contexts may be at a disadvantage in the global economy.

Waldman et al.'s findings suggest that organisational-level variables are likely to account for variance in managerial values pertaining to CSR beyond individual- or societal-level factors. Specifically, CEO leadership in the form of vision and integrity may be a driver of how subordinate managers view the importance of CSR in their decision-making. Waldman et al. propose that such forms of leadership appear to be more closely linked to share-holder/owner and stakeholder CSR values, as compared with community or state welfare CSR values.

Ringov & Zollo (2007) using Hofstede's model (Hofstede, Hofstede & Minkov, 2010.) and using a dataset of 463 firms from 23 North American, European and Asian countries, report Power Distance and Masculinity are found to have a significant negative effect on corporate social and environmental performance, whereas cultural differences with respect to

Individualism-Collectivism and Uncertainty Avoidance have no significant effects. Assuming that stakeholder behaviour can influence behaviour of corporate managers and executives, these results when compared to Williams & Zinkin (2008), are further indication of the complexity of relationships in CSR studies, often leading to contradictory results across national societies, for example, should wrong-doers be punished or not?

In the Hay & Gray (1974) “Western” developed country model of CSR, China is in the evolution from Phase 1, profit maximisation, to Phase 2, the Charity and Stewardship phase.

CHARITY IN CHINA

SHUE (1998b) argues that China has no history of an organisational form like the Western donative-style charity, finding that when Western missionaries started charities in China in the nineteenth century, the Chinese had to invent a new term to describe their unusual practices: *cishan* (慈善 *cí shàn*: charitable). After 1949, the Chinese Communist Party suppressed private charitable organisations to the point that the very term *cishan* fell into near-complete disuse. SHUE (quoted in HSU, 2008: 82) states, “When charities re-emerged in the 1990s, the media felt the need to explain this unfamiliar concept. The China Society News wrote, ‘charity’, this long unheard-of notion, has come up again and is being relearned by the public.”

STEWARDSHIP IN CHINA

TU (1996) discusses historical and contemporary perceptions of stewardship in China. TU comments on the historical perspective available to East Asian intellectuals inspired by the Confucian spirit of self-cultivation, family cohesiveness, social solidarity, benevolent governance, and universal peace. These could form a basis of a universal attitude toward stewardship extending to global stewardship.

The matter of stewardship in China is immensely complicated by the decision of the political leadership of the People's Republic of China (PRC), through the reform-and-opening policy;

to join the march toward modernity, narrowly defined in terms of wealth and power. An internal migration of more than 100 million people has occurred within the PRC mainly from the countryside to the cities, especially those cities along the south-eastern coast where economic development has been most vibrant. The waves of commercialisation are also moving into the China interior (TU, 1996). This provides support for, in Gonzalez-Perez' (2015) three-phase model, China at the moment is in the Profit-Maximising Management Phase of CSR development, with expectations of moving to the Stewardship Phase as financial surpluses are made available for supporting a philosophy and practice of stewardship in China, which may eventually expand to global concerns and practices.

CULTURAL PRACTICES: THE RELATIVITY OF INTEGRITY

HUANG (1987) advises us the published academic research on interpersonal behaviour patterns and rules of exchange has a Western academic bias. Hofstede reminds us (2001: 6) that “nationality defines rationality”. When we judge what is responsible behaviour of the managerial leaders of corporations, the context and researchers' ethnocentric biases must be considered. National values define integrity. In a nation such as China, with high values for In-Group Collectivism, *a manager with integrity will favour in-groups to the detriment or exclusion of out-groups*. In a network-based (*guanxi*) society with relationships defined by reciprocal payment of favours (the *bao* of *renqing*), a manager with integrity will *place repayment of personal favours owed above company, stakeholder, and societal concerns*. The literature indicates significant influences on manager and leader opinions, attitudes, and beliefs by Collectivism values in a society.

Collectivism / Individualism

Husted & Allen (2008) in a literature review and model building exercise investigated the effects of Collectivism on ethical relativity, especially Triandis' horizontal and vertical Individualism and Collectivism. Researchers relate Individualism and Collectivism to

morality in a number of ways. First, Triandis & Bhawuk (1997) argue that deviations from group norms are much less tolerated by people in Collectivist cultures than by people in Individualist cultures. Second, in Collectivist cultures, morality is defined in terms of the good of the in-group, which requires the maintenance of solidarity. In other words, those actions that preserve the solidarity of the in-group are morally good; the solidarity with out-groups is generally irrelevant. Finally, the tension between the fundamental values of equity and equality is resolved differently across cultures. In Individualist cultures, equity is preferred over equality, while in Collectivist cultures, equity is preferred in dealing with out-groups only, but equality is preferred in dealing with the in-group.

For specific discussion of China in this study, let us note how levels of relationships are ordered in that country. YANG (1992, cited in CHAN, 2006) distinguishes three groups of Chinese relationships: (1) *Jiaren*, 家人 (family members), (2) *Shouren*, 熟人 (relatives outside the family, friends, neighbours, classmates, and colleagues), (3) *Shengren* 生人 (strangers). These distinctions are consistent with Hwang's (1987) conception of the three major *guanxi* categories in Chinese societies. They do not necessarily progress beyond colleagues in a company to the company as a whole, or shareholders/owners or stakeholders (unless they are *jiajen* or *shoujen*), or to country or society as a whole, certainly not mankind in general. This provides a sharp distinction between concern for local as opposed to international stakeholders. This lack of concern is highlighted by historic Chinese institutions expressed in *Thick Black Theory*, which will be discussed in some detail in order to convey understanding of the nature of this institutional influence on CSR and general business practice.

THICK BLACK THEORY AND INTERNATIONAL BUSINESS

Relationships of international business and Thick Black Theory are discussed in detail in LI, Zongwu (translated by ZHAO An Xin and Marilyn ZHANG, 1911/2009), FANG (2006),

LOW (1997), and LOW & SHI (2001). LOW (1997, pp. 222-223) provides a sort but detailed account of the relationships. LOW (1997) and ZHU (2012) indicate the Thick Black practices remain relevant today. Midler (2009 & 2011) presents extensive monographs describing and analysing the current application of the principles in the South China contract manufacturing industry.

Historical societal institutions in China: Thick Black theory and CSR

An institution developed within Chinese history and societal culture is the concept labelled *Thick Black Theory*, or *Thick Face, Black Heart*. Thick Black Theory is applied to negotiation, marketing, international relations, and can be related to the opinions, attitudes, and beliefs of Chinese businesspeople toward corporate social responsibility, especially attitudes toward others in organisations and societies.

Chinoy (2009) finds that for several years many Chinese have taken to using a shorthand phrase to describe products that are so poorly or dishonestly made that they are actually dangerous to consumers: *heixin* (黑心). Literally translated, the phrase means “black-hearted.” The phrase has a long tradition in China. LOW (1997) proposes that the business culture of the Chinese today is influenced by many opinions, attitudes, beliefs, and strategies. A typical Chinese struggles to remain morally upright (Lao Tzu’s teachings, LIN & CHUANG-TZU, 1948), to behave as a gentleman (Confucius, ca. 500 B.C.E in LIN, 1942) and yet strives to protect his tactical and strategic self-interest (SUN Tzu’s Art of War, and LEE Zhong Wu’s Thick Black Theory). Thick Black Theory, also known as “Thick Face, Black Heart”, was originally written from 1911 to 1938. For English versions and discussions see CHU (1992), and ZHAO and ZHANG (2009). The family name of the author of Thick Black Theory is spelled as both LEE and LI in various discussions. The work was published by LEE Zhong Wu (www.thickblacktheory.net), as a political protest in 1911. The year was one of chaos in China, when SUN Yat-sen overthrew the Ching dynasty Government and

established the Chinese Republic. LEE was a political scientist specialising in political intrigue. He writes: "When you conceal your will from others, that is thick. When you impose your will on others, that is black." Thick Black Theory describes the ruthless, hypocritical means people use to obtain and hold power. It went through several printings before being banned as subversive.

Details of Thick Face, Black Heart

To fully appreciate this discussion, preparatory reading is suggested: Lakey (2007), Midler (2009), and Midler (2011). As China has increased its share of manufacturing for export, it has attracted contract manufacturing hiring companies that have negotiation and management skills ranging from novices to highly competent with long-term experience. As foreign companies still flock to China for contract manufacturing arrangements, opportunities have arisen for an unethical, apparently wide-spread practice that has been labelled *quality fade*. In 2009 Paul Midler, a China business consultant from the USA living in China and fluent in Chinese, produced the book, *Poorly Made in China: An Insider's Account of the Tactics Behind China's Production Game*, which chronicles his years spent working with US businessmen whose companies' products are manufactured in China. *Poorly Made in China* alleges the practice of *quality fade*, the deliberate efforts of Chinese manufacturers to increase profits through the gradual reduction of the quality of inputs into the manufactured goods (also see Enderwick, 2009).

Concerning Midler's (2009) book, the traditional Chinese character translation of the book in Taiwan is 黑心帝国, that is, Black-Hearted Empire (Midler, 2011). The "Thick Face, Black Heart" cultural practices are noted in Lakey (2007, p. 131). "Thick Face, Black Heart" theory publications relating to business, government, and military relationships are traced back to the above noted publication by LI Zongwu from 1911, defining the ruthlessness and hypocrisy underlying many entrenched Chinese institutions and practices. Some Chinese are

not comfortable with the discussion of the concept, and as noted, the document and related publications have often been banned. The details of Thick Black Theory are discussed in LI, Zongwu (translated by ZHAO An Xin and Marilyn ZHANG, 1911/2009), and in FANG (2010), LOW (1997), LOW & SHI, (2001). LOW (1997) and ZHU (2012) indicate the practices remain relevant today. Midler (2009 & 2011) presents extensive monographs describing and analysing the current application of the principles in the South China manufacturing industry. The guiding principles for various personal goals and objectives and commentary from LOW (1997: 222-223) presented with minor paraphrasing below indicates the practices remain relevant today:

Securing government positions

1 Emptiness. The first requirement is to empty a person's mind of everything that does not help in securing the appointment being sought, to have no other goals and no other thoughts, and must concentrate on the appointment and meditate on it daily.

2 Boring in. A person must seize every little opportunity to advance their prospects.

3 Self-praise. A person must constantly seek to bring their qualifications and importance to the attention of those who are in positions to help them.

4 Flattery. A person must ingratiate himself with those who can help. He or she must praise them to others who will in turn carry his or her praises back to them.

5 Threats. A person must be very subtle with their threats and avoid threatening people who have the ability to harm them. Threats should instead develop naturally out of their self-praise.

6 Bribery. Bribes should be given not only to the person who has the power to appoint a person, but also to their relatives and friends.

Six ways to keep an official position

The Thick Black Theory observes that a government official would need to be seen to act virtuously and to smear himself with a layer of false benevolence while, at the same time, pretending to be a religious and morally upright person. The six ways to keep one's official position include (LOW, 1997: 222-223):

1 Emptiness. A person should talk about everything, but say nothing and do nothing.

2 Be obsequious. A person must bow, bend and nod before their superiors.

3 Be imperious. A person should cultivate a haughty and disdainful attitude towards their inferiors, and must be seen to be unapproachable by subordinates.

4 Be ruthless. A person must be ruthless in pursuing their objective. However, to exploit the vulnerability of others, one must continue to maintain a virtuous image.

5 Be deaf and blind. A person must not hear criticism and, worse still, be affected by it. One must therefore not see the reproaching looks of others. Reproaches must be allowed to pass by without pricking one's conscience.

6 Harvest. The purpose of a person getting their post in the first place was to put them in a situation where others would pay for his favours, just as he or she previously paid for their favours of others. One does not expend all one's effort simply to acquire a job; one does it to enable oneself to sell one's influence.

TAKING CARE OF BUSINESS

In business operations, two methods emphasize the importance of avoiding accountability or responsibility for one's actions and for making one's actions seem much more important or impressive than they really are (LOW, 1997: 222-223):

1 Sawing off the arrow. Traditional Chinese medicine is divided into two domains, namely the "outer practice" and the "inner practice". A man who had been hit by an arrow was brought to a Chinese doctor of "outer practice". The doctor sawed off the arrow's shaft but did not remove the arrowhead. When asked, the doctor replied that this is a job for a doctor of

“inner practice”. Many people thus defer accountability by sawing off the arrow. They will try to do as little as possible and will always try to leave someone else to finish the job. Nobody cares if something goes wrong so long as the blame can be laid on whoever gave the final approval or finished the job.

2 Patching up the wok. When a housewife saw that her wok had developed a crack, a wok craftsman was summoned for the necessary repair. The craftsman asked the housewife to leave the room to build a fire so that he could burn off the soot and examine the wok more closely. After the woman left the room, the craftsman tapped the wok with a hammer until the crack enlarged further to just beyond the point of redemption. When the soot had been burned off, the housewife exclaimed, “The crack is worse than I thought.” The craftsman agreed, saying “It will be a problematic job but you are lucky that I am such an excellent repairman.” The housewife replied, “You are right. It will probably be impossible to repair the wok if the crack got any worse.” This episode vividly illustrates that all too frequently, it is necessary to make a situation a little worse than it actually is in order to persuade others to appreciate your work even more. However, hitting the wok is an art and one must be extremely careful not to make the problem so bad that the defect becomes beyond repair.

THICK-BLACK LEADERS IN CHINA

In China many great leaders are enshrined as morally unblemished; there are also very competent leaders who are morally dubious. Under those circumstances, performance, not morality, is the pivotal dimension in determining who the best leader is. When the task at hand is very difficult, and leadership is expected to be highly performance oriented, those displaying a low level of moral conduct are seen as being as prototypical as, if not more prototypical than, those with high moral standards

HUI & TAN (1999) note that this observation may at first seem puzzling; it may reflect the fact that Chinese workers hold schemata of leadership that are consistent with the old Chinese

adage of “thick face, black heart.” This saying suggests that to succeed in life (especially in one’s career), one may sometimes employ a certain amount of guile and underhandedness. Thus, an effective leader will sometimes display a certain level of moral “flexibility” or expediency coupled with high performance orientation. (p. 262). Following are a number of other philosophical approaches guiding business practices.

CHINESE STRATAGEMS (BINGFA/JIMOU)

When engaging in international business with Chinese organisations, one must become familiar with Bingfa (Art of War) and Jimou (strategies) practices along with Confucianism as traditional culture have significant influences on Chinese business practices and behaviours (Ghauri & FANG, 2001). As pointed out by ZHAO (2000) and FANG (2006), the Chinese belief in "the market place as a battlefield" reflect Chinese views toward business deals, negotiations, and contracts to a large degree, which explains Jimou as an important aspect in negotiation. There are many different historical stratagem books such as *Sanguoce* ("Three Kingdoms", stratagems in warfare, including solving the problem through diplomatic means), *Guiguizi* (relating to how to use rhetoric to convince someone do what you want them to do while they presume they are acting on their own behalf), “The Art of War” by SUN Tzu, The 36 stratagems, together with The Thick face and Black Heart strategy used in China. They discuss range of different tactics, tricks, stratagems, means, or tools. “The Art of War of Sun Tzu and The 36 Stratagems are two widely known books among Chinese (FANG, 2006). Generally speaking, Jimou are commonly known by almost every Chinese, but in different degrees. Littrell (2002) pointed out that at that time the younger generations in China were less interested in studying Bingfa or Jimou and were not familiar with these stratagems or tactics, perhaps due to the highly controlled education system in China. Some Chinese people even see these stratagem books for the first time in the English version or other foreign languages.

Due to the cultural differences, Westerners and Chinese have different views toward the stratagems. Some of the commonly adopted Jimou in Chinese culture, although regarded as dirty tricks by Westerners, are seen as a sign of intelligence and business acumen by Chinese. Jimou can be seen as an art of manipulating intelligence or mind power to control physical power or strength (Faure, 1998 & 1999). Moreover, Jimou is also related to some of the Chinese practices or behaviours, for example in negotiations. The commonly known stratagem of "pretend to aim at one target while really after another", leads to Chinese being indirect, and hiding their real intent in a business negotiation. Therefore, the Chinese indirect and ambiguous communication style is related to stratagems and can be seen as a sign of using Jimou. (Blackman, 2000).

ZHU (2012) conducted a study of business practices amongst Chinese employees in the Chinese offices of a large U.S. multinational corporation. Employees were asked whether they are aware of, and have applied the principles in the Art of War of Sun Tzu and The 36 Stratagems, that is the thick face and black heart strategies applied to warfare, and also Confucian ideology (such as the principle of harmony), or others in their business practices. Participants were allowed to choose multiple answers. A summary of the findings is shown in the table below. Of the 96.25% of the participants who responded, 94.2% were aware of and used traditional Chinese Bingfa or Jimou in their business interactions, detailed in Table 4.

TABLE 4 GOES ABOUT HERE

Table 4. The Influence of Traditional Chinese Culture on the Study Participants' Business Practices

Culturally Influenced Practices	N	No Answer	Total Answering	Frequency	%	Valid %
Confucian ideology such as principle of harmony	160	6	154	77	48.1%	50.0%
The Art of War of Sun Tzu	160	6	154	37	23.1%	24.0%
Not aware of any traditional Chinese cultural stratagems	160	6	154	32	20.0%	20.8%
The 36 Chinese stratagems	160	6	154	29	18.1%	18.8%

Other ex-Chinese sources (Articles and Books from the Internet, The company internal negotiation skills, Win-Win)	160	6	154	9	5.6%	5.8%
Thick face and blackheart strategies	160	6	154	6	3.8%	3.9%

Source: ZHU (2012)

Is Thick Face, Black Heart behaviour appropriate in China?

Milton Friedman’s polemic New York Times Magazine essay, ‘The Social Responsibility of Business is to Increase its Profits’ (1970) provides an appropriate starting point for a discussion of the role of values in business, he states in the final paragraph:

But the doctrine of "social responsibility" taken seriously would extend the scope of the political mechanism to every human activity. It does not differ in philosophy from the most explicitly collectivist doctrine. It differs only by professing to believe that collectivist ends can be attained without collectivist means. That is why, in my book Capitalism and Freedom, I have called it a "fundamentally subversive doctrine" in a free society, and have said that in such a society, "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

AN INTERNATIONAL BUSINESS PRACTICE: CONTRACT MANUFACTURING

A basic practice in international business processes developed known as contract manufacturing. In a contract manufacturing agreement a hiring firm makes an agreement with a contract manufacturer in a low-wage region to produce and ship the hiring firm’s goods, theoretically based upon the hiring firm’s product design (Lumen Learning & Williams, 2016). It is a form of outsourcing. In a contract manufacturing business model, the hiring firm approaches the contract manufacturer with a design or formula. The contract manufacturer

will quote the production based on processes, labour, tooling, and material costs. As we shall see, this model is of particular interest when studying CSR in China. Let us now consider societal cultural institutions in China, and their influence on CSR.

Thick-Black products: dealing with China's *quality fade*

From personal communication with Paul Midler (via email, 2016) discussing the incidents below, and from Midler (2009 & 2011), the following section details events from the news media over the past several years of situations described in Midler's monographs, concerned with a series of significant and sometimes dangerous quality problems with Chinese-made exported products. Pet food tainted with prohibited chemicals, toys covered with lead paint, and tires that fall apart at high speed have understandably alarmed the Chinese-export-consuming publics and resulted in a number of international product recalls.

Unfortunately, supply chain professionals not directly affected by these recalls remain unusually calm. Midler reports the frequent comment: "Everything will be all right," said one U.S. importer on a buying mission to China. "As the country continues to develop, the quality of its products will naturally rise." This is a rather naïve comment, as quality does not always rise over time, as China's own history shows. At the end of the 19th century, Western merchants and consumers rushed to buy China's beautiful silk products. Demand quickly expanded, and new players moved into the market. As competition intensified, manufacturers began to cut corners on quality, and silk products out of China soon gained a reputation as inferior goods. By the beginning of the 20th century, traders were already looking elsewhere, and Japan, which had been building a reputation for delivering a more consistently high-quality product, became an attractive alternative. By 1930, Japan was exporting twice as much silk as China (Federico, 2009).

Midler reports one difficulty for importers is that quality fade often occurs in unexpected places. For example, one US company had been importing a line of health and beauty care

products for over a year when the cardboard boxes that held its product suddenly started collapsing under their own weight. There was no logical explanation for the collapse except quality fade, and the supplier in this case blamed sub-suppliers for replacing an acceptable cardboard box with ones that were inferior.

The case of the missing aluminium

Some quality issues are not particularly serious, but others are of great concern. Midler reports an incident in China that involved the manufacture and importation of aluminium systems used to construct high-rise commercial buildings. The systems were to support tons of concrete as it is being poured, and their general stability is critical. The systems were designed and specified by a US company, but the level of engineering design sophistication did not deter the Chinese supplier from making a unilateral decision to reduce the specifications. When the “production error” was caught, one aluminium part was found to be weighing less than 90% of its intended weight. The savings from the missing aluminium went into the factory owner’s pocket as a cost saving. No savings were passed on to the customer, who only received an increase in product safety risk. Suppliers practicing quality fade push the reduction in quality by taking more and more out of the product until they are caught, or until disaster strikes. However, even when importers catch suppliers in a quality fade, they frequently don’t do much about it. Many quality problems are seen as too minor relative to the difficulties involved in rectifying them. Customers may not notice a product flaw, but they most certainly notice when rectifying a product causes it to not be delivered on time. The chance of a product failure can be remote, but the penalty for late delivery can be loss of business.

Midler reports some importers attempt to fight back against quality fade by insisting a supplier replace substandard goods at the factory’s expense. Most suppliers are experienced in the game, and respond to such demands by threatening to terminate the supplier

relationship or by raising prices. Importers might then threaten to switch suppliers, however the factory owner knows this is an empty threat as finding and cultivating a new supplier in China is a long process, and there is no guarantee that the next supplier will not engage in the same behaviour as the first. These Chinese factory owners who practices quality fade know that due to high demand for suppliers of low cost products, the factory owner has virtually nothing to lose and profit margin to gain. When the factory owner offers her or his most sincere apologies and promises that it won't happen a second time, importers simply close their eyes and hope for the best, says Midler.

It takes importers a long time to find suppliers and to get them up to speed, so importers keep their suppliers a secret. The last thing that an importer wants to do is let his competitors know the source of any supply chain advantage he may have. Even when it is in their collective interest to share information, importers keep to themselves (Midler, 2009). As a result, factories pay little, if any, reputational cost for deceptive production practices. Adam Smith's Invisible Hand does not guide well when the manufacturers are invisible.

This lack of accountability also has legal implications. When a product is recalled in the US the US importer pays the cost of the recall. So far it remains nearly impossible to take legal action in China, and only in the rarest case can an importer successfully sue the supplier responsible for a product failure. Since most suppliers demand to be paid in full well before goods leave the factory, the importer does not even enjoy the leverage that comes with owing payment to the supplier. The average importer has little leverage.

Get rich quick, or else

There is a sense of urgency in China that one must work fast before the window of opportunity closes. For factories, that means profits from unilateral reductions in quality. Many factory owners can't see beyond the next purchase order. One reason for the short-sightedness may have to do with China's political environment. The one-party Government

does what it wants, when it wants. And while there may be some advantages to a government that can operate without restraint or controversy, such a system limits predictability and leaves the business sector keenly aware that it is subject to the many and varied whims of officials who may or may not know which policy is best for anyone.

The U.S. administration has applied pressure on China to revalue its currency in order to close the growing trade gap between the two countries. To appease the U.S., China has responded by reducing the tax rebates it offers to manufacturers. For some suppliers, the tax rebates have constituted a major portion of their bottom line. Massive and sudden changes such as these only confirm the factory owner's suspicions that the manufacturing opportunity could disappear at any moment. No one in China is sure how long anything will last, hence the focus on the immediate present, and one cannot plan without information about the future. Chinese manufacturers that engage in quality fade unfortunately subscribe to the view that business is about increasing one's share of the pie rather than growing the pie over time. They often focus on extracting profit through short-term manoeuvres that inevitably militate against long-term development. This approach, it should be noted, contrasts sharply with the success strategies of such economies as Japan and Korea, which focus on building market share and developing strategic relationships.

The short-term view

Some blame quality problems and product recalls on the relentless pursuit of lower prices. But importers most often go to the cheapest supplier, so the supplier who quotes low and quietly cuts corners on quality is the one who wins. Honest suppliers who prefer to quote higher and offer a better-quality product lose out. The supplier who obfuscates catches orders first and most often.

Chinese suppliers are excellent at playing the short game. When an importer discovers a quality problem late, the factory turns around and suggests, "But you signed off on the

original production sample yourselves.” When goods arrive damaged in the U.S., the factory claims that the importer has been making up the story in order to lower import costs.

Arguments like these work in the short term. Over the longer term, however, importers get wise, and alternative markets start to look increasingly attractive.

China’s quality situation is by no means hopeless. Japan was known decades ago for making inferior products, but that changed. The key to turning the situation around is to incorporate a habit of quality into the culture. China, however, has not shown that it has any interest in doing so.

Recent accusations of unreliability in Chinese products are now being met with tit-for-tat claims that U.S. products are faulty. This is an unfortunate strategy for China, and it means that we will continue to see quality problems. China will not be able to continue to succeed so long as manufacturers are competing in a race to the bottom.

WHY ARE CHINESE PRODUCTS OF SUCH LOW QUALITY?

Diliberto (2015), founder and General Manager of LYNX Innovation China, a globally sourced supplier of retail displays and a WFOE (wholly foreign owned enterprise) in China, states that, “As a sourcing professional in China, I can safely say that if I had a nickel for every western manager that pulled out an iPhone during a discussion about product design or quality control in China, I would have retired a few years back.” Diliberto points out the comparison of an iPhone and Chinese products is inappropriate because the iPhone is not manufactured in China. The iPhone is assembled in China. Apple could just as easily ship all of the parts, assembly and testing jigs, and production instructions anywhere and turn out identical iPhones to ones assembled in China. The important distinction is that though the iPhone is made from parts manufactured all over the world, it was designed by engineers at Apple's headquarters, who also designed the methods of manufacture, and found suppliers that could build to their tolerance levels; in some cases those suppliers are in South Korea in

other cases in the USA. The engineering team made test jigs for the iPhone so that at each station of assembly a worker can insert their sub-assembly into a jig, and get a simple green light (send phone to the next station) or red light (kick out phone to the re-work line). These processes of designing for manufacture and process engineering are critical, difficult, and not always carried out by every company. Why not? Apple, according to their recent earnings report spent just over a billion dollars on R&D. The iPhone makes up about half of Apple's revenue, so it would be fair to guess that they allocated about five hundred million US Dollars of R&D spend towards the development of the iPhone (referring to the 5S and 5C), and if equally allocated, spending two hundred and fifty million US dollars towards the research and development of a single phone. Divide again the costs between product development and manufacturing, and that is one hundred and twenty five million US Dollars that Apple spent just to design the best way to make a phone. Midler (2009, 2011) considering the question, "Why are Chinese products of such low quality?", believes most firms spend way too much time thinking about WHAT they are making and not nearly enough time thinking about HOW they will make it.

General background on Chinese manufacturing

Diliberto, personal communication (via email, 2016) and <https://www.quora.com/Why-are-Chinese-products-of-such-low-quality>, accessed 2 April 2016, discusses why Chinese firms turn out poor quality products on their own, and notes that not all factories do. Some factories, especially those that have exported products on their own or worked as contract manufacturers for Western firms will consistently and without excessive guidance turn out high quality product. However, there are a large number of factories that will default to minimum cost and minimum quality unless otherwise specified and controlled. There are a number of factors here that are worth exploring:

First, and foremost, Chinese domestic market consumers generally (it's changing, but not yet) go for either the best product or the cheapest product. So if you are not making the best, you are racing to the bottom to make the cheapest. Chinese consumers do not usually investigate quality; it is assumed that if you want quality, then you buy the most expensive one; otherwise just buy the cheapest one. Manufacturers selling in local markets are not rewarded for making incrementally better products. As to CSR for customer service, since production costs are very cheap, and few people generally call to complain about their cheap products, the customers that do complain of issues are usually given new product by the supplier. China is one of the few places where a supplier having to replace a defective product several times is tolerated by consumers, and in the eyes of some suppliers, cheaper than producing high quality products.

Midler and Diliberto find that with lax enforcement of most product safety requirements, many Chinese domestic suppliers become accustomed to cutting corners where possible. Plastic too expensive? Add some re-grind material back into the hopper. Solder hard to work with? Use the one with lead in it, as it flows better. Price of copper rising? Get thinner printed circuit boards. See Appendix I for a short case study of quality fade in contract manufacturing.

THE FUTURE

Given that imperfections in markets, incompetent managers, and incompetent governance of business organisations always have been and will be with us, “The ultimate way to change firm behavior to achieve public interest is government regulation” (Karnani, 2011).

Contemporary CSR improvement movements in China have been initiated by the Chinese government.

Governmental Institutional Forces

China's government is the most significant factor influencing industrial practices (Sarkis, NI & ZHU, 2011). Previous to 1978, almost all companies in China were state-owned, and only when many were privatized, in the 1980's and 90's, did private industry start making a significant contribution to China's GDP. Driven by the highly publicized, sometimes deadly events of the last few years, the Chinese Government began to seriously consider the implications of CSR for industry. In the 2005 National People's Congress, the government's Harmonious Society policy changed China's focus from economic growth to one of societal balance and harmony. Pressure for an intensified focus on CSR was as an outcome of this initiative. Exemplary legislation of this policy is Article 5 of the 2006 Chinese Company Law, which requires companies to "undertake social responsibility" in the course of conducting business (LIN, 2010). However, the central Government has as a rule relegated enforcement of social responsibility laws to the provincial Governments, and other local levels; degree and kind of enforcement is hence inconsistent across the country.

More rapid improvement will be attained when there are enhanced relationships amongst the Chinese government, local Chinese environmental NGOs, and Chinese corporations (LAM, LAM, & LAM, 2010; Vermander, 2014). A primary need is the strengthening of the capacity of the Chinese NGOs promoting and supporting CSR by corporations. From such behaviour we could see strengthening the charity and stewardship principles of the CSR movement in China. Hoffman (2016) finds increasing charitable work by volunteers in China, particularly in urban areas, as well as increased efforts by non-governmental charitable organisations.

LIN (2010) reports significant Chinese government support for CSR, with practices being incorporated into the legal system. Despite cultural institutional resistance to CSR, its development is underway in China, with speed expected to be determined by the availability of surplus capital.

Porter & Kramer (2006) pointed out a government-business partnership is necessary for effective social responsibility behaviour, a healthy society needs successful companies. No social program can rival the business sector when it comes to creating the jobs, wealth, and innovation that improve standards of living and social conditions over time. If governments, NGOs, and other participants in civil society weaken the ability of business to operate productively, they may win battles but will lose the war, as corporate and regional competitiveness fade, wages stagnate, jobs disappear, and the wealth that pays taxes and supports non-profit contributions evaporates.”

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