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# **Ethical Leadership in Multinational Companies' Control Practices: Culture as a moderating factor**

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## **Abstract**

**Purpose:** Determining the role of ethical leadership in the MNCs' control practices, this paper extends Eisenbeiss' (2012) four central ethical leadership orientations into multinational companies' control contexts – the culturally diversified environment.

**Design/methodology/approach:** Adopting a multiple-case research design we gather qualitative data from four MNC subsidiaries located in China, that connects three potentially diverse cultural contexts: German, Japanese and Chinese.

**Findings:** The findings confirm that ethical leadership compliance (or, violation) positively (or, negatively) contribute to the internalization of organizational practice transfer, moderating by cultural distance between foreign managers and, subsidiaries' employees. The results reveal that informal control, and trust, act as lubricants in the internalization process.

**Originality:** This paper evidences the connections between ethical leadership, organizational practice transfer and subsequent performance, along with inclusive cultural moderating factors.

**Keywords** Ethical leadership, Management control, Organizational practice transfer, Culture, Trust.

## **Introduction**

Control in multinational companies (MNCs) is a mechanism that ensures practices deemed in the headquarters of home countries are successfully transferred to subsidiaries in host countries. Conflicts in the transfer are not unusual because of 'institutional distance' between parent firms and their subsidiaries, with value and belief differences held by expatriate managers and local employees linking to their localized cultural backgrounds (Kostova and Roth 2002, 2003; Ahlvik and Björkman, 2015).

Ethical leadership is the concept that describes leaders, who follow the publicly recognised moral beliefs; such as integrity, respect, trust, fairness, transparency, and honesty; when working with subordinates (Brown, 2005). In the context of MNCs, control systems are generally designed and operated by foreign leaders/expatriate managers who govern, supervise and work with local employees in respective host countries whom are most likely to be from different cultural backgrounds. Hence leaders' ethical norms, values and beliefs, largely originating from 'their' cultural background, would influence not only the components of control systems but also the implementation of such systems. Consequently, in the 'organization practice transfer' (OPT) process, leadership styles and cultural interactions could lead to distinctive OPT consequences

Significant research suggests that there is a strong correlation between informal control style, improved ethical work climates and organizational performance, as trust between leaders and subordinates may be easier to be established in a more 'informal' control environment than that in found in a rigid 'formal' control procedure. As such, trust can act as a bridge between ethical work climates and organizational performance (see for example: Eisenhardt 1985; Craft 2012; Van der Stede, 2012; Goebel and Weißenberger, 2017). Moreover, when it involves different cultures, the relationship of ethical leadership, control mechanism and organizational

performance become arguably complicated, multi-faceted and heterogeneous (Klimkeit and Reihlen, 2016; Wang et al., 2017; Lee et al., 2019).

Research on behaviour and influence of ethical leadership is scarce, single country focused and dominantly Western-based (Eisenbeiß & Brodbeck, 2014; Lee et al., 2019), despite other scholars (e.g., Resick et al., 2011) extended ethical leadership behavioural research in cross-cultural settings after the pioneer study by Brown et al. (2005). As Eisenbeiss (2012, p.791) pointed out, “a review of the pertinent literature reveals that current research on ethical leadership focuses on an empirical-descriptive Western-based perspective”, whereas the essences of different Western and Eastern philosophies and religions are different, ethical leadership of Eastern-based perspectives could contribute new insights on ethical leadership literature. Results from a recent study by Wang et al. (2017) supports this argument. After controlling for a Western ethical leadership scale embedded in Brown et al.’s (2005) Western ethical leadership scale, Wang et al. (2017) identified unique culturally specific behavioural manifestations of ethical leadership, which are used to explain additional variance for employees’ working performance within China (Lee et al., 2019).

Moreover, studies in a single culture setting would have inherent limitations relating to homogeneous bias as they are unable to record and reflect dynamic processes of cultural conflicts and interactions, e.g., Goebel and Weißenberger (2017) in Germany, Wang et al. (2017) in China, and Lee et al. (2019) in South Korea. In line with these arguments, further examination of the behaviours and influences of ethical leadership in MNCs’ control environments would be favourable, as it involves actual control processes that affect people whom come from different cultural backgrounds, but physically work in and are influenced by

the control system where personal and cultural values clash, interact and compromise, demonstrating complexities of ethical work climates.

Furthermore, some studies have paid attention to the mediating factors played between ethical leadership and subordinates' work performance. For instance, Ng and Salamzadeh (2020) examined the mediating factors of the intention to stay for Gen-Y employees in MNCs of Malaysia suggested pay and reward recognition under ethical leadership are two mediators to motivate the young generation to remain. In South Korea, Lee et al. (2019) identified affective and normative commitments as the mediating effects of organizational commitment affecting the relationships among ethical leadership, task performance and turnover intentions. However, there is limited knowledge on the moderating factors between ethical leadership and other relevant indicators, such as organizational commitment, employees' working performance, and OPT. In addition, in the context of our study field, we find little on how culture plays a part in the process of OPT in MNCs when ethical leadership and control are 'in situ'.

The term moderating variable in quantitative research refers to a variable that can strengthen, weaken or even change the relationship between independent and dependent variables. In qualitative research, moderation is synonymous with interaction. In other words, moderating factors are those that can alter the direction of an investigated relationship or provide additional explanations about such relationships (Queen et al., 2016). Queen et al. (2016) argued that the effects of a moderator on existing relationships can be successfully analysed through *inter alia* semi-structured interviews.

To address the research gaps discussed and in response to the calls for more research on ethical leadership focusing on context-specific factors (Wang et al., 2017; Lee et al., 2019) and cultural

interactions in the control of MNCs (Klimkeita and Reihlen, 2016; Kimura and Nishikawa 2018), this paper aims to investigate the role of ethical leadership in MNC control practices and its interaction within selected diverse country settings. Building from Eisenbeiss' (2012) ethical leadership orientation theory, we conducted multiple case studies - four MNC subsidiaries located in China involving three Western and Eastern cultures - German, Japanese and Chinese. We emphasise that, *the rationale of drawing on Eisenbeiss' (2012) ethical leadership orientation theory as underpinning theoretical framework is that the theory was developed through analysing similarities of ancient and modern moral philosophies from Eastern and Western and World religions' ethics principles*. The study sets forth four normative peculiarities of ethical leadership, (1) humane orientation, (2) justice orientation, (3) responsibility and sustainability orientation, and (4) moderation orientation, with all rooted in either Eastern and/or Western cultures. In other words, *as Eisenbeiss' work reflects a "cross-disciplinary/intercultural view of the normative foundation of ethical leadership" (2012, p. 794), it situates appropriately within the paper's research objectives*. After data analysis and discussions, we developed a conceptual model that connects ethical leadership orientations, cultural distance and OPT outcomes. We conclude with research propositions that offer research avenues for further studies.

The present paper makes a four-fold theoretical and empirical contributions to ethical leadership and control literature: (1) applying Eisenbeiss' ethical leadership orientations in the context of MNC control environment and developing a coherent conceptual model incorporating ethical leadership orientations, cultural distance, and OPT performance; (2) identifying specific contents for each of the four central ethical leadership orientations used in the sample cases; (3) highlighting ethical leadership roles in reconciling cultural conflicts and commonalities in MNCs' control practices, along with discussions on the influence of control

style and trust; and (4) providing novel and fresh findings to support and revise arguments across some associated studies.

We structure the remainder of the paper as follows: the “Literature Review” section critically reviews relevant theories. The “Methodology” section discusses research design, case selection, data collection and analysis approaches. In the section “Case descriptions and discussions”, the four cases are presented and discussed with a focus on the values of ethical leaders interacting with cultural commonalities and differences. The “Conceptual model and propositions” section presents the conceptual model and subsequent propositions. Finally, the “Concluding remarks” delineate the theoretical contributions, practical implications, and limitations.

## **Literature Review**

### **Control in organizational practice transfer**

Control is an essential mechanism to avoid high uncertainty in the transfer of headquarters’ practice and to achieve internalization (Meyer and Rowan, 1977). Control in MNC’s context is described as a process by which managers, using their authority and a variety of mechanisms, try to influence the behaviour and output of employees (Jausaud and Schaaper, 2006). The purpose of control is to reduce the degree of asymmetry between the headquarter and the subsidiary (Ouchi, 1977; Reginato and Guerreiro, 2013).

Control styles and mechanisms executed by expatriate managers can lead to distinctive OPT results. OPT describes the process of transferring the organizational practices from headquarters in home countries to subsidiaries in host countries (Kostova, 1999). Such transference may face prominent challenges, because of institutional distances between home

and host countries, and cultural differences concerning values and beliefs held by subsidiary employees (Kostova and Roth, 2003; Ahlvik and Björkman, 2015; Garri, 2021). OPT can range from a low level of acceptance (implementation) to a high level of recognition (internalization) (Kostova, 1999). In the initial implementation stage, employees generally follow or comply with what the headquarters requires them to do, but not necessarily agreeing or recognizing what they are doing is right for the organization (Kostova and Roth, 2003). Implementation would not automatically lead to internalization until the employees agree to behave and act cooperatively. In other words, internalization indicates the degree to which the managers (normally expatriate managers from headquarters) and employees have adjusted their attitudes to attach symbolic meanings and values to the transferred and implemented practices (Kostova, 1999).

Research on control has been predisposed to focus on two distinguished control styles. Formal control sets out a formal structural relationship between headquarters and subsidiaries through centralized and formalized functions and decision-making (Jaussaud and Schaaper, 2006; Ahlvik and Björkman, 2015). Informal control focuses on the norms, values and beliefs which can direct employees' actions and behaviours (Cardinal et al., 2004). Empirical evidence suggests where the subsidiary's organizational environment is favourable for transferred practices, the transfer can be smooth; otherwise, employees may only accept them at face value rather than seeing them as part of the company's culture. This behaviour is called ceremonial adoption that could lead to opportunistic behaviours (Schein, 1985).

Theory suggests that centralized formal control with explicit and rigid rules and procedures, and inhumane approaches, hardly achieve the desired performance; while informal control with implicit, flexible and humane approaches is a more effective way to sustain people's motivation

and commitment (Epstein, 2008). This phenomenon is related to ethical aspects embedded in various designs of organizational management control systems (Goebel and Weißenberger, 2017) and leaders' roles (Treviño and Nelson, 2011). To be specific, those 'value based' or 'integrity oriented' control, that could emotionally touch people's humanistic nature, trigger their intrinsic motivation and foster their stewardship behaviours and sense of belongingness to the organization, and consequently lead to better control practices (Treviño et al., 2006; Goebel and Weißenberger, 2017).

## **Ethical leadership and cultures**

### *Ethical leadership*

A well-cited definition of ethical leadership is from Brown et al. (2005, p. 120) as the 'demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making. Ethical leadership literature highlights two aspects: one is about leaders' moral standards, and another is about how they use their social (legitimate) power ethically. With the first point, researchers argue that ethical leaders should act as role models by setting standards and expectations of ethical conduct for employees, or subordinates, or followers. As such, they should be altruistic, credible, honest, thoughtful and charismatic (Brown, 2005).

Regarding how ethical leaders morally use their social power in decision-making, ethical leaders need to realize their actions will affect others, and therefore they must be 'serving the greater good' (Treviño and Weaver 2003, p. 19). Several papers have discussed ways in which ethical leaders engage employees in decision-making. Such methods include adopting the

notion of interactional fairness in the supervisory relationship, using empowerment strategies to build employees' self-confidence and self-efficacy (Kanungo and Mendonca, 1996), advancing rewards and punishments to hold employees accountable (Treviño and Weaver, 2003), explicitly talking to employees and providing them with voice, and establishing a healthy interpersonal relationship with followers via two-way communication (Brown et al., 2005).

Leaders' characteristics and working approaches are influenced not only by their values and beliefs but also by their national cultural backgrounds and the institutional cultures within which they work. Therefore, to understand the peculiarity of ethical leadership broadly, a comprehensive conceptual framework would be beneficial. Developed by Eisenbeiss (2012), his conceptual framework containing four central ethical orientations is a worthwhile reference point. Each orientation is explained below.

According to Eisenbeiss (2012), **Humane Orientation** extracts ethical essences and principles from different sources such as Kant's categorical imperative, the Confucian golden rule, and Vedic scriptures. It is a speciality of universal altruistic ethics. Humane orientation suggests that ethical leaders need to be aware of subordinates' human rights, treat them with care, dignity and respect. Specifically, in the working relationship between leaders and subordinates, leaders should use subordinates as ends of human beings but not as a means of achieving goals. In other words, leaders should care about subordinates' well-being and treat them as sentient human beings.

Extending from humane orientation, **Justice Orientation** refers to treating subordinates fairly, i.e. no discriminations and bias allowed in the workplace against subordinates' gender

orientation, nationalities, religions, economic positions, political beliefs, and social statuses (Eisenbeiss, 2012). To implement justice consistently, three aspects should be considered. First, leaders should ensure transparency in decision-making, strategies, rules, policies and working procedures. Second, diversity within the workplace should be encouraged and respected. Third, a timely feedback system should be in place to gather different opinions and critiques. In other words, a two-way communication channel should be open, with subordinates being treated fairly and equally.

**Responsibility and Sustainability Orientation** relates to leaders seeing the future from a responsible view. It refers to whether leaders see the organization's success in the long term and whether leaders think the organization can or should make contributions to stakeholders (Eisenbeiss, 2012). In a more narrow perspective, it may perceive how the organization's decisions will impact society and the environment; while in a more broad sense, it includes how leaders care for all stakeholders to achieve the firm's sustainable performance in the long term.

**Moderation Orientation** argues that ethical leaders should be able to retain self-control and present themselves with temperance, humility, positive and ethically neutral behaviour (Eisenbeiss, 2012). Restating this, ethical leaders should learn how to make a compromise between organizational objectives and stakeholder interests. For example, whether leaders can appropriately deal with conflicts between financial and social performance, short-term tasks and long-term goals, and organizational team and individual's interests, and challengingly if ethical leaders are capable of finding solutions during challenging times and moving things forward.

One may thus imagine leaders having the four central ethical orientations of being kind, friendly, open and honest. They should be willing to engage in dialogue with subordinates, encouraging and empowering them, and committing care to them. In return, when subordinates feel they are being fairly treated, they should be willing to report problems, suggest solutions and commit to work. As such, interactions and trust can be established.

### *Cultures*

Ethical leadership is important in any society, but it may be understood differently in different cultures because the culture is socially and contextually related. Cross-cultural leadership research has found that, apart from some universally endorsed leadership behaviours, some leaders' behaviour is acceptable as ethical in one culture but may be interpreted as unethical in that of another (Hofstede, 1980; Den Hartog et al., 1999; Dickson et al., 2003; House et al., 2004; Keating et al., 2007). Resick et al. (2011) thus confirmed that there is a certain degree of convergence and divergence in terms of the meaning of ethical leadership across cultures and called for research on cultural-specific dimensions of leadership.

Industries may also have distinctive features. In multinational companies, leaders face contextual challenges to display ethical leadership when working with employees from different cultural backgrounds. Cultural conflicts emerge inevitably in the process of communicating and supervising workforces, negotiating work tasks, and solving disputes between leader and employees (Eisenbeiß and Brodbeck, 2014), because culture influences the way both leaders present their leadership and, employees' perceptions of observed leadership.

Although leadership scholars have previously argued that culture is a key factor influencing the perceptions of employees seeing their leaders (e.g., Gerstner and Day, 1994), research

addressing the differences in ethical leadership is more recent (Kimura and Nishikawa, 2018; Fu et al., 2020). While evidence generally suggests that culture affects sensitivities to ethical issues (Jackson, 2001) and beliefs about leadership (House et al., 2004), some noteworthy studies suggested interesting findings. In a serial study, Resick et al. (2006) re-analyzed GLOBE<sup>1</sup> data and found that despite there being a universal view on what is ethical leadership, the degree of recognition however significantly varied across cultures. In another study, Resick et al. (2009) further confirmed that specific culture dimensions (e.g., institutional collectivism, performance orientation and uncertainty avoidance) could influence people's recognition of ethical leadership. Moreover, by examining how ethical and unethical leadership is perceived in different cultures and sectors, Eisenbeiß and Brodbeck (2014) collected views from executives and identified cross-cultural and cross-sectoral commonalities and differences, with their findings concluding that ethical leadership refers to leader honesty, integrity, concern for responsibility/sustainability and people orientation.

## **Methodology**

### *Research design and case selection*

Given the consideration of our research aim – to explore the role of ethical leadership in the MNCs' control practices via the lenses of culture and trust-building, a multiple-case research design was selected, similarly used by Björkman et al. (2004). It follows replication logic and facilitates a comparative nature for the topic studied, with every Case serving to confirm or

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<sup>1</sup> The GLOBE (Global Leadership and Organizational Behavior Effectiveness) Project is a study of cross-cultural leadership study spanning over 60 countries and cultures (House et al., 2004) and identified nine cultural dimensions: performance orientation, assertiveness, future orientation, humane orientation, institutional collectivism, in-group collectivism, gender egalitarianism, power distance, and uncertainty avoidance. According to Hopkins and Scott (2016, p. 3), “the GLOBE studies is on leadership effectiveness, within the context of cultural diversity”.

disconfirm inferences drawn from the other cases and thus yields more robust, substantive theory than single cases (see Yin, 1994; Eisenhardt and Graebner, 2007).

Referring to the sample selection approach used in Wei et al. (2015), a ‘multilevel approach’ was used:

- Level 1 is to consider the time frame of the establishment of subsidiaries. It was the inclusive period 1995-2005 because, during this time, a sizeable number of MNCs considered seriously investing in China and regarded it as a strategic move (World Investment Report, 2005). Most investment projects are duplications of successful business experiences and operational patterns, which offers an ideal background for researching OPT. Furthermore, the control process can be more intensive in manufacturing settings.
- Level 2 refers to the consideration of the locations of samples. We considered MNCs’ Chinese subsidiaries in Chinese South-east coastal areas (including Yangtze River Delta and Pearl River Delta) as they are noted as being at the forefront of reform and expansion, possessing more mature industrial environments; having advantages in industrial workers, managers and complete infrastructures; and steady economic environments. Most of the Global Top 500 had invested in these two districts, providing a good data collection base.
- Level 3 relates the consideration of industry type. By our knowledge, organizational practices contain two main contents: organizational and technological knowledge. To this regard, manufacturing was selected to understand the phenomena as it is a sector that continually requires new or improved technological innovations in both products and processes to remain world competitive, which will reveal a more similar pattern of OPT compared to other sectors.

- Level 4 involves home country backgrounds. Considering the institutional distance, including national culture difference, we choose cases with parent MNCs from Western countries to make a meaningful comparison with those from adjacent regions having certain cultural links with China.

Finally, we selected two samples from German and Japanese subsidiaries each. The rationale of this selection is that Japanese firms are well recognized as process-focused control orientations (Shimizu, 2017). Moreover, there are some interesting comparisons. According to Harzing et al. (2002), German and Japanese companies are comparable in a number of aspects, such as: (1) German and Japanese companies put their stakeholders' (including employees, worker unions and communities) interests above shareholders'; (2) they prefer using direct personal communications between headquarters and subsidiaries, and thus the expatriate presence is high; (3) they pay more attention to process and innovation issues focusing on development and production; and finally, (4) they prefer expanding business through own growth and strengths rather than merger and acquisitions. Additionally, we selected cases that are located to the same geographical regions in order to minimize the economic influence from potentially different locations (Du and Williams, 2017). We, therefore, assume, with this careful consideration, our findings will minimize impacts from non-control-related factors. Finally, two German (Cases A and B) and two Japanese (Cases C and D) subsidiaries were selected. Their profiles are presented in Table 1.

[Insert Table 1 here]

#### *Data collection*

Multiple data sources (archives and semi-structured interviews) were used in this study. We began data collection by gathering extensive archival data from both internal and external sources. The internal sources are from the case companies home pages, their internal reports

and presentations. The external resources are mainly from internet search engines (Baidu, Google, etc.), including media articles about each company. From the archival data, we obtained a preliminary understanding of the sample's strategic values, operational procedures, management style, and the internal institutional environment - these ephemeral baseline data assisted in the formulation of the questions used in our semi-structured interviews.

The interviewees were selected based on three criteria: (1) Chinese managers who had worked in the sample company since the establishment of the subsidiary and understanding of current control mechanism, and the situations and conflicts occurred in the early years of the cooperation; (2) managerial positions; (3) having had at least three months' work-experience via training and exchanges in the parent company and, knowledge of the organizational culture of the parent company. At the initial stage, the researchers made field visits to each case firm and informal discussions with some of the interview candidates to obtain initial impressions of captured preliminary Case data.

The overall interview process was of three stages. The first stage was one pilot interview from each sample company. Each interview lasted 1 to 2 hours, and was recorded with the permission of the participants and transcribed. Ethical protocols were established and applied throughout the research. The purpose of the pilot interviews was to explore the topics and prepare the interview outlines for the next stage. The final stages comprised two main sections: the first section was the questions about the formal control mechanism and approaches used by headquarters, the subsidiary's response and employees' feelings, and the second part was to ask questions relating to the process and outcomes of practice transfer.

The second stage of formal semi-structured interviews lasted from October 2014 to September 2015 and includes a total of 16 interviews with managers of R&D, products, quality departments and specific project managers (with at least two managers from each Case). We conducted these interviews in cafés or teahouses convenient for the interviewees and offered an environment where they were willing to openly express their opinions. Each interview held was from 1.5 to 2 hours in length and was recorded and subsequently transcribed for data analysis. The third stage of follow-up interviews (one from each Case) was carried out from February to June 2016 after we obtained initial research findings and sought confirmatory participant responses, and collected supplementary data. We conducted approximately one-hour interviews from each Case at this stage.

What is pertinent to social research as applied here is that we seek to approximate to the context of that being studied; for example, the four headquartered enterprises and their subsidiaries, their actors, their interactions and interrelationships; thus, conveying a conceptual understanding of issues that make up their' naturalistic worlds (Van Maanen, 1979). In summary, a triangulation strategy was adopted in progressing data collection to ensure the validity and reliability of data, i.e. a combination of internal and external sources, different stages and types of interviews, and diversified interviewees.

#### *Data analysis approaches*

Our data analysis includes two stages: Stage one, interview data were analyzed using thematic analysis proposed by Miles and Huberman (1994) and Strauss and Corbin (2007). We sought the development of theory grounded in our research data, organizing it, fragmenting it into manageable units, synthesizing it, searching for and constructing patterns, discovering what was emergent and for conveying outcomes, as inherent and in integral parts of the processes of

analysis and theory building. Inductive analysis of data, meaning that the critical themes surface from data (Patton, 1990), requires some element of creativity to organize raw data into logical, meaningful categories and to examine them in holistic and interactive ways.

The analysis stage comprised three steps from its open coding to theme development. Two coders were independently involved in the analysis at the first step and then discussed and resolved the disagreement. The open coding step is to identify common but important codes relevant to the topic embedded in the literature, which is iteratively finalized. We paid particular attention to employees' psychological reactions to the control mechanisms and control levels employed by the headquarters, and their feelings towards the leading style and approaches used by foreign managers. The second and third steps were to identify the patterns and generalize more abstract and thematic constructs for the establishment of a conceptual model. Figure 1 illustrates the process of coding and theme development.

[Insert Figure 1 here]

The second stage was to develop a Conceptual Model. In this stage, our focus was to identify relationships between the three main themes and internalization of OPT to answer questions such as why do respondents have such positive or negative feelings on leadership style, specifically how do they think about foreign managers' leadership styles and approaches in terms of ethical or unethical terms, and why? In summary, our data analysis is consistent and rigorous with the standards identified in classical qualitative research (Yin, 2009). Therefore, the research design and its analysis have sought to take account of understanding participants' behaviours and thoughts from *their* points of view, *their* interpretations, *their* dynamics and properties of interactions, contextualized within *their* worlds.

## Case descriptions and discussions

### *Case A (German)*

Case A's control style is informal but was strongly praised by all interviewees as "humanized management". It has four characteristics: (1) an appropriate degree of control in tightness, e.g. the adopted regulations and operational systems carefully considered work intensity and workers' break time, employees only need to follow prime responsibilities and guidelines for the job but have a certain degree of freedom to decide how to fulfil their roles, line managers act as a coordinator rather than an overseer; (2) a good system to monitor and evaluate the performance of employees regularly and timely. Key performance indicators (KPIs) are used to evaluate the performance and are thought by employees to be reasonable and achievable without stress. Promoting opportunities or rewards are available for those who can achieve high KPIs; (3) respecting employees. For example, new starters have 6-months of training with options to select training content to suit their needs. After two years in a job, they can require rotations on their wishes. Employees can freely express their views and suggestions regarding the company's development and operation; (4) caring for employees. Staff welfare policies and packages are attractive and competitive, containing higher salaries, more holiday days, longer maternity leave (compared to national regulations and conventions) and even paternity leave.<sup>2</sup>

As a result, employees in Case A are 'happy', 'no pressure at work', 'wanting to do a good job', 'strong sense of belonging'. As a project manager said:

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<sup>2</sup> This policy does not exist in China.

Compared with my friends working in local Chinese companies, I am pleased. ...The timetable is OK for me. I do not feel stressed. We all are flexible in doing our job. Even my supervisor could not criticize me if I followed the guidance...I have opportunities to compete for other better positions if I want to...I like working here.

### *Case B (German)*

Case B shares many characteristics with Case A such as appropriate tightness of control via operational guidance, supervisor acting as a coordinator, individual performance measurement through KPIs, respecting and caring members of staff. In particular, the company does, according to interviewees, excellent jobs in three aspects to earning employees' loyalty: (1) extensive communications with employees to design a humanized working system. For example, at the start of the company, six expatriates were sent from the headquarters in China for three years. During this period, they jointly worked with Chinese managers and workers to discuss their unique needs to comply with headquarters' requirements and adapt whatever was necessary to make the system work well locally.

Another example is that during the 3-month probation period for new starters; their supervisors will pay close attention and offer extra helps for a smooth transfer; (2) value employees' feedbacks and useful suggestions. Regular workshops are organized to discuss business-related issues and are open to employees involvement. There is a scheme called '360-degree feedback' which invites everyone to comment on all aspects of the company's operation, management and development. If one's suggestion is considered, the news will be announced on the firm's webpage and he/she will be invited to have photos with top team leaders and a bonus will be awarded. In this way, employees feel their views are being valued and listened to; (3)

competitive salary and generous welfare benefits. The wages and salaries are higher than that in local Chinese companies plus a promise that the annual increase rate must be higher than national GDP growth. The welfare package even extends to immediate family members.

Interviewees labelled Case B's organizational culture as 'open', 'generous' and 'respect'. A product department manager describes his feelings as below:

Working at the company, I feel being valued. I always think about where we can improve at work and prepare my presentations at workshops very seriously. I feared if I don't do well, colleagues will lower my professional manner and work capability.... I found other people do the same.

#### *Discussions of Cases A & B*

Culturally speaking, Germany belongs to the Germanic Europe cluster which characterizes as low levels of Power Distance, Collectivism (In-Group Collectivism), and high levels of Individualism, Assertiveness, and Uncertainty Avoidance (Hofstede, 1980; House et al., 2004; Resick et al., 2011), whilst a consensus that China has high levels of Power Distance, Institutional Collectivism and Future Orientation, a middle level of Masculinity, and a low level of Uncertainty Avoidance<sup>3</sup>, though China was not included in Hofstede's cultural dimension study (1980). In other words, China shares fewer commonalities and more differences with Germany in terms of culture. However, why the control style and management approaches in Cases A & B are highly recognized by Chinese employees? A reasonable inference is that the control and management practices carried out by German managers are in

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<sup>3</sup> <https://www.hofstede-insights.com/>

line with the principles of Eisenbeiss' (2012) ethical leadership orientations, i.e. humane, justice, responsibility and sustainability, and moderation orientations.

Specifically, German business culture and employees' views on ethical leaders are influenced by the national culture, as well as Kantian moral principles. People expect effective leaders to be charismatic and value-based. German business practices and interpersonal relations have three characteristics. First, German companies usually value how to use social power by taking social responsibility and stakeholders' interests into account when making a business decision. An extended point of this feature is to fairly treat employees, using them as the ends but not as means (Palazzo, 2002; cited in Resick et al., 2011). Second, German companies are rule-orientation and prefer an internalized locus of control. This relates to the nation's high level of uncertainty avoidance, which presents being less comfortable with uncertainty and ambiguity. German business leaders value structure, favour setting up countless rules, regulations, procedures and processes, and rely on written contracts and agreements. This leads to a high degree of consistency, and mutual obligation between leaders and employees, but perhaps less flexibility and little of individual leader's determination. In German companies, team-oriented leadership is the rationale. Third, regarding German corporate governance, there is a tradition of 'communicative ethics' (i.e. consensual ethics) which suggests decisions are based on the agreement by moral community rather than individuals (Resick et al., 2011). In other words, German leaders are community-oriented individuals, and their communications with employees are more prompt, direct, explicit and based on consensus (i.e. two-way oriented).

In line with these principles, German parent companies of Cases A & B treat employees in their subsidiaries as key stakeholders and take their interests and benefits into account (*Responsibility and Sustainability orientation*) when designing a set of localized and suitable

regulations and operational systems (*Moderation Orientation*). These systems are humane and justified, such as the implementation of an appropriate control level which considers the physical and psychological needs of local employees, offering attractive welfare to them and their families (*Humane Orientation*), providing training, promotion and rewarding opportunities, and facilitating an equal and two-way communication channel to improve the system (*Justice Orientation*). Thus it is the ethical leadership “presentation” that had positively “touched the hearts” of Chinese employees that consequently overcame the cultural distance. Therefore, they are happy and committed, and thus the OPT process in Cases A & B is internalized.

#### *Case C (Japanese)*

Japanese firms are well known for their strict control over the work process, and Case C is no exception. The company carries out a rigorously tight control over the whole production process, and all procedures are counted in minutes, including workers’ time spent going to the toilet. Slower workers on production lines are continually warned to speed up, or they would be replaced. Employees felt that they were overburdened. Chinese workers even launched a strike against the parent company. At that time, the headquarters-subsidary relationship was very tense, as was also relations between Japanese managers and Chinese employees.

After the strike, the headquarters made some compromises, such as replacing some Japanese managers, increasing wages and salaries to a level higher than the local average, and raising holiday entitlements. However several organizational policies and approaches made Chinese employees unhappy: (1) a big gap in salary exists between Japanese and Chinese managers though they do the same job, and Chinese employees felt being treated differently and unfairly; (2) no incentives encourage people who perform well and better; (3) the overtime rate and

welfare package only meet the basic requirements of local legal regulations to avoid staff complaints.

Because of these discords, Chinese employees in Case C found it challenging to accept the Japanese firm as ‘their’ organization. For instance, when the Japanese provide detailed job training and emphasize safety issues, Chinese workers thought these rules are just for the company rather than for employees’ benefits. They saw the company setting up the subsidiary as purely to use cheaper labour in China. A project manager complained:

I was very uncomfortable and felt stressed when the Japanese manager said, “*Never say you can’t do it. If you can’t do the job, just leave. There will be someone who can (do the job)*”...We have not been paid other benefits except wages/salaries. I think their thought (on this matter) is “*I’ve already paid you. This is your job. I don’t need other reasons to motivate you*”.

#### *Case D (Japanese)*

Very similar to Case C, the company implements a very tight control on the production line and other processes. One of the primary responsibilities for managers is to work out how to improve efficiency at each process. Using the so-called ‘industrial engineering (IE)’ theory, they oversee and record situations and problems covering every minute. If any procedure has the potential to improve, a higher target will be set up to achieve in the next period. Although Chinese employees had finally recognized and accepted some of the advanced Japanese management practices, the progress took much longer and was fraught with difficulties. For example, it took three years for the employees in the subsidiary to finally not have resistance attitudes to the Japanese manufacturing

management tool – 5s, i.e. Seiri (sort, clearing, classify), Seiton (straighten, simplify, set in order, configure), Seiso (sweep, shine, scrub, clean, check), Seiketsu (standardize, stabilize, conformity) and Shitsuke (sustain, self-discipline, custom, practice). Even though their understanding of this ‘infused’ practice is only at a superficial level, e.g. an interviewee described the purpose of implementing 5s as to “*have a clean and tidy work environment*”.

According to the interviewees, employees in the company have low identity and loyalty to the firm because they do not feel working in the company is superior to working in other local Chinese companies. Two interviewees expressed their feelings:

I’m working here just for surviving, not for enjoying. They treat Japanese employees quite differently. There were several skilled supervisors from Gaoxiong (in Taiwan) sent here to train other workers when their subsidiary was closed. But when the job finished, they were dismissed whereas the Japanese remained. ...*Japanese are never be fired, and they work for a lifetime in the same company....they have been paid much higher salaries than us even we do the same job.* – by an R&D manager

We are stressed because of ‘Just-in-time (JIT)’. It is like a chain, once one point breaks, other links are all being affected....*It makes everyone nervous, especially workers in the production line....*There are information boards everywhere reporting product numbers timely, if one product produced five units less than yesterday, the director immediately came to find reasons. On the one hand, you

could say it is a high efficiency, but on the other hand, it makes people stressed. –

by a Product manager

### *Discussions of Cases C & D*

China and Japan share more cultural commonalities than differences with Western nations such as Germany. For example, both cultures adopt significant elements from Confucian and Buddhist religions, both have robust Institutional Collectivism and Future Orientation, and close scores in Power Distance and Masculinity (Hofstede, 1980; Coates, 1987; House et al., 2004; Kimura and Nishikawa, 2018). Unexpectedly, the control style and management approaches in Cases C & D caused serious aversion and resistance by Chinese employees. Arguably, this is partly because the control and management practices carried out by Japanese managers advance violations of Eisenbeiss' (2012) ethical leadership orientations, i.e. humane, justice, responsibility and sustainability, and moderation orientations. Let us take some examples to see how cultural commonalities were diluted by the violation of ethical leadership principles.

Japan has uniqueness and a distinctive business culture. For example, institutional collectivism makes the strongest employer and employee's relationship. Familism is the term described for Japanese companies and their model of managerial practices and motivational techniques, in the pillars of lifetime employment, seniority-based salary and reward system, and company-dominated enterprise unionism. Senior executives act as father-like figures through paternalistic and benevolent leadership and are obligated to care for employees. Employees thus have a strong sense of belongingness and psychological ties to the company, extraordinary job commitment and dedication, and display of loyalty (Resick et al., 2011). These cultural characteristics work well in domestic firms in Japan as we see industrial conflict, absenteeism,

and employee turnover are low. However, because Japan is a homogeneous society that values the purity and superiority of its race, this strong sense of national identity might lead to abusive behaviour perceived by subordinates from other nations when expatriate Japanese managers work in MNCs. This is just the case in Cases C & D as Chinese employees strongly felt being unjustifiably treated (violation of Justice Orientation), even though the two cultures agree with the concept of order of seniority.

Japanese hold a strong sense of concern for the future. Take Kaizen – Japan’s most notable competitive strategy as an example. Kaizen is a continuous improvement system. Through Kaizen, Japanese manufacturing firms operate systematic control approaches such as hierarchical depth, proliferating sub-units, and small spans of control to achieve regular, incremental improvements of product quality. Under Kaizen, strictly controlling process, quantifying everything, including intangible items and continually improving working procedures, are inevitable because its utmost aim is to maximize profits for both the short and long term. Japanese see Kaizen implementation as advanced operation techniques, observed a formal control style in Cases C & D but for Chinese employees, it is a humane violation, seeing responsibility & sustainability orientations only considerations focusing on that of the headquarters’ self-interest, not that of Chinese employees wellbeing.

Both Japanese and Chinese are common in the acceptance of paternalistic leadership and authoritarianism because of the shared hierarchy in culture. However, possibly because of the highest score of Masculinity (Hofstede, 1980), the communications between leaders and subordinates in Japan are less verbal, and employees rarely receive ‘Thank you’ messages or praise from supervisors. This communication style appears accepted within the Japanese community but could be very frustrating and discouraging for non-Japanese, such as found

with Chinese employees in Cases C & D, who perceived there to be no two-way communication and no job autonomy (violation of Justice Orientation).

As a result, Chinese employees in Cases C & D are less happy as they do not have a sense of belongingness. The OPT process in Cases C & D cannot be categorized as internalization because the acceptance level is low.

Table 2 illustrates more quotations in relation to each EL orientation. Whilst in Table 3, we further present the connection of the control style, the contents of compliance and violation for each ethical leadership orientation, and OPT performance within the cases.

[Insert Table 2 here]

[Insert Table 3 here]

### **Conceptual model and propositions**

In this section, we intend to present and discuss a conceptual model extracted from our data analysis so that the propositions' development can follow. The conceptual model explains, in the MNCs' control environment, how the compliance of ethical leadership orientations would help achieve the internalization of OPT on the one hand, and the violation of ethical leadership orientations would lead to ceremonial adoption of headquarters' practice on the other, and, what part the cultural distance between the headquarter and subsidiary plays in the process.

The conceptual model is summarized in Figure 2.

[Insert Figure 2 here]

In the establishment and transition of MNCs (particularly joint ventures), often managers or supervisors are expatriates from overseas headquarters. They normally have authority (i.e. legitimate power) to guide and influence subordinates (i.e. subsidiaries' employees) through resource control and decision making. To achieve the organization's goal, the leaders (foreign managers or supervisors) can have different choices. For example, they could engage and be inclusive with employees by treating them with dignity and respect and using approaches such as listening to their opinions, considering their needs, and being seen to be fair in dealing with conflicts and differences. In contrast, they could act in the headquarters' self-interests by ignoring the needs of subsidiary' employees. The former is more ethical by nature, whereas the latter is arguably not. The choice taken is not only depending on the managers' moral values (most likely linking to their cultural background) but also relating to the headquarter' business culture. The two different approaches could lead to various results in OPT, ranging from a low level of acceptance (implementation) to a high level of recognition (internalization) (Kostova, 1999). Implementation would not automatically lead to internalization until the employees in subsidiaries have adjusted their attitudes to attach symbolic meanings and values to the transferred and implemented practices. Otherwise, OPT can only be categorized as ceremonial adoption.

OPT can experience uneven progress which can encounter conflicts between expatriate managers and subsidiary employees. To resolve these conflicts requires continuous efforts through interactions between managers and employees who hold different norms, values and

beliefs because of their cultural backgrounds. Arguably affective trust relationships can only be established when managers behave ethically and lead in a manner that respects employees' rights and dignity (Resick et al., 2006). The trust developing process requires extensive and unavoidable two-way communication. As evident from case discussions, formal control style with rigid rules/regulations, inflexible and inhumane approaches can subsequently be disadvantageous, while informal control may be effective as to increase employees' intrinsic motivation, autonomy, and organizational belongingness (Goebel and Weißenberger, 2017).

In Figure 2 we suggest that the compliance of all ethical leadership orientations (Humane, Justice, Responsibility & Sustainability, and Moderation) in subsidiaries, could lead to stronger OPT (Internalization) from foreign headquarters. From the discussions of Cases A & B, we can see that once ethical leadership orientations are present, mutual trust between leaders and subordinates can be established.

According to Rousseau et al. (1998), trust is a psychological condition with which one party is willing to adapt behaviours based on the reliance of another (Das and Teng, 1998, 2001; Inkpen and Currall, 2004; Morgan and Sheehan, 2015). The presence of trust fosters cooperation by sharing knowledge, considering the interest of the other and being willing to sacrifice their interests to some extent. In other words, the presence of a trust relationship will see employees in the subsidiary being prepared to accept the values of the headquarters as part of one's own organizational culture and cooperate in adopting transferred practices (Kostova and Roth, 2002; Ahlvik et al., 2016). Moreover, trust-building requires significant time engagement, information exchange and mutual commitment from both parties. In other words, trust develops incrementally through many activities, observed outcomes from these activities, interactions and consistent manners of the other party (Inkpen and Currall, 2004). During this collaborative

process, if leaders practise some of the contents<sup>4</sup> of ethical leadership orientations, e.g. treating the subsidiaries as key stakeholders, involving local employees in decision making, and create an organic climate for employees' engagement on and contribution to the company's operational and potentially strategic intent. The feeling of inclusive decision making can stimulate employees' creativity which in turn develops an organizational identity. Therefore, trust can be a kind of lubricant that smooths the implementation and speeds up the internalization of OPT.

Conversely, when practices are transferred from the headquarters to a foreign subsidiary, the level of uncertainty and ambiguity is inherently increased (Kostova and Roth, 2002). If leaders violate with their ethical leadership orientations, e.g., giving little opportunity for information exchange and knowledge sharing with employees in subsidiaries, and treating workers like machines with little job autonomy, it sets the scene where individual employees are not only unable to make decisions on how and when they can perform better on their jobs but also trigger psychological resistance and antipathy and consequently engenders distrust. In this case, they may see themselves as irrelevant to the process. Such negative attitudes have been found closely linked to low performance, low job satisfaction (Alegre et al., 2016), leading to OPT as only being of ceremonial status.

Furthermore, although headquarters' control in MNCs aims to guarantee their strategies and business objectives to be achieved in subordinated environments, it is local employees having different cultural values who can mutually achieve such goals. If cultural conflicts cannot be reconciled, the goals of the headquarter would be undermined. From our data analysis, we find

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<sup>4</sup> The contents of EL compliance and violation in our cases can be referred to Table 3. They might be slightly different in other cases.

that despite cultural distance can influence the perceptions of employees viewing their leaders, it is compliance or violation of ethical leadership orientations that is a decisive factor that alleviates (offsets) cultural conflicts (similarities). In other words, the cultural distance would moderate the OPT process. For example, in our cases, the cultural distance between German managers and Chinese subordinates in Cases A & B should be broader than that between Japanese managers and Chinese subordinates in Cases C & D, however, when German managers involved Chinese employees in decision making, providing them with job autonomy and two-way communications, Chinese employees were emotionally appreciated. These kinds of good feelings converted into the willingness to commit, organizational identity and loyalty, resulting in the acceptance of German rule-orientation management. Consequently, the established high employee job satisfaction and trust in Cases A & B led to the organizational missions and strategies that had been achieved.

In contrast, when Chinese employees in Cases C & D experienced rigorous processes and tightening controls, received offensive language from Japanese managers, and were given little job autonomy and one-way communication, they quickly developed psychological resistance and antipathy. This kind of negative feeling reduced Chinese workers' intrinsic motivation for the job and made it potentially implausible to build a trust relationship and develop any organizational identity, irrespective of whether Japanese and Chinese share hierarchic paternalistic leadership and authoritative style originating from Confucian values.

Finally, based on our case studies and subsequent discussions, we delineate emergent concluding research propositions:

*P1: Compliance to Ethical Leadership orientations (Humane, Justice, Responsibility & Sustainability, and Moderation) could positively achieve high-level internalization of Organizational Practice Transfer in MNCs, being moderated through cultural differences between foreign managers from headquarters and employees in overseas subsidiaries being alleviated.*

*P2: The violation of ethical Leadership orientations (i.e., Humane, Justice, Responsibility & Sustainability, and Moderation) could lead to ceremonial adoption of OPT in MNCs, due to cultural commonalities between foreign managers from headquarters and employees in overseas subsidiaries being reconciliatory.*

### **Concluding remarks**

Management control and ethical leadership are often separately discussed in the existing literature. Control in MNCs is inevitably involved in cultural conflicts which makes the control process dynamic and complex, and control performance unpredictable. Ethical leadership roles in MNC control practices are, therefore, prominently important. Extending Eisenbeiss' (2012) four central ethical leadership orientations into MNC control context, this paper advances a conceptual model, which inherently connects ethical leadership, culture, and OPT outcomes, based on the data analysis of four Chinese MNC subsidiaries involving three Western and Eastern cultures - German, Japanese and Chinese. Our findings confirm that ethical leadership orientation compliance (violation) will positively (negatively) contribute to the internalization of OPT, moderated by cultural distance between foreign managers and subsidiaries' employees. The influence of control style and trust in the process has also been identified and discussed.

### *Theoretical and empirical contributions*

The present paper makes contributions theoretically and empirically to ethical leadership and control literature in the following ways. First, we test Eisenbeiss' four central ethical leadership orientations in the context of MNC control environment and develop a coherent conceptual model which inherently interconnects ethical leadership orientations (i.e., humane, justice, responsibility and sustainability and moderation orientations), cultural distance and internalized OPT. Second, drawing on the practices used in the sample cases, this paper has identified Humane Orientation compliance or violation is associated with whether or not the foreign headquarter humanely deals with contingencies and takes subsidiary employees' financial & psychologic well-being into account; Justice Orientation relates to whether or not the subsidiary employees are encouraged to participate in the decision-making process and given chances to express their views; Responsibility & Sustainability Orientation connects whether or not the foreign headquarter takes value-oriented long-term view by treating subsidiaries' employees as a key stakeholder and rewards them with certain job autonomy, and Moderation Orientation links to whether or not the foreign headquarter can design a localized system for the suitability of the subsidiary and its empowerment (see Table 3). These findings have refined Eisenbeiss' (2012) ethical leadership orientations in MNC's control practices and extended their definitions. Especially, we use broader terms than that used in Eisenbeiss (2012) for Responsibility & Sustainability and, Moderation orientations. To be specific, in Eisenbeiss' work, Responsibility & Sustainability Orientation and Moderation Orientation were emphasized on environmental issues and, Confucius's Golden Mean, respectively. We find these definitions are limited in use. We argue that Responsibility & Sustainability Orientation should relate broadly to a value-based, long-term orientation and stakeholder-focused approach, while Moderation orientation should be measured by the resilience of strategies and approaches used in the new environment. In this regard, our finding has contributed an aspect to the call

for “*More research is needed that analyzes under what conditions moderation orientation is useful in explaining leader moral choices and actions*” (Eisenbeiss 2012, p. 805).

Third, cross-cultural studies on ethical leadership are an important vehicle for understanding how ethical leadership is understood differently in different cultures. Our sample cases are interesting ones because culturally speaking; China shares fewer commonalities than differences with Germany while has more cultural commonalities than differences with Japan. However, why did the two German subsidiaries achieve much better OPT performance than the two Japanese ones? To explain this paradox we identified that it is ethical leadership compliance that plays a pivotal role in alleviating the cultural conflicts and cultivating mutual trust in the two German subsidiaries; conversely, it is ethical leadership violation that offsets cultural commonalities in the two Japanese subsidiaries. This result may form the basis for further studies to confirm or revise our observations.

Fourth, our results are principally in line with the findings in relevant studies for the overlapped areas but have added novel and supplementary evidence. For instance, our findings support arguments about the positive linkage between informal control and ethical work environment in Goebel and Weißenberger (2017), and between ethical leader behaviours and organizational performance in Treviño et al. (2006) and Chun et al. (2013); we also confirm the ‘trust’ role in Dirks and Ferrin (2002) and that of Eisenbeiss (2012). Our in-depth discussions and findings on the three cultures have provided support to their concepts of ethical leadership with relation to Germany and China in Resick et al. (2011), as well as for Japan in Kimura and Nishikawa (2018).

*Practical implications*

The present study makes noteworthy practical implications for MNCs to make organizational practices transferred to overseas subsidiaries. First, the obvious possible way towards predictable and successful outcomes is following the model of informal control and ethical leadership compliance. To facilitate this, the headquarter needs to take responsible and sustainable obligations (*Responsibility & Sustainability Orientation*) and meaningfully treat the subsidiary as a key stakeholder in the design and implementation of strategy and approaches. With this consideration as the foundation, both sides can equally come together to address issues and resolve emergent contingencies (*Moderation Orientation*). When expatriate managers work in the subsidiary, they may find it more productive to show their humane focused characteristics to their employees by being thoughtful of their psychological needs and treating them with dignity (*Humane Orientation*) and, providing favourable choices (e.g. expressing opinions and listening to them) (*Justice Orientation*). More likely, this would lead to mutual trust being established between expatriate managers and local employees, cultural conflicts being eased, organization identity being created and finally, transferred practices being internalized.

Second, cultural learning should be an important strategy of OPT for MNCs to minimize the range and depths of costs of cultural conflicts and misunderstandings. Training for the partner's national culture and behaviour guidelines of respecting each other's cultures could be implemented before or at the beginning of any business operations. In practice, the training ideally should perhaps be delivered at two levels: one at a lower level to all members of staff consisting of general knowledge and behavioural codes, and at an upper level to leaders (i.e., managers and supervisors) where the incorporation of ethical leadership principles (e.g., ethical leadership orientations) and skills in dealing with cultural conflict and misunderstanding incidents could be included. In addition, an effective communication and

feedback collection mechanism should be standardised to satisfactorily react to any unforeseen incidents.

### *Limitations*

Small sample size and limited cultures involvement are two limitations of our paper. Further studies could reduce such limitations and broaden a field of understanding. On the one hand, for qualitative studies, more cases need to be investigated. For example, with regards to the four cases in our paper, there is linearity and consistency in terms of the control style and ethical leadership compliance or violation for German and Japanese firms, respectively. This made it easier to discuss cultural influences. However, if more cases are involved, the linearity might not exist. Moreover, our understanding of the relationship among these concepts may indeed be further enriched. On the other hand, our propositions would benefit from being tested in empirical (quantitative) studies to generalize or revise them. In that case, more accurate measurements (scales) for ethical leadership orientations could be developed.

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**Table 1 Profiles of Sample Cases**

<b>Characteristics</b>	<b>Case A</b>	<b>Case B</b>	<b>Case C</b>	<b>Case D</b>
<b>Home country origin</b>	Germany	Germany	Japan	Japan
<b>Ownership pattern</b>	Joint venture initially & then wholly-owned	Joint venture initially & then wholly-owned	Wholly owned	Joint venture initially & then wholly-owned
<b>Establish year</b>	1995	2003	1997	2003
<b>Site in China</b>	Hangzhou (Yangtze River Delta)	Hangzhou (Yangtze River Delta)	Dongguan, Pearl River Delta	Hangzhou, Yangtze River Delta
<b>Size</b>				
<b>Employees</b>	3,800 employees	450 employees	4,000 employees	2,300 employees
<b>Sales</b>	N/A <sup>a</sup>	\$160 million	\$320 million	\$300 million
<b>Business type</b>	Producing and selling electric tools	Producing pesticides	Producing, researching and developing electric machines	Producing musical instrument (guitar and piano)

<sup>a</sup> Interviewees are not sure the total sale of the firm but its internal reports show that Consumer Goods and Building Technology contributes 26% of its total annual sales of 52.5 billion euros in 2015.

**Table 2 Quotation illustrations in relation to ethical leadership orientations in the cases**

<b>EL orientation</b>	<b>Illustrative quotations</b>
<b>Humane orientation</b>	<p><b>Case A&amp;B</b>  <i>“...The company’s meeting style is so different from what we were familiar before. Everyone feels equal at the meeting, ... enjoyable....The problem can be solved easily in this way.”</i>  <i>“...The system is very human. ....Not only feel pleasure to work here, but also feel rewarding.”</i>  <i>“...My family is very happy and proud of myself because they are insured by my company.”</i>  <i>“...Our performance at the meeting is a reflection of our ability to work.”</i>  <i>“...The company takes labour intensity and rest time into account when setting tasks.”</i></p> <p><b>Case C&amp;D:</b>  <i>“...The company strictly controlled the production process of employees, which led to the accumulation of dissatisfaction among employees and eventually led to the strike.”</i>  <i>“...The rules and regulations are too strict here. If you make a mistake, you will get others into trouble. The work is very stressful.”</i>  <i>“...The company requires employees to strictly follow 5s management and meet the steps set by the leader.”</i>  <i>“...The company believes that the ‘5s’ concept is very important, so every day at the start and end of the work, the front-line staff are required to ‘refer to things and read words’ to ensure the implementation of ‘5S’.”</i></p>
<b>Justice orientation</b>	<p><b>Case A&amp;B:</b>  <i>“...The company does not limit the way we do our jobs.”</i>  <i>“...It’s a pleasure to work here. I can feel the value of my work.”</i>  <i>“...You feel like the owner of the company, and you are willing to contribute to the company.”</i>  <i>“...The interaction between leaders and employees is healthy and organic. On the basis of mutual trust, foreign managers can listen to employees’ opinions, and we can accept orders from them.”</i></p> <p><b>Case C&amp;D:</b>  <i>“...Anytime, the manager always asks: ‘can you do it?’..... We don’t have any sense of ownership.....Work here only for the money.”</i>  <i>“...There were some incidents of vandalism in order to vent our frustration.”</i>  <i>“...It’s easy to see the pay gap between Chinese and Japanese employees..... as Chinese employees, we can never reach the level of salary as Japanese colleagues. .... I don’t have a sense of ownership.”</i></p>
<b>Responsibility &amp; sustainability orientation</b>	<p><b>Case A&amp;B:</b>  <i>“...I can feel being trusted at work. If I’m not happy with a project manager, I am comfortable to report directly to his liner manager.”</i></p>

	<p><i>"...We advocate leaderless discussions, and we feel in meetings are equal."</i></p> <p><i>"...One of the responsibilities of the German expatriate is to let the Chinese staff quickly familiarise the parent's organizational value, culture and system in a natural way."</i></p> <p><b>Case C&amp;D:</b></p> <p><i>"...Working here is all about products and quality, nothing else,.....we don't need to think about why do this way."</i></p> <p><i>"...Since employees are required to act in strict accordance with various system details, there is no room for us to play, so we can only focus on producing required product quantities."</i></p> <p><i>"...The '5s' from Japanese companies is a good thing, but it took me five years to realize it, and ten years to understand it."</i></p>
<p><b>Moderation orientation</b></p>	<p><b>Case A&amp;B:</b></p> <p><i>"...Just after more than a year, the Hangzhou business unit can operate well. Now we are the most efficient business unit compared to other business units owned by the company in the world. We are visited by other units to spread our successful practice."</i></p> <p><i>"... Employees behave followed what they understand about the organizational value and culture, rather than the specific institutional rules that would constrain their creativity."</i></p> <p><i>"... We are always given chances to express our opinions, show our performance and capability at regular meetings."</i></p> <p><i>"...Our opinions will be recorded accordingly and used to help leaders make decisions...You can speak freely here, .....the company is willing to accept everything from you."</i></p> <p><b>Case C&amp;D:</b></p> <p><i>"...Meetings are the main way for leaders to convey orders. They don't need to listen to employees; they just want to push them to do the job."</i></p> <p><i>"...All I need to do with my job is to say 'yes' without thinking about others."</i></p> <p><i>"...Employees are simply asked to meet the requirements set in the company's strategy, goals and management rules."</i></p> <p><i>"...I do what the leaders tell me to do. I don't have opportunities to express my opinion. ... Honestly speaking, I can't realize where my value is."</i></p>

**Table 3 Interaction of control style, EL orientations and OPT performance in the Cases**

Cases	Control Style	EL orientation contents C (ELcompliance) Vs V (EL violation)				OPT performance	
		Humane Orientation	Justice Orientation	Responsibility & Sustainability Orientation	Moderation Orientation	Employee Satisfaction	Internalization
<b>A&amp;B</b>	Informal Control	<p><b>C:</b> Humanely dealing with situational contingencies.</p> <p>Considering subsidiary staff financial &amp; psychologic wellbeing.</p>	<p><b>C:</b> Allowing subsidiary staff participating in decision making.</p> <p>Two-way communications.</p>	<p><b>C:</b> Value-oriented long-term and stakeholder view.</p> <p>Job autonomy.</p>	<p><b>C:</b> Designing a new system suitable locally.</p> <p>Empowerment leading style.</p>	High satisfaction/ High trust	High internalization
<b>C&amp;D</b>	Formal Control	<p><b>V:</b> Inhumanely dealing with situational contingencies</p> <p>Acting self (headquarter)-interest.</p>	<p><b>V:</b> No subsidiary staff allowed involving in decision making.</p> <p>One-way communications.</p>	<p><b>V:</b> Task-focused short-term view.</p> <p>Little job autonomy.</p>	<p><b>V:</b> Failing to design a new system suitable locally.</p> <p>Authoritative leading style.</p>	Low satisfaction/ Distrust	Low internalization

**Open coding**

**Common codes on Control Style**

“achievable KPIs”, “target set down for all positions”, “every position has clear responsibility but not for rules how to do the job”, “no pressure to do the work”, “not stressful”, “have freedom on how to do own job”, “have opportunity to express my opinion”, “timetable is relaxed and achievable”, “give enough break time”, “concerns about labour intensity”, “allowed selecting job training contents.”

“follow operation rules & guidance”, “record everything in operation”, “very stressful”, “calculate the time needed for every single procedure at work even toilet time”, “very strict”, “must finish tasks in a given time”

**Sub-themes**

Informal Control

Formal Control

**Main themes**

Control Style

**Common codes on Ethical Leadership**

“humanized management”, “respect people”, “seek our opinion”, “good welfare”, “happy”, “want to perform well”, “feel belonging to the company”, “being valued”, “treat staff safety very seriously”, “have chance to be promoted”, “better than working in other local companies”

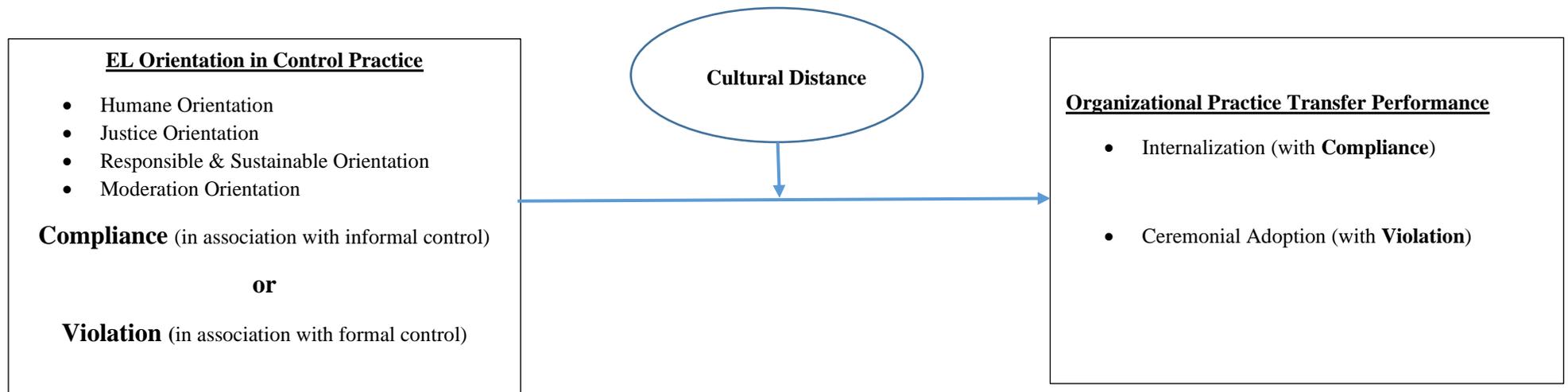
“work here just for survive”, “feel no difference compared to working in other local firms”, “it is unfair a big gap on salaries between expatriated managers and Chinese managers”, “why Chinese managers are dismissed but not Japanese managers”

EL presence

EL absence

Ethical Leadership

**Figure 1: Thematic analysis process**



**Figure 2: Influence of Ethical Leadership Orientations and Culture on Organizational Practice Transfer performance**