University of Nevada, Reno

Ethical Judgment and Social Norms in International Business: Comparing Business Practices in the U.S., Japan, and Germany

A thesis submitted in partial fulfillment
of the requirements for the degree of

Bachelor of Science in International Business and the Honors Program

by

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May, 2014

UNIVERSITY OF NEVADA RENO

THE HONORS PROGRAM

We recommend that the thesis
prepared under our supervision by

JORDAN A. CHRISTENSEN

entitled

Ethical Judgment and Social Norms in International Business: Comparing Business Practices in the U.S., Japan, and Germany

be accepted in partial fulfillment of the
requirements for the degree of

BACHELOR OF SCIENCE, INTERNATIONAL BUSINESS

Dr. Yvonne Stedham, Thesis Advisor

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May, 2014

Abstract

In today's world, countries can no longer segregate themselves from the rest of the world. With vast technological development over the past few decades, people across can now conduct business and communicate through new avenues that did not exist before, such as the Internet. These innovations have opened up the borders of every country, so to speak, and have brought forth problems that did not previously exist in the business world. International business is affected by many different cultural aspects that influence the way business is conducted in any given country. To successfully and effectively conduct business on an international scale, one must first analyze and then practice the different cultural aspects of each country. This paper will investigate the ethical judgment and culture of the U.S., Japan, and Germany and analyze how each country's culture influences the organizational structures and ethical judgments made in each country. Each country's culture will be analyzed using Hofstede's Cultural Dimensions while ethical judgment will be measured through each country's Corruption Perceptions Index number. Analyzing these specific countries will allow for a better understanding as to how the differing cultural aspects affect each country's approaches to conduct business internationally, and how it affects the way in which these countries actually conduct business on an international scale.

Acknowledgements

This thesis would not have been possible without the guidance and encouragement of several individuals who took the time out of their busy schedules to help prepare, revise, and complete this thesis.

First and foremost, I would like to personally thank my mentor, Dr. Yvonne Stedham, for taking the time out of her schedule to meet with me constantly and for the excellent guidance she provided. Had I not had someone as invested and committed to the completion of this thesis, I would not have had as much success in writing it as I have. Thank you for all of your hard work and encouragement during this process and for putting up with all of the issues and problems that I encountered.

Next I would like to thank the Office of Undergraduate and Interdisciplinary Research in collaboration with the Honors Program for awarding me the Honors Undergraduate Research Award which helped to fund my research and the completion of this thesis. I was, and still am, honored to be a recipient of this award and hope that the opportunity that you have extended to me will continue to be offered to future students for many years to come.

Lastly, I would like to thank Dr. Tamara Valentine and the entire Honors Program and UNR for their consistent guidance and help throughout my entire collegiate career. With your help and encouragement, I was able to push myself and grow drastically these past four years. I hope that you continue to encourage future students in the same way that you did for me, because it truly was a life changing experience.

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Chapter 1: Introduction

Background

In today's world, countries can no longer segregate themselves from the rest of the world. With vast technological development over the past few decades, people across can now conduct business and communicate through new avenues that did not exist before, such as the Internet. These innovations have opened up the borders of every country, so to speak, and have brought forth problems that did not previously exist in the business world. Now with business being conducted internationally, companies are coming into contact with people who do not share the same values or have the same social norms that are common within their own culture. "As firms further their internationalization efforts, more and more employees will find that they are being exposed to greater cultural diversity" (Becker, 2013, p. xi). This difference in culture has caused many international companies to become aware of the need to be able to embrace, or at least understand, the various cultures of the world in order to effectively communicate and conduct business.

When conducting business on an international scale, there are a number of factors that affect the effectiveness, and sometimes even the success, of each business negotiation or deal. One of the primary factors, however, is the cultural aspects of each region that dictate how business should be conducted in that area and what is considered to be ethically acceptable. In today's world, thanks to the tremendous growth of technology and the media, actions taken by international corporations are constantly under the scrutiny of the public. The media highlights the mistakes, transgressions and bad practices of companies worldwide and in turn the profits and consumer base of said companies can be negatively affected (Hurn, 2008). "As a consequence, appropriate ethical decisions are now an important part in the battle to gain competitive advantage in the international business arena" (Hurn, 2008, p. 348).

Objective and Scope

This study focuses on the countries of the United States, Germany, and Japan and how culture and business organization and structure in each country affect the ethical judgments individuals make when making business decisions. These three countries were chosen because they are considered to be "The TRIAD" and are some of the primary driving forces of the global economy (Li & Guisinger, 1992). Along with being large forces in the global economy, all three countries are also geographically different, meaning that the culture, or the values and norms, in each region should also be different which allows for a more complete analysis.

Relevance of the Study

To some people, the idea of business ethics is typically thought of as a universal idea that all people share (De George, 1994). However, this idea is not true because each country or region has a different cultural view of what the parameters are for something to be ethically correct or not. The matter of why and how culture affects these parameters is largely not well understood. The findings of this study can help fill the current lack of literature concerning how social norms, or culture, and business structural organization cause firms in certain countries to make different ethical decisions than firms in other countries. It also has the potential to reveal if there is a paradigm shift towards a shared universal ethical standard.

Chapter 2: Literature Review

When trying to analyze the culture of any region, there is no definite set of dimensions that can be used to analyze culture that fully encompasses the definition of culture in its entirety. The reason that there is no set of dimensions that can fully analyze culture is due to the fact that culture is not tangible but rather an intangible concept that is composed of a multitude of ideas and beliefs. According to Merriam-Webster, culture is “the customary beliefs, social norms, and material traits of a racial, religious, or social group; also**:** the characteristic features of everyday existence (as diversions or a way of life) shared by people in a place or time” (n.d.).

Hofstede’s Cultural Dimensions

Due to this vast definition, multiple studies have been conducted in order to offer a framework that provides important criteria that can help to better understand the cultures of various regions of the world (e.g. Kluckhohn & Strodtbeck, 1961; Hofstede, 1980; Ronen & Shenkar, 1985; Trompenaars, 1994). The Hofstede Model that will be applied in this thesis was first developed by Gerard Hendrik (Geert) Hofstede in 1980 and has since then been studied and applied to several different social psychology studies and has also been used in various business studies and applications. One of the more recent applications of this model is the Global Leadership and Organizational Behavior Effectiveness (GLOBE) research program that was created by Robert J. House in 1991 (House *et al.*, 2001, Hofstede, 2006). “GLOBE is a multi-phase, multi-method project in which investigators spanning the world are examining the interrelationships between societal culture, organizational culture, and organizational leadership” (House *et al.*, 2001, p. 491). This project collected data from 62 societies and incorporated Hofstede’s cultural dimensions within their project’s framework to help study leadership across countries. “Judging from the frequency of application, as well as from the continued validity of the Hofstede dimensions against other kinds of data, the Hofstede model is still the most valid, practical one to date" (Research and VSM, n.d.).

When the Hofstede model was first created in 1980, it originally contained 4 dimensions that consisted of: Power Distance, Uncertainty Avoidance, Individualism versus Collectivism, and Masculinity versus Femininity (Hofstede, 2011). Long Term versus Short Term Orientation was added to bring the list to 5 dimensions in 1990 (Hofstede, 2011). This list of 5 dimensions was then modified again in 2011 after research by Michael Minkov allowed for the addition of a sixth dimension of Indulgence versus Restraint (Hofstede, Hofstede, & Minkov, M., 2010). Each of these dimensions is measured by a score on a scale of 1-120, with 120 being a strong score in the dimensions and 1 being a weak score in the dimension (Hofstede, Hofstede, & Minkov, M., 2010). It is important to note that the scores provided in this study are the same scores originally assigned by Hofstede, however since each of the countries have grown at the same rate, it is safe to assume that the values have remained the same.

By assigning each country a score in Hofstede's dimensions, we are able to present hypotheses on how the business organizations in each country are structured. For example, in countries that are shown to be highly individualistic and highly indulgent, we might expect that the business organizations in that country would be structured in a way that emphasizes individuals rather than the organization as a whole. On the other hand, a country that is classified as highly collectivistic and has a high restraint rating might have business organizational structures that emphasize the group rather than the individual. The Hofstede model essentially allows us to create a firm understanding of the social norms in the U.S., Japan, and Germany and by using these cultural dimensions, a framework can be established to help define plausible explanations of why individuals in the U.S., Japan, and Germany might structure and conduct business in the way that they do.

Each of the Hofstede dimensions will be described and explained below.

Power Distance

According to G. Hofstede, Power Distance refers to individuals' solutions to the problem of human inequality (2011). It refers to the extent to which members of a society or organization accept and expect that power is distributed unequally. For example, if a society is said to have a large power distance, people of that society understand and accept that power is distributed unequally and that a hierarchy exists and should be followed. Conversely, a small power distance society stresses equality and treats individuals within the society as equals.

Uncertainty Avoidance

Uncertainty Avoidance refers to individuals' responses to the unforeseen future (Hofstede, 2011). It refers to the extent that members of a culture would feel comfortable or uncomfortable in unstructured or unexpected situations. If a society is seen as having strong uncertainty avoidance, the people of that society prefer structure and tend to be intolerant of the unknown. Societies with weak uncertainty avoidance tend to disapprove of rules and structure and are more tolerant of the unknown (Hofstede, 2011).

Individualism and Collectivism

Individualism and Collectivism refers to the degree to which a society might integrate itself into groups (Hofstede, 2011). In individualistic societies, people are more likely to act in the best interest of themselves and operate as an individual. In collectivist societies, people are expected to act in the best interest of their group and the interests of the group that an individual belongs to is more important than the interests of the individual.

Masculinity and Femininity

Masculinity versus Femininity refers to the difference in emotional roles between men and women (Hofstede, 2011). Masculine societies emphasize that there are large emotional and social differences between men and women. Men should be assertive and competitive while women, although they can also be assertive and competitive, should be more emotional and sympathetic. Women are seen as inferior to men. Feminine societies believe that there are not many emotional and social differences between men and women. Both genders should be modest and nurturing, and are relatively equal.

Long Term Orientation vs. Short Term Orientation

Long Term Orientation versus Short Term Orientation refers to the preference for people to focus on either the past, present, or future (Hofstede, 2011). Long term oriented societies focus on the future rather than looking to the past and present. They believe that traditions are adaptable to changed circumstances. Conversely short term oriented societies look to the past and present rather than to the future. Their traditions and beliefs are considered to be sacrosanct (Hofstede, 2011).

Indulgence vs. Restraint

Indulgence versus Restraint refers to whether or not individuals are more likely to restrain their basic human desires or indulge in them (2011). Indulgent societies see themselves as being in control of their lives and place a higher importance on leisurely activities. Restrained societies see themselves as victims of circumstance and not in control of their lives. They place lower importance on leisure and their society typically controls their innate desires through strict social norms (Hofstede, 2011).

Ethical Decision Making

After establishing the framework for determining the social norms of each country, it is also important to understand how individuals from each country make their ethical judgments, which would influence the way in which business decisions are made in each country. Recent scandals have brought increasing concern over ethical business practices at the organizational level and increased scrutiny over potential ethical dilemmas (Brunton & Eweje, 2010). Recent ethical scandals in Japan, Germany, and the United States are noted in the following paragraphs.

Recently in Japan, an Internet and finance company, Livedoor, came under public scrutiny when it was accused of market manipulation and accounting fraud (Melting down, 2006). Livedoor allegedly intentionally misreported its financials by siphoning money from a different part of the company to show profit rather than loss, and violated disclosure rules when Livedoor Marketing announced they were going to acquire a publishing company through a share swap, despite the fact that a Livedoor parent company already controlled the publishing company through a private investment firm (Melting down, 2006). Prior to the scandal, Takafumi Hori, the founder and ex-president of Livedoor, was the figurehead in a movement that was moving away from “Japan’s stuffy ways of doing business”; however, after this ethical scandal and Hori’s arrest, proponents of Japan’s old ways of doing business claimed this scandal to be the result of Japan adopting western, market-based practices (Melting down, 2006).

In Germany, Siemens A.G., one of the world’s largest engineering firms, paid the largest fine for bribery in modern corporate history in December of 2008 (Schubert & Miller, 2008). Siemens paid a fine of $1.6 billion dollars after it was discovered that the company had been bribing corrupt government officials worldwide (Schubert & Miller, 2008). According to Reinhard Siekaczek, a midlevel executive at Siemens who was one of several people responsible for helping direct company money into accounts that financed the bribes, he helped maintain an annual bribery budget of $40 million to $50 million that was used by company managers and sales staff as a slush fund to help win contracts (Schuber & Miller, 2008). Mr. Siekaczek, along with many other executives and managers were arrested, but they claimed that the bribes were important for Siemens to maintain international competitiveness and that the bribery was about keeping Siemens operational to prevent jeopardizing the jobs of its employees (Schuber & Miller, 2008). The public image and reputation of Siemens was destroyed by the scandal, along with its revolutionary transparent global marketplace business model.

Probably the most notable and impactful ethical scandal that has occurred in recent history was the Enron scandal that occurred in the United States from 2001-2002. Enron began as a simple natural gas provider in 1985, and by 1989 it had begun trading natural gas commodities and eventually traded electricity in 1992 (O'Leary, 2002). By late 2000, Enron had become one of the most successful companies in the world after launching Enron Online, an internet-based energy trading network system, and posting a 57% increase in sales from 1996-2000 (O'Leary, 2002).

What the public did not know, however, was that Enron was not reporting a lot of its debt obligations by hiding or transferring the debt to different offshore partnerships (O'Leary, 2002). In addition to this, Enron was also knowingly reporting inaccurate trade revenues by claiming revenues as higher than they actually were (O'Leary, 2002). After a review of its financial statements for the previous five years, in November of 2001, Enron acknowledged that it had actually posted $586 million in loses instead of profits (O'Leary, 2002). After this acknowledgement, Enron's stocks began to plummet and by December of 2001, Enron filed for Chapter 11 bankruptcy for its $690 million debt obligation (O'Leary, 2002). By mid 2002, top Enron officials had been subpoenaed to testify before congressional hearings and a majority of Enron employees were unemployed and their pensions were worthless (O'Leary, 2002). Approximately $60 billion was lost by investors and of the original 28,000 employees, only 2,000 remained (Frentz, 2003).

Recent ethical scandals, such as the ones mentioned above, along with the increase in public awareness about business ethics have initiated new research into the topic. Research has already been conducted investigating the relationship between Hofstede's Cultural Dimensions and ethical perspectives that has supported the fact that there is indeed a connection between the two concepts (Beekun *et al.*, 2010).

In business, ethical dilemmas are often prefaced by the idea of trying to determine the correct combination of economic and social performance (Hosmer, 1996; Stedham *et al.*, 2007). Hosmer (1996, p. 85-86) explains that there are typically three types of analysis used by business managers in determining the correct combination of economic and social performance: economic analysis, legal analysis, and philosophical analysis (Stedham *et al.*, 2007). The primary type of analysis that this paper will analyze will be the philosophical analysis, which is based on rational thought and a criteria in which something is to be considered 'right' or 'wrong' (Stedham *et al.*, 2007).

The criteria that are used to judge what is 'right' and what is 'wrong' is strongly influenced by the culture and can also be referred to as morality. "Morality refers to the standards of behaviour by which individuals are judged, especially in their relationships with others" (Stedham *et al.*, 2007). These "standards of behaviour" are often defined differently in each culture and therefore the morality of individuals also differs across cultures which would lead to different ethical decision making processes (Parhizgar, 1999). Since different cultures have different ethical value standards, it is necessary to use Hofstede's Cultural Dimensions in order to accurately evaluate the ideas of what is "right" or "wrong" in each culture.

Corruption Perception Index

The notion of corruption in business, and how prevalent it is in a society, is also important when trying to understand the ethical decision making process of each country. Should corruption exist in a business environment, the “criteria” that Stedham *et al.* describe as essential to making an ethical decision could be flawed, leading to unethical decision making (2007). According to the Corruption Perceptions Index, “corruption generally comprises illegal activities, which are deliberately hidden and only come to light through scandals, investigations or prosecutions” and because of this there is no way of accurately reporting the actual levels of corruption in a given society (n.d.). Corruption is also seen as a great obstacle to social development and economic growth due to the fact that some countries with extensive corruption tend to have poor economic performance (Wang & You, 2012).

This paper will use the values of the Corruption Perceptions Index (CPI) to act as a measurement of the ethics in each country, and compare these CPI values to the different types of organizational structures that each country uses to attempt to offer an explanation of how they are related. The Corruption Perceptions Index scores are essentially an estimate of the corruption that is noticed by the public and how well it is investigated and prosecuted. The CPI scores are created by Transparency International; a company who wishes to put spread more awareness of the corruption that exists in today’s world. They collect surveys and assessments of corruption from different reputable institutions to create the most widely used indicator of corruption worldwide.

By using the CPI scores of each country, along with the analysis of Hofstede’s cultural dimensions and its explanation of the philosophical analysis of dealing with ethics dilemmas, it is hoped that we can offer evidence that the cultural influences of the U.S., Japan, and Germany do in fact affect the way in which business structures are organized and how ethical decisions are made.

Business Organizational Structure

The last area that can help us understand the differences across cultures is the way that the businesses in each country are structured or organized. Having different business structures or organization can lead to firms behaving differently than other firms that are organized in a different way in a different country. Often times, these differences in firms' organizational structures directly affect the ethical behavior of their workers.

According to Harvey S. James, Jr., "organizational factors affecting the ethical behavior of workers in firms include the corporate culture and the formal structure of the organization" (2000). A worker's attitude, beliefs, desires and moral code are all individual factors that affect a worker's behavior, and in turn they can be directly influenced by corporate culture and the formal structure of the organization (James, Jr., 2000). James, Jr. then continued to state that organizational structures often play a larger role in determining an individual's behavior than the individual's own personal motivation (2000).

Since organizational structures have such a large effect on the decisions that individual employees make, it is important to understand what is meant by a formal organizational structure. The structure of monetary and non-monetary reward systems, the monitoring and performance evaluations of workers, and the decision-making rights and responsibilities of workers, which include job design and level of empowerment, are the three primary aspects of a formal organizational structure (James, Jr., 2000). Some scholars have recognized that these three aspects are the most important characteristics of a formal organizational structure (James, Jr., 2000; Jensen, 1983; Brickley *et al.*, 1997).

Reward Systems

Reward systems refer to the systems within a firm that provide workers compensation for their work. Organizations can influence the decisions of employees by providing rewards for the kinds of behaviors that they want to reinforce (James, Jr., 2000). These systems can either provide workers with monetary rewards, such as salaries and wages or cash bonuses, or they can provide non-monetary rewards, such as promotions and public recognition (James, Jr., 2000).

Performance Evaluation and Monitoring Systems

Performance evaluation and monitoring systems refer to the way in which firms evaluate and measure the actions or decisions of employees. This system is important because it provides a clear definition of what is expected at the firm from the workers and encourages the decisions and behavior that a firm wants. “Poorly designed and implemented organizational performance and evaluation processes will not only fail to detect unethical conduct, but will inadvertently encourage such behavior by creating the expectation that unethical behavior is tolerated or necessary in order to achieve corporate goals” (James, Jr., 2000, p. 49).

Decision-making Rights and Responsibilities

Lastly the decision-making rights and responsibilities of workers determine specific decisions and actions that a worker is allowed and expected to make given their job title or position. “There can be little argument against the fact that a company cannot succeed without skilled and committed employees” (Lewis *et al.*, 2004, p. 17). The decisions these employees make can range from specific specialized decisions to multiple generalized decision making responsibilities (James, Jr., 2000). “Within organizations, departments have a separate set of tasks and functions, each department has its own frame of reference and its own ethical standards or guidelines that shape ethical decision-making” (Jackson *et al.*, 2013, p. 243). The department that a worker is working in determines what decision-making rights and responsibilities he/she is responsible for. Along with the types of decisions workers are responsible for, the level of empowerment of workers also plays an important role in the decision making process.

A worker's level of empowerment most commonly refers to whether a worker has centralized or decentralized decision-making responsibilities (James, Jr., 2000). If a worker has a high level of empowerment, he/she is considered to have decentralized decision-making responsibilities meaning that he is allowed to make the decision with no interference from a higher authority, such as a manager (Zábojník, 2002). Conversely, if a worker has a low level of empowerment he/she is considered to have centralized decision-making responsibilities, meaning that a higher authority delegates what decisions need to be made and how they should be made (Zábojník, 2002).

For the purposes of this paper, the decision-making rights and responsibilities of workers and the performance evaluation and monitoring systems will be the focus of our analysis on the business organizational structure because they more directly affect the ethical decisions of employees more so than rewards systems.

Chapter 3: The United States

In this chapter, data for the United States' cultural dimension scores and corruption perception index value will be presented, followed by a brief explanation of the meaning behind the values. Along with this, the business organizational traits of the United States will also be presented and explained in detail in order to provide a clear idea of the U.S. business organizational structure.

The United States' Cultural Dimensions

Power Distance	Uncertainty Avoidance	Individualistic	Masculinity	Long Term Orientation	Indulgence
40	46	91	62	29	68

Table 1. "The United States' Cultural Dimensions" *Created based on The Hofstede Centre's 2014 values provided on their website at geert-hofstede.com/united-states.html and on the values in Hofstede et al.(2010)'s book, Software of the Mind.*

According to the values presented in Table 1 (pictured above), the United States scores highest in the areas of Indulgence and Individualism. This implies that the Unites States' culture places high value on helping oneself rather than another. It also implies that the culture of the United States is more relaxed and leisurely due to its high rating in Indulgence. The low scores in Long Term Orientation and Power Distance tells us that the culture of the United States places more emphasis on current affairs rather than the future and that its people believe in a more equal distribution of power amongst individuals. A Masculinity score of 62 shows us that U.S. culture believes that there is some difference in the emotional and social roles of men and women, however there is room for overlap. Lastly, with a somewhat low score in Uncertainty Avoidance, it is safe to assume that U.S. culture does not value the idea of structure, but rather acknowledges that the future is unknown.

The United States' Corruption Perception Index (CPI) Value

Country	CPI Score	Rank
United States	73	19th

Table 2. "The United States' Corruption Perception Index Value" *Created based off of the 2013 values provided by Transparency International on their website at cpi.transparency.org/cpi2013/results/*

The United States has the worst CPI value of the three countries being analyzed in this report, which means that its public sector is seen as the most corrupt of the three. It is important to note, however, that the U.S. still ranks 19th out of 177 countries meaning that although some corruption exists, it is not a prevalent problem. Especially since according to the Corruptions Perceptions Index two thirds of the other 177 countries scored below a 50 (n.d.).

The United States' Business Organizational Traits

In the United States, firms are expected to act in the best interests of their shareholders (Lewis *et al.*, 2004). This is typically done by placing the company directors in charge of making the decisions deemed "best" for the company. The question that remains, however, is what are the decisions that are "best" for the company? According to *Dodge v. Ford Motor Co.(1919)*, a corporation's primary interests are the profits of its stockholders, not the community or its employees. This decision made by the Michigan Supreme Court in 1919 still holds precedent because it has yet to be overturned. It has also caused many corporations to focus on the short term profits that are expected by their stockholders each quarter (Denning, 2013).

This system, known as the "Anglo-America shareholder system" or "Anglo-Saxon system", attempts to find the "optimal design of incentives and control mechanisms to maximize the return on equity capital given the separation of ownership and control" (Lewis *et al.*, 2004). This system tends to view workers, and their participation in decisions, to be a source of conflict that could be detrimental to the interests of the company (Lewis *et al.*, 2004). Due to this, U.S. firms are often more concerned with how their decisions will maximize their shareholders wealth rather than how their decisions will affect their employees. This Anglo-Saxon system has also set forth a precedent for people in this system to act in their own personal interest and to try and increase their wealth at all times (Lewis *et al.*, 2004). Since the 1990's, many U.S. institutions started to adopt new performance-based systems to help measure and monitor individual performance (Shin, 2010). Most times, however, individuals often only care about the reward portion of the system and ignore the information that helps to improve their actual performance (Lawler III, 2003).

As a result of this system, "less than 20 percent of the U.S. workforce is in a true high-involvement work environment" (Lawler III, 1999). With less involvement in decisions, employees often do not develop a strong sense of loyalty to the corporation and as a result voluntary employee turnover rates have risen (Compensation Force, n.d). Also, with less involvement, U.S. employees also do not feel a sense of importance and dignity that would come from helping make such decisions. These reasons, coupled with a system that advocates personal greed and the maximization of wealth, can result in employees making unethical decisions that would adversely affect the corporation in the pursuit of personal gain (Lewis *et al.*, 2004).

Chapter 4: Japan

In this chapter, data for Japan's cultural dimension scores and corruption perception index value will be presented, followed by a brief explanation of the meaning behind the values. Along with this, the business organizational traits of Japan will also be presented and explained in detail in order to provide a clear idea of the U.S. business organizational structure.

Japan's Cultural Dimensions

Power Distance	Uncertainty Avoidance	Individualistic	Masculinity	Long Term Orientation	Indulgence
54	92	46	95	80	42

Table 3. "Japan's Cultural Dimensions" *Created based on The Hofstede Centre's 2014 values provided on their website at geert-hofstede.com/japan.html and on the values in Hofstede et al.(2010)'s book, Software of the Mind.*

As can be seen from Table 3 (pictured above), Japan scored high in the areas of Uncertainty Avoidance, Masculinity, and Long Term Orientation. This means that Japan is a society whose culture places high value on structure and does not generally trust those who are new or foreign. Additionally, the culture places a larger emphasis on the long term effects of an action rather than the short term. The high marks in Masculinity means that the people believe there to be a large difference between the emotional and social roles of men and women, and it can be inferred that they are a highly patriarchal society that places an emphasis on materialism and assertiveness. The lower scores in Individualism and Indulgence imply that Japanese culture tends to be more group oriented, or collectivistic, and that they are less likely to engage in leisurely activities. The average score in Power Distance tells us that the Japanese culture understands that there is an unequal distribution of power; however they have no strong feelings one way or the other about it.

Japan's Corruption Perception Index Value

Country	CPI Score	Rank
Japan	74	18th

Table 4. "Japan's Corruption Perception Index Value" *Created based off of the 2013 values provided by Transparency International on their website at cpi.transparency.org/cpi2013/results/*

The CPI values of Japan and the U.S. reflect that they have similar amounts of corruption in their public sectors. Japan was ranked only one spot lower than the U.S. and had a CPI value that was one point better. Since both the U.S. and Japan still have relatively high CPI values compared to the other 177 countries, it can be assumed that both countries have similar views on the permissibility of corruption and its ethical implications.

Japan's Organizational Traits

In the past, Japan had one of the most unique forms of business structures that exist in today's world called the "keiretsu". The keiretsu was comprised of "families" of corporations that were involved across many industries that are focused on trading companies or banks (Nanto, 1990). These companies were known to buy from other member companies within their respective "families" as opposed to other foreign companies (Nanto, 1990). By limiting their buying to domestic companies, Japan made it extremely hard for foreign companies to enter into their markets.

In more current times, however, there is a strong belief amongst Japanese executives that due to various government regulations in effect that are intended to limit competition, Japanese firms are less equipped to compete in the international arena (Witt & Redding, 2008). Due to this, the keiretsu has weakened in power, and the Japanese have started moving towards a more free market economy (Witt & Redding, 2008). Although this system has slowly been deteriorating in recent years, it not only reflects Japan's belief that too much competition is dangerous, but it also reflects the general tendency of the Japanese to distrust/avoid foreigners and try and help out the people within their own culture or group (Witt & Redding, 2008).

Instead of using the Anglo-Saxon shareholder system like the United States, Japan practices a stakeholder system that takes into account employee interests as well as shareholder interests (Fauver & Fuerst, 2006). Currently Japan has a "lifetime employment" which asserts that Japanese firms exist to ensure the well-being of their employees and seniority system that designates more respect and authority to those who have been at the corporation the longest (Witt & Redding, 2008). However, this seniority system has started to decline in popularity and a preference for a performance-based system has started to emerge (Pudelko, 2006). This system makes it very hard for firms to fire employees or renegotiate wage levels, but it also deters Japanese firms from hiring additional employees, which decreases the availability of jobs should an employee wish to work somewhere else (Tsuru & Morishima, 1999; Witt & Redding, 2008). Since it is harder for them to fire employees, many Japanese firms have restructured their organization to allow for more employee participation in decision making; focusing on the long-term effects that their employees will have (Tsuru & Morishima, 1999).

With more decision-making rights and responsibilities and limited outside opportunities, Japanese employees are more invested and loyal to their corporations and have a greater feeling of empowerment (Lewis *et al.,* 2004; Tsuru & Morishima, 1999). Participation and representation in a firm's decisions can also improve a firm's performance and can be associated with higher long-term growth rates (Lewis *et al.*, 2004).

Chapter 5: Germany

In this chapter, data for Germany's cultural dimension scores and corruption perception index value will be presented, followed by a brief explanation of the meaning behind the values. Along with this, the business organizational traits of Germany will also be presented and explained in detail in order to provide a clear idea of the U.S. business organizational structure.

Germany's Cultural Dimensions

Power Distance	Uncertainty Avoidance	Individualistic	Masculinity	Long Term Orientation	Indulgence
35	65	67	66	31	40

Table 5. "Germany's Cultural Dimensions" *Created based on The Hofstede Centre's 2014 values provided on their website at geert-hofstede.com/germany.html and on the values in Hofstede et al.(2010)'s book,* *Software of the Mind*.

In Table 5, we see that, like Japan, Germany scored high in the areas of Uncertainty Avoidance and Masculinity. German culture emphasizes the importance of structure and distrust of foreign or new things, and the idea that there is a distinction between the emotional and social roles of men and women. Unlike Japan, however, Germany scored higher in Individualism and lower in Power Distance; implying that they are less understanding about the unequal distribution of power amongst individuals, and are more concerned with the individual's needs rather than the group's needs in comparison to Japan. It is important to note, however, that Germany's Individualism score is still significantly lower than the Individualism score of the United States. By receiving a score of 40 for Indulgence, it is safe to assume that German culture emphasizes restraint over indulgence, meaning that they are less likely to participate in leisurely activities, and perhaps even less likely than individuals from Japan would be.

Germany's Corruption Perception Index Value

Country	CPI Score	Rank
Germany	78	12th

Table 6. "Germany's Corruption Perception Index Value" *Created based off of the 2013 values provided by Transparency International on their website at cpi.transparency.org/cpi2013/results/*

With a CPI score of 78, and a rank of 12th out of 177 (Table 6 pictured on the previous page), Germany has the best CPI score out of the three countries being analyzed. This means that Germany is considered to be the least corrupt country of the three, and ranked substantially better than both Japan and the U.S.. This could imply that Germany has a lower tolerance for corruption as well as a lower tolerance for unethical behavior.

Germany's Organizational Traits

In Germany, much like other major countries, democracy is the primary system of state governance, and it plays a large role in delivering a legitimate regulatory framework for business (Witt & Redding, 2008). "Germans expect that rules are applied equally and that all, independent of power and status, behave according to the same principles" (Stedham & Beekun, 2013, p. 200). This expectation falls in line with the German ideology of "Gleichmacherei" which seeks to attain equal outcomes for everyone (Witt & Redding, 2008). That being said, the Germans still believe in seniority when it comes to making decisions about pay raises, performance and dismissal (Fischer, 2008).

In the past few years, thousands of laws have been introduced and passed that have furthered the amount of regulations and rules in business. However, these new regulations have started to draw criticism from German executives because they believe that there is now too much regulation in the industry (Witt & Redding, 2008). Similarly to Japan, these new regulations make it difficult to dismiss employees and discourage German firms from hiring new employees (Witt & Redding, 2008).

Due to this, most German employees spend a majority of the career at one firm, which has led many German companies to focus on the long term contributions that employees will make (Lewis *et al.,* 2004). Germany is also considered to be a "stakeholder system" country, much like Japan, in which the interests of a firm's stakeholders, such as employees, and not just shareholders are accounted for when making business decisions (Fauver & Fuerst, 2006). Instead of seeing their employees as potential problems or unimportant, German firms see their employees as more of an investment and are more keen to allow their employees to participate in decisions. Participation in decisions often increases employee loyalty and identification to an organization and provides the employee with insight into what the organization expects from them (Lewis *et al.,* 2004). Along with this, participation can also enhance employees' sense of power and dignity, which would help to reduce the need for them to try to gain power by making unethical decisions (Lewis *et al.,* 2004).

Chapter 6: Analysis

Culture	United States	Japan	Germany
Power Distance	40	54	35
Uncertainty Avoidance	46	92	65
Individualism	91	46	67
Masculinity	62	95	66
Long Term Orientation	29	80	31
Indulgence	68	42	40
Structure	- Shareholders most important - Employees seen as source of future problems - Promotes personal greed and acquisition of personal wealth - Employees excluded from decision making process - Performance Based System	- Shareholders and Stakeholders are equally as important - Employees seen as investments - Promotes equality of outcomes - Employees included in decision making process - Seniority System - Shift towards a Performance Based System	- Shareholders and Stakeholders are equally as important - Employees seen as investments - Promotes equality of outcomes - Employees included in decision making process - Mixed system for employee evaluation that includes seniority
Ethics	CPI Score: 73 CPI Rank:19th	CPI Score: 74 CPI Rank: 18th	CPI Score: 78 CPI Rank: 12th

Table 7. “Analysis of Culture, Structure, and Ethics”

In this chapter, the data presented in Chapters 3, 4, and 5 will be compiled into a single table (Table 7 pictured above) and reviewed to see if any relationships exist amongst the data. These relationships will then be analyzed and an explanation will be offered that will hopefully support the hypothesized relationship between culture, business organizational structure, and ethics that this paper seeks to prove. Hofstede’s Cultural Dimensions will first be used to try and identify a relationship between a country's culture and its business organizational structure. If a relationship exists, the business organizational structure will then be used to try and provide an explanation for the ethics and corruption levels of each country.

The purpose of this study was to determine if culture and business organization/structure had any influence on the ethics of each country. In other words, is ethics a function of culture and business structure? To prove this, we must first show that culture influences the business organizational structures, and then we must show how these business organizational structures in turn affect ethics. Table 7(pictured above) displays all of the relevant data that was discovered during this study, and, by using the information it provides, we can attempt to answer this question. Figure 1(pictured below) depicts this hypothesized relationship.

Figure 1. "Hypothesized relationship between Culture, Organizational Structure, and Ethical Judgment"

One of the most notable things that can be seen from Table 7, and the first step in our analysis, is how similar the business organizational structures are in Japan and

Germany and how they are almost the complete opposite of business organizational structures in the United States. These similarities between Japan and Germany can be explained through their Uncertainty Avoidance values and their Individualism values. Since both Japan and Germany scored high in Uncertainty Avoidance, it is thought that each country prefers structure. As mentioned earlier in this thesis, both countries have large amounts of laws regulating the industry and clearly defining what is permissible for corporations to do when it comes to their employees. This coupled with the seniority system found in each system, shows that both Japan and Germany prefer a clear structure in their business environments.

Another significant cultural element that can be seen through the business organizational structures of Japan and Germany is the lower scores in Individualism of each country. Germany's score of 67 indicates that it is still an individualistic country, however when compared to the United States' score of 91 we can conclude that Germany is much less individualistic than the United States. With lower scores in Individualism compared to the United States, it is expected that each Japan and Germany would focus more on the firm rather than the individual. This is reflected in the business organizational structure through the promotion of the equality of outcomes and through the inclusion of all employees in the decision making process. By including employees in the decision making process and striving for equal outcomes for all, Japan and Germany show that they care more about insuring that the entire company benefits rather than any single individual.

For the United States, its high score in Individualism and low score in uncertainty avoidance help to explain its different business organizational structure. As a result of its

Individualism score, it is expected that the United States' business structure will be more focused on benefiting the individuals rather than the company as a whole. This can be seen through the belief that the primary concern of the firm is the shareholders and not the employees and through the promotion of self interest and gain over everyone else in the firm.

The low score in Uncertainty Avoidance leads us to believe that the United States is more comfortable when there is no clearly defined structure, and explains why they use a performance based system as opposed to a seniority based system. The performance based system allows for any individual to climb the ranks so long as he performs up to the firm's standards of what is expected. This means that there is no set plan in place for advancement, and that it can happen to anyone at anytime so long as they are performing at or above company standards; a very sporadic and uncertain process.

The second step in our analysis is to understand how the business organizational structures in each country in turn affect the ethics in each country. In this step, we will attempt to show a theoretical relationship between each country's business organizational structure and where they are ranked according to their CPI score.

The first major theoretical relation to note, that was also mentioned previously, is that both Japan and Germany have similar organizational structures and both countries were scored as the two least corrupt countries out of the three according to the Corruptions Perceptions Index. This relationship can be attributed to the decision-making rights and responsibilities of the German and Japanese employees and the performance evaluation systems in each country.

In both countries, employees are included in the decision making process and their performance is largely judged based off of seniority. By including employees in the decision making process, Germany and Japan are empowering their employees and are making them feel more important and more loyal to their company. These employees then feel a sense of direct responsibility to their firm, and would be less likely to make an unethical decision because it would reflect badly upon their company. In addition to this by using a seniority based system, employees understand that there is a set system for advancement in place and they do not feel pressured to cut corners in order to try and make their performance appear better. In addition to this, Japan's and Germany's vested interest in their employees through their stakeholder based system also results in the employees feeling that they do not have to fight against the management and shareholders in order to get their needs heard. This leads to better cohesion between the management and employees and more productivity.

Conversely, in the United States employees are often kept out of the decision making process and are evaluated based on their performance. By prioritizing shareholders over their own employees, U.S. firms inadvertently promote the idea that personal greed and individual gain are more important than the firm's overall wellbeing. The sense of loyalty and importance to the firm that would have been gained by involving employees in the decision making process is lost, and instead the U.S. employees feel more loyal to their own personal interests. By using a performance based evaluation system, U.S. firms unintentionally send a message that individual performance is the primary concern, and this can lead to employees making unethical decisions to try and make their performance appear better. This type of environment tends to reward unethical decision making, which explains why the U.S. is the lowest ranked on the CPI scale of the three countries.

The last question to be asked is since Japan and Germany are so similar in terms of business organizational structure, why are they not closer together on the CPI rankings? This can be explained by Japan's recent shift towards a more performance based evaluation system. As mentioned before, there are not many outside opportunities for Japanese workers and this shift towards a more performance based evaluation system could be the cause of Japan's CPI score. Although job security in Japan is relatively high, shift towards this new system could be placing more expectations on employees to perform, which in turn could be causing individual employees to make unethical decisions to meet these new expectations. This would explain why Japan ranks more closely to the United States' CPI score than Germany's CPI score.

Chapter 7: Conclusion

The results of this study suggest that there is indeed a theoretical relationship between the cultures, business organizational structures, and ethics in the U.S., Japan, and Germany. The research shows that the culture, or societal norms, of each country play a significant role in the way that each country organizes its business structures. These business organizational structures then play a role in the ethical decisions made in each country, whether intended or not.

This theoretical relationship is important because it can help firm managers better understand the implications of their actions, and can also help to guide them to make decisions that will help reduce the probability of being involved in a major ethics scandal. By no means does this study argue that culture is the only factor that affects ethical decision making, nor does it argue that by empowering employees you are guaranteeing that they will make ethically correct decision. There are still many other factors that can affect how ethical decisions are made. This paper only confirms the fact that culture does in fact play a role in the decision making process through business organizational structures.

Notwithstanding these results, this study does have limitations in that it only focused on three developed countries. Developed countries typically display less corruption and are more likely to pursue and uphold some form of ethical standards than developing or underdeveloped countries. There is more information available regarding the business organizational structures and cultural influences in developed countries, which allows for a more complete analysis for the purposes of this thesis. The results found in this study might not be applicable to underdeveloped or developing countries.

To better understand the relationship between culture, business organizational structures, and ethics, researchers need to continue to analyze the business organizational structures of each country and the culture of each country. In addition, there is a need for an empirical study to determine whether the suggested theoretical relationships developed in this paper can be empirically proven.

It was noted during the construction of this thesis that there were some paradigm shifts away from the current status quo, such as Japan beginning to favor performance evaluation systems over its past history of using seniority based systems. Although there was a sufficient amount of literature concerning this thesis topic, there was not sufficient literature to confirm whether or not there is currently a movement towards a shared universal ethical standard. Further empirical research into this matter could help to confirm something that this researcher could not; whether or not there is a global shift towards a unified business organizational structure that adheres to and reinforces a universally understood definition and criteria of business ethics.

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