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Governance and Business Ethics
- An International Analysis

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Governance and Business Ethics - An International Analysis

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Abstract

Motivated by increasing investment of South Korean (SK) companies in the Czech Republic (CR) and intensifying trade exchange between the two countries, this article investigates two important aspects of Czech business environment – governance and business ethics (BE) practices. With regards to governance, this text finds that although the CR seems to rank somewhat better on four out of six WGI aggregate indicators (Voice and Accountability, Political Stability and Absence of Violence, Regulatory Quality, and Rule of Law), as the confidence intervals for both countries overlap, better CR performance can only be confirmed for one indicator, i.e. Political Stability and Absence of Violence. Similarly, SK seems to outperform the CR on Government Effectiveness and Control of Corruption, however, this result is not clear for the same reason. We find that on all six aggregate indicators, SK and the CR show similar strengths as well as weaknesses, with the main difference being in the ranking, rather than different components or attributes themselves. In terms of BE, we use a questionnaire survey and we then explain our findings through categories of culture based on Hofstede, GLOBE Project and Trompenaars models. Similarly to governance practices, we find that CR and SK ethical attitudes and perceptions are more similar than expected. In general, Korean respondents perceive unethical practices as less of a problem. In both countries, unethical practices related to bribing and unfair pricing practices seem to bother respondents most, while Koreans report difficulties with unfair competitive practices much less often than Czech respondents. In BE promotion, Korean companies rely more heavily on CEO's as opinion leaders, and punishment for unethical behaviour, whereas in the CR, the number one tool is corporate philosophy including ethics. Czech respondents feel less responsible to local community, society, and government and report the experience with ethical conflict between their personal ethics and the interests of their organizations more often than Korean respondents, and they appear much more situational. In making unethical decisions, Korean respondents would more strongly follow their superior and, overall, would place higher importance on ethical climate of the industry than Czech respondents. When faced with four hypothetical situations, in both countries, respondents thought they were more ethical than an average manager. The main difference was that in their behaviour and in how they felt about their own acts Koreans would be more strongly influenced by the overall ethical climate than Czech respondents.

Keywords: governance practices, business ethics, South Korea, Czech Republic, cultural differences

JEL Classification: F2, M5, Z1

I Introduction

The beginning of new millennium was marked by several important developments in the world economy. First, the beginning of the 21st century brought a series of accounting and business ethics scandals, that shattered public trust in good corporate governance and business ethics practices worldwide. Not long after that, global economy faced another shock in the form of global financial crisis that spread from the USA to the rest of the world and gradually spilled over into global economic crisis, commonly referred to as Great Recession. What these mentioned developments have in common is that they have shown vulnerability of countries and their companies to external economic shocks and they have equally served to emphasize public distrust in good business practices, as lack of good and ethical governance has often been considered as one of the main contributing factors to the outbreak of the crisis on the level of both, country governments as well as companies.

On the background of this development, the ability to sustain and strengthen international trade ties with foreign markets has become even more important for countries as well as for companies to overcome the effects of the crises and improve the prospects of future economic growth. One of the ways to enhance the position in the world economy is through preferential trade agreements or regional integrations, which are increasing becoming an important tool for countries to boost their growth. In line with this, in 2010, South Korea signed an FTA (Free Trade Area) agreement with the European Union (EU), which, next to the USA, is Korea's major export market the EU is South Korea's fourth export destination (after China, Japan and the US)¹. As the FTA came into effect in July, 2011, South Korea intensified its effort towards the development of closer business ties with the region.

Due to its unique geographic position as well as other comparative advantages, such as well-educated workforce and competitive labour costs, for South Korea, the Czech Republic (CR) has become one of the main points of entry to the EU market. With increasing investment in the Czech Republic, Korean firms are bringing with them their local cultures, work and thinking styles, all of which are factors that strongly influence business and corporate governance practices. Unfortunately, it is often the case that these different practices stemming from different cultural background and experience of companies become the source of conflict and constitute an obstacle to the realization of stronger benefits from mutual cooperation. In this respect, this article is motivated by a number of conflicts resulting from the use of different business practices reported by Czech as well as Korean companies entering in mutual business relationship (for example, when Hyundai built its plant in Nosovice, CR, Czech employees had big difficulties adjusting to Korean management practices). Specifically, this article focuses on two major aspects of company management and business environment – business ethics (BE) practices and governance practices, as these areas are especially prone to conflict or misunderstandings. The main aims of this article are to a) describe and compare governance and BE practices in both countries, b) identify similarities and differences in governance and BE practices between South Korea and CR, c) explain these differences from the viewpoint of culture.

The remainder of the article proceeds as follows. In the second section, prior studies are reviewed, and in the third section, methodology and data description are provided. Analysis,

¹ Source: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/south-korea/>, accessed: March, 20th, 2015

constituting the main body of this article, can be found in the fourth section, and the whole article concludes in the fifth section.

II Prior Studies

Country governance and business ethics practices in South Korea and the Czech Republic have been studied by a number of authors before. Among those related to SK, most studies either focus on Korean practices only (Choi & Jung, 2008; Irwin, 2010 for BE); or, much more often, conduct cross-cultural comparison while using USA or Japan (and other Asian countries) as other countries for comparison (for example, Choi & Nakano, 2008; Bae & Chung, 1997; Christie et al., 2003; Lee & Yoshihara, 1997; Park et al., 1997). Some of them attempt to relate existing governance and BE attitudes to culture (Cho, 2009), or to other important attributes of business environment, such as financial reporting (Choi & Pae, 2011). With regards to governance practices, the situation is very similar. Some studies (Kim et al., 2011; Trautvetter, 2010, Bingham et al.) attempt to track the development of current Korean governance practices from historical perspective, or again conduct comparison between Korean and Japanese or US' practices (Ahmadjian & Song, 2004) or mainly focus on corporate governance (e.g. Campbell & Keys, 2002), few of them focus on good country level governance practices, and these are often related to economic perspective (Kalinowski et al., 2014).

From the CR perspective, the situation is quite similar – some studies focusing on Czech governance exist (Guasti et al., 2014), and these often relate governance practices to transitional process (e.g. Potucek, 2008) or as the issue of integration and accession in the EU (Potucek, 2009). Some studies consider cultural perspective (Graziano & Winkler, 2012), while a vast body of studies examining Czech corporate governance specifically exists (e.g., McGee 2009; Deloitte Czech Republic 2013, Pohl et al., 2013). As for Czech BE, the situation is not much different with the exception that the number of studies on Czech BE is smaller, while preference is given to the study of Corporate Social Responsibility (CSR). Among authors writing about BE in the CR, we should especially mention Bohata (1997), Putnova (1999, 2000, 2001, 2007) and Nemcova (2001), who solely focus on Czech BE. Among more recent authors we may mention Travnickova (2005) and Canik and Canikova (2006), who pay attention to the BE tools used by Czech companies and also briefly mention some differences between small and large companies and the difference between private and public sector. More recently, we would like to mention Sipkova & Choi (2015), who study ethical perceptions of Czech respondents and find that unethical practices are still quite common in the CR and that Czech companies still rely heavily on informal promotion of BE. Of special importance for our paper is also the article of Sipkova & Choi (2013), who study the differences between BE of SME and large enterprises on a sample of companies including Czech Republic and South Korea, and thus also provide some limited country-comparison.

In view of the above, it is apparent that with regards to governance and BE practices in SK and the CR, current body of literature provides mostly mono-thematic studies in the sense that they only focus on one country, or multi-country studies that tend to take the view of West vs. East, as they often focus on comparison with the USA on the one hand, or other Asian countries on the other hand. However, this view is not applicable to our topic, as the CR is a middle-size Central European economy with communist past, which makes it different from the 'West' but also from the 'East'. Our article thus helps to fill in the gap in existing literature, and is even more important for practitioners, since, as already mentioned,

increasing and strengthening business ties between SK and CR call for more detailed examination of business and governance practices specifically in these two countries.

III Data and Methodology

This paper draws upon several resources. First, the data regarding governance practices was sourced from the Worldbank, World Governance Indicators (WGI) database², which provides country-level data for 215 countries. Country governance is assessed based on six aggregate indicators (dimensions) which are (1) Voice and Accountability (VA), Political Stability and Absence of Violence (PSAV), Government Effectiveness (GE), Regulatory Quality (RQ), Rule of Law (RL) and Control of Corruption (CC). For each dimension, a value between approximately -2.5 (weak governance) and 2.5 (strong governance) is provided, and each country is given a percentile rank on each dimension. In our text, we consider data for 2013, as detailed time analysis would go beyond the limited scope of this paper.

Second, BE data for Korea and the Czech Republic was obtained through survey conducted by the authors. In both cases, the survey instruments were based on the original survey of Baumhart (1961), which was later used in extended and updated form by other authors (e.g. Brenner and Molander (1977) and Vintell and Fetervand (1987)). For the purpose of the survey in South Korea and the Czech Republic, the questionnaire was translated into local languages (Korean and Czech), and the amounts were expressed in domestic currencies. In Korea, the data was collected in 2005, with the questionnaire self-administered and later directly collected from companies by research staff. In the Czech Republic, the data was collected in 2010. Similarly to Korea, the questionnaire was self-administered; however, filled in forms were not collected by researchers in person, but returned by respondents via e-mail. In both cases, the survey was fully anonymous.

Finally, culture-related explanations are based on data provided by three well-known sources, that is Hofstede (The Hofstede Centre, accessed 3/2015), Trompenaars (1994), and GLOBE Project (GLOBE Project Homepage, accessed 3/2015). These three sources were selected as their works are by now considered as classical in the field and in all cases, data is available for South Korea as well as the Czech Republic.

IV Results

The result section is divided into three subsections. In the first part, basic cultural features of Korean and Czech society and business environment are going to be reviewed, as they are later used in explanation of some of our findings. The second subsections focuses on country-level governance practices in CR and SK, and the thirds subsection analyses Czech and Korean BE attitudes, which it attempts to explain by the use of various categories of culture.

IV. 1 Cultural Practices

As apparent from Table 1, based of Hofstede '6 D' model, **South Korea** can be described as a country with a relatively **high power distance** (60). This means that Korean culture supports hierarchy and differences between people based on their seniority and social status, which largely depends on age, education, position in a company, and the family the person was born into. Kim (Kim & Lee, 2003) describes Korean culture as authoritarian, with some autocratic features, that were emphasized in local culture by Japanese occupation. Korean

² <http://info.worldbank.org/governance/wgi/index.aspx#doc-cross>

belongs among **collectivistic** countries, where the interests of groups prevail over the interests of individuals, with the primary in-group for Korean society being family. Alston (1989) points that Korean collectivism is mainly hierarchical, with emphasis put on harmony between unequals. For the purpose of this paper, it is important to point out that Koreans are highly loyal to the companies or organizations they work for, and this loyalty is even stronger than that of Japanese (Choi & Nakano, 2008). Korean high collectivism is also related to networking and focus on relationship building, which is prevalent in the local society.

Korean society belongs among societies with strong importance of **feminine values**, such as harmony, relationship orientation, strive for solidarity and consensus. Nevertheless, the position of men and women in the society is still unequal, with men enjoying the dominant position. As for **uncertainty avoidance**, in Korean society it is very high. This means that Koreans feel uncomfortable with uncertain, unpredictable or changing situations, some of the ways of tackling uncertainty being the existence of detailed rules and norms regarding people's behaviour in different situations and personalization of business (and other) relationships. South Korea is **long-term** and **pragmatic oriented** society, with the preference of stable long-term goals of current profits, which strongly manifest in company management and corporate governance. Finally, Korean society is a relatively **low-indulgent** society, in which natural impulses and desires are controlled by numerous social rules and obligations.

As for **GLOBE project** dimensions (Table 2), in general, it is possible to say they are in line with Hofstede model. Nevertheless, we would like to point out a few things. First, GLOBE project distinguishes between **institutional collectivism** (defined as "the degree to which organizational and societal institutional practices encourage and reward collective distribution of resources and collective action", Globe Project Homepage) and **in-group collectivism** (defined as "the degree to which individuals express pride, loyalty, and cohesiveness in their organizations or families", Globe Project Homepage), both of which are high in South Korea.

What is also noteworthy is relatively **strong performance orientation** (4.55), **low gender egalitarianism** (2.50) and relatively **strong degree of assertiveness** (4.40).

Finally, in terms of Trompenaars dimensions, we would especially wish to mention strong **particularism**, the **lesser tendency to differentiate between private and work life** (diffuse society), and **status ascription**. Especially the dimension of particularism is very relevant for this text. According to Trompenaars (1994), in particularistic societies 'greater attention is given to the obligations of relationships and unique circumstances', 'friendship has special obligations and hence may come first' and 'less attention is given to abstract societal codes'. Obviously, as this dimension deals with the application of rules based on relationship and not to everyone on equitable basis, this may cause problem with different understanding of morale and ethics between particularistic and universalistic countries, in which rules are clearly defined and applied in the same way to everyone.

When talking about the **Czech Republic**, we can see some significant differences. In terms of Hofstede model (Table 1), the Czech Republic can be rather described as an **individualistic** society (58) with looser ties between individuals and groups, stronger focus put on individual achievement and rights and management based on managing individuals. Furthermore, Czech society is also more **masculine** than the Korean one, with more equal position of men and women in the society and relatively more focus put on performance and competition, rather than social harmony and consensus. What is important is a **relatively high degree of anxiety avoidance**, dimensions, according to which the CR is similar to Korea. However, due to

Czech communist past, stronger generation difference on this dimension can be expected. Generation of about 45 years old and older, who have spent major part of their lives under totalitarian rule, tend to be more anxiety avoidant than the new generation, which is not burdened by the same experience. Czech society also belongs among those with **long-term orientation**, even though when compared with South Korea, CR is somewhat less long-term oriented (100 SK, 70 CR). Similar to Korean society, Czech society is equally described as **low-indulgent**.

With regards to **GLOBE**, it is interesting to see that much a **bigger difference** exists between the **power distance indexes** for CR (3.59) and for SK (5.61), where power distance is much higher (while based on Hofstede scores CR is supposed to be only slightly less power distant than SK). When Hofstede and GLOBE results are combined, it is possible to say that **Korea** is **clearly more power-distant** than the Czech Republic. As for collectivism, similarly to Hofstede scores, **CR** shows much **less of institutional as well as in-group collectivism** than SK, and **more of gender egalitarianism**. General level of **assertiveness** seems to be lower in CR than in SK. To finish brief culture dimension overview, **Czech** society is **universalistic** society (quite different from particularistic Korea) and there is more clear separation between work and private life (specific).

IV. 2 Governance Practices

This section of the paper focuses on corporate governance in both examined countries. As Kaufmann et. Al (2010) suggest, WGI defines governance as “the traditions and institutions by which authority in a country is exercised. This includes (a) the process by which governments are selected, monitored and replaced; (b) the capacity of the government to effectively formulate and implement sound policies; and (c) the respect of citizens and the state for the institutions that govern economic and social interactions among them.”. As such, corporate governance and governance practices in general constitute one of the major success factors in international economic relations. As the idea of good governance may differ across countries and its understanding is also culture-related, we use the above cultural description to try to explain the difference identified between CG practices in the CR and SK.

As mentioned in the methodology section, based on the Worldwide Governance Indicators (Table 3; World Bank (1)), governance is assessed on six different dimensions - Voice and Accountability (VA), Political Stability and Absence of Violence (PSAV), Government Effectiveness (GE), Regulatory Quality (RQ), Rule of Law (RL) and Control of Corruption (CC). Each time, two of these dimensions correspond to one area in the definition above, that is, VA and PSAV represent the area related to government selection and monitoring (a) above), GE and RQ represent government ability related to formulation and implementation of policies, and RL together with CC express states' and citizens' respect for governance institutions. As obvious from the definitions, WGI dimensions do not exist independently from each other, for example, as Kaufmann et. Al. (2010) point out, better accountability mechanism are likely to be associated with less corruption, etc. Another important issue is that WGI rely on **perception-based** governance data sources. As perceptions are closely tied to cultural environment, the objective situation as to the quality or level of a specific measure/dimension, may be perceived differently.

Czech Republic

The first composite measure to be examined here is **Voice and Accountability**, which WGI define as ‘perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a

free media' (Kaufmann et. Al, 2010). As Table 3 shows, in 2013, the CR index stood at 0.96, with percentile rank of 86.79. More detailed breakdown into individual indicators (World Bank, (2)) used in the construction of VA reveals that in the CR, governance is considered strong based on the Bertelsmann Stiftung's Transformation Index (BTI) ('index which analyzes and evaluates whether and how developing countries and countries in transition are steering social change toward democracy and a market economy' (Transformation Index, BTI, 2014), with high political participation, stable democratic institutions and high political and social integration. Other composite indicators also point at low involvement of military in politics and high democratic accountability and high press freedom. The biggest weaknesses are represented by low transparency of government policy, the existence of favouritism in decisions of government officials and limited effectiveness of law-making body.

The second major governance indicator is **Political Stability and Absence of Violence** ('perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism', Kaufmann et. Al, 2010), on which in 2013 the CR percentile rank was 84.36, with the estimate of 1.05. Detailed examination shows that CR biggest strengths related to this dimension are protection of human rights and low risk of political terror, along with limited risk of civil conflict and high government openness. Areas for improvement constitute increasing ethnic tensions and still-improvement needing government stability with some security risk.

Strongly related to this dimension is the dimension of **Government Effectiveness** ('perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies', Kaufmann et. Al, 2010) generally belonging among CR weaknesses. The CR percentile rank is 75.12, with the estimate standing at 0.88. Detailed inspection of individual indicators reveals relative strengths of in terms of the high level of provision of public goods such as good public school systems, high level and good availability of basic health services, drinking water and sanitation, electricity coverage, transport infrastructure and maintenance and waste disposal. Still stronger, but needing some improvement, are the quality of government's bureaucracy and political consistency and forward planning. On the other hand, the most heavily criticised areas include the insufficient speed with which government economic politicise react to the changes in the economy, political interference in the public service, and the already mentioned ineffective implementation of government decisions.

In terms of **Regulatory Quality** ('perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development', Kaufmann et. Al, 2010), the CR percentile ranks is 81.82, the estimate achieving 1.09. Here, the Czech Republic scores high with regards to well-manager transition process from centrally planned economy with totalitarian regime to democracy and competition-based market economy system, followed by good quality labour, tax, customs and trade regulations supportive of business growth, and relatively good compatibility of legislation with local legal system. Major developmental areas include excessive burden of government regulations along with limited effectiveness of anti-trust policy.

The fifth composite measure here is the **Rule of Law** ('perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of

crime and violence', Kaufmann et. Al, 2010), on which the CR has the percentile rank of 82.46, and the estimate of 1.00. Positively assessed indicators mostly point out well-functioning judiciary system, separation of powers and guarantee of civil rights, and virtually non-existent trafficking in people. Insufficient intellectual property rights and property rights protection, inefficient legal framework in challenging regulations, and reliability of police service belong among the areas in most need of improvement.

As far are the last measure, **Control of Corruption** ('perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests', Kaufmann et. Al, 2010), is concerned, with the estimate of 0.19 and percentile rank 62.68, it represent CR biggest weakness. The most problematic areas involve reported widespread corruption in government, existence of bribing, and corruption between administration and various types of business environment agents including citizens. On the other hand, it must be noted that the composite indicators from e.g. Business Enterprise Environment Survey by the World Bank (considered non-representative source by WGI) and Global Insight Business Conditions and Risk Indicators (considered a representative source by WGI), assess the changes of encountering the situation when bribe (special additional payment) will be necessary, and level of corruption/bribe intrusiveness with the growth of business and bureaucracy as low (on the scale from 0 to 1, 1 the best, 0 the worst, the CR scores 0.91 for Business Enterprise Environment Survey, and 0.75 for Global Insight Business Conditions). As composite indicator, the BTI Bertelsmann Transformation Index (Transformation Index BTI, 2014) also considers the CR to be quite successful in anti-corruption policy and the prosecution of office abuse (0.7 on the same scale).

South Korea

As for **VA** in South Korea, the estimate stands at 0.69 for 2013, with the percentile rank of 68.25 (World Bank (3)). Major strengths here include institutional permanence with good representation of population and organized interests in the political system, and, similarly to the CR, stability of democratic institutions with political and social integration, and low involvement of military in politics and good democratic accountability. As for the weak points, they are low confidence in honesty of elections, high favouritism in decision of government officials, low effectiveness of law-making body, and low transparency of government policymaking.

PSAV seems to belong among South Korea's weak points, as the percentile rank of 56.87 and the estimate of 0.24 suggest. Positive aspects related to this dimension include limited civil conflict and civil unrest, low terrorist threat, and relatively good government stability. On the other hand, on the same dimension, SK is considered as low performing by Economic Intelligence Unit belonging among WGI representative sources (0.45 on the scale between 0 and 1, 1 the best performance), and the risk of political instability is considered relatively high by World Competitiveness Yearbook (Institute for management & development; WGI non-representative source), with high cost of terrorism.

In terms of **GE**, SK percentile rank achieves 82.30, with the estimate standing at 1.12, making it SK's strength. More specifically, Korea's bureaucracy is considered to be quite efficient, with consistent policy-making and forward planning (which may be related to Korea's traditionally strong government and the policy of government-led development in the past). Consensus building and resources efficiency are considered to be other government strengths. As for the areas needing improvement, commonly reported ones include excessive

bureaucracy, political interference in public service, and less efficient distribution of infrastructure of goods and services.

Regarding **RQ**, SK stands at 79.9 percentile rank, the estimate reaching 0.98. Looking at the dimension in more detail, organization of market and competition systems, good investment profile, tax effectiveness and good legislation belong among positively perceived business environment attributes, while the existence of de-factor barriers to entry, burden of government regulations, and extent and effect of taxation are considered as major weaknesses.

The percentile rank of 78.67 and the estimate of 0.94 put SK among well-performing countries on **Rule of Law**. As for the main strengths, they are relatively efficient judiciary system, marginal existence of trafficking in people, relative separation of powers, and the existence of law and order. As for areas in need of improvement, they are tax evasion, unfair administration of justice, and the existence of parallel economy accompanied by low efficiency of legal framework for challenging regulations and limited intellectual property rights protection.

As for the last measure, **CC**, SK rank percentile achieves 70.33, with the estimate of 0.55, putting this dimension among the relatively weaker ones in Korea's context. Positively viewed components include existence of anti-corruption policy, and not so high perceived frequency of corruption among public institutions (0.68 on the scale of 0 – 1, 1 the best performance, as reported by Transparency International Global Corruption Barometer Survey). However, similarly to the case of the CR, other sources report widespread corruption as the most problematic area (0.23, the same scale; Gallup World Poll), along with large corruption deterring foreign companies.

CR and SK Comparison

When we compare the CR and SK on WGI, we may see that among all six aggregate indicators, the CR shows best performance on regulatory quality, while for SK it is government effectiveness. At the same time, we may observe that the weakest point for CR is control of corruption, but for SK it is PSAV. Looking at all the aggregate indicators overall, it seems that the CR tends to perform somewhat better than SK, specifically, based on percentile rank, CR performance seems better on VA, PSAV, RQ, and RL. However, if the methodology of WGI construction and confidence intervals are considered, better performance of the CR may be recognized clearly only in case of PSAV, as for VA, RQ and RL the confidence intervals overlap. On the other hand, SK seems to outperform the CR on CC and GE. Nevertheless, the same argument for confidence intervals overlap exists and, thus, the better performance of SK over CR on those dimension is not clear.

To mention the six different aggregate indicators more specifically, regarding **VA**, in both, the CR and Korea, political participation, stability of democratic institutions, and political and social integration are considered as strong points, while low law-making body effectiveness, low government policy-making transparency and favouritism in government officials are considered the weakest points. While CR percentile rank is higher, confidence interval overlap must be considered.

For **PSAV**, CR outperforms SK, with limited civil conflict, and relatively good government stability considered as strong points for both. In addition, other strengths of CR include human right protection. As for the weak points, for CR they are increasing ethnic tensions and some security risk, with high cost of terrorism for SK.

GE seems to be overall better in SK, although the situation may be ambiguous due to confidence interval overlap. For the CR, high level of provision of public goods is generally considered a strong point, with government decision making and ineffective implementation of policies receiving most criticism. In SK, on the other hand, consensus building and resource efficiency are reported among positively viewed aspects, while excessive bureaucracy with political interference in public service, along with less efficient distribution of public goods (in contrast to CR) are viewed as main weaknesses.

On **RQ** dimension, the ranking of both countries is very similar. For both countries, smooth transition towards democratic regime ensuring market competition is considered as strength. As for weaknesses, in the CR they are excessive government regulations, while in SK barriers to entry and effect of taxation on business are considered of major importance.

With respect to **RL**, both countries again seem to perform in a similar manner. In both, judiciary system and the existence of law and order are seen positively, while property and intellectual property rights protection seems insufficient.

Finally, in terms of **CC**, this indicator is CR biggest weakness. Even though overall SK seems to perform better, the situation in terms of one country ranking better than the other is again unclear. Heavily criticised areas for both include corruption, bribing and favouritism among government institutions that is perceived as common. However, in this case, it is important to point out that, again, there is strong disagreement on the extent to which corruption does or does not exist and this dimension may thus seem ambiguous.

The above analysis shows that if we examine the aggregate indicators in detail, in many cases main strengths and weaknesses of CR and SK appear to be very similar. We contend that it may partially be due to methodology reasons, as composite indicators and specific measures used within them frequently overlap and, often, the same governance attributes are at the same time reported as strengths and weaknesses by different types of organization. It is possible to say that, in general, both countries seem to perform in a very similar way, with very similar strengths and weakness in their governance. If the countries differ on a given aggregate indicator (although the difference may not always be clear), the difference is due to the extent to which a certain factor is (is not) present in the governance practices of the country, rather than completely different types of strong or weak factors. In this text, we have attempted a detailed breakdown, nevertheless, conducting a more thorough analysis that would be necessary to shed more light on the above issues, is far beyond the scope of this paper.

IV. 3 Business Ethics

Business ethics constitutes one of the major attributes of current business environment. Sometimes, it may be the key consideration for foreign companies when deciding where to place their investment. In this section, current BE perceptions and practices of Czech as well as Korean companies are compared, based on questionnaire survey conducted in South Korea in 2005 and in the CR in 2010. Descriptive statistics for both samples are provided in Table 4.

As Table 5 shows, **unethical practices seem to be more prevalent** in the Czech Republic, where 78.4% of respondents recognize their existence. In Korea, 35.7% of respondents stated that unethical practices exist within their industry; with striking almost 49% denying unethical practice existence. Here, it is important to point out that the notion of what is

considered moral or ethical may differ across countries. As will be discussed later in relations to Table ..., practices such as gift giving or bribing may be considered acceptable in one country but unacceptable in another. For example, offering gifts or paying for a meal to one's business counterpart is considered normal part of doing business in South Korea, but is less common in the Czech Republic. From the viewpoint of culture, BE perceptions and understanding are strongly influenced by universalism/particularism dimension. South Korea is a highly particularistic country meaning that rules (whether codified or not) are applied based on relationship with business partners. At the same time, contracts and agreements are more flexible, which are all business practice aspects that would be considered unethical in universalistic Czech Republic, but not so to such a large extent in Korea.

Table 6 offers information on unethical practices respondents would most wish to see eliminated in their industries. The results are in line with the previous table in the sense that Czech respondents seem to feel that unethical practices are a more serious problem than the Korean respondents. On average, Czech respondents reported to existence of 3.13 different unethical practices, while in SK, on average, 1.6 different unethical practices were reported. In both, SK as well as the CR, respondents most dislike the practices of 'Giving of gifts, gratuities, and bribes', followed by unfair pricing practices and price discrimination. For the other two most disliked practices, Czech and Korean answers differ. In SK, they are price collusion by competitors and unfairness to employees, while in the CR they are dishonesty related to contractual relations and unfair competitive practices. It is especially interesting to see that unfair competitive practices are only reported by 5.8% of Korean respondents, while in the CR, 42.6% reported them as problematic. Similar discrepancy may be seen for dishonesty related to contractual relations – 42.6% of CR respondents and 11.6% of Korean respondents. This fact might be explained by specificities of Korean business environment, which is dominated by so-called chaebols (i.e. large originally family owned conglomerates that used to enjoy special treatment by the government and still tend to dominate Korean industries), and where a dense net of relationships between companies, suppliers, and other economic agents exists (for more discussion refer to Hall & Soskice, 2001). This is also supported by cultural collectivism (communitarianism) and particularistic relationships. In such an environment, companies are likely to be exposed to unfair competitive practices less often, as most relationships with other economic agents will be based on various types of special relationships managed by strong cultural rules (Hall & Soskice, 2001, Burns, 1999). Another related point is that in Korean sample, 75% of companies are large size typically operating in more of oligopolistic environment. Unlike that, majority of Czech sample (63%) consists of SME, which face strong competition of a large number of companies of similar size.

Another interesting topic is the common tools used to promote ethical behaviour (Table 7). In the Czech Republic, companies most often use corporate philosophy including ethics (86.4%), followed by code of ethics (45.5%) as distant second and contribution to social/cultural activity, which might actually be seen as more of a CSR tool. In contrast, Korean companies most strongly rely on CEO's frequent statements on ethics (62.1%), punishment for unethical conduct (56.3%) accompanied by corporate philosophy (50.1%) and code of ethics (48.2%). Here, it is especially interesting to point out the difference regarding CEO's statement on ethics, which is only used by 18.2% of Czech companies, while in Korea it is the most common tool. This tool is more likely to work in SK with high power distance and hierarchical collectivism creating environment which naturally gives much authority to leaders, managers and CEO. At the same time, based on the prevalence of Confucian style relationship (Burns, 1999), hierarchical leaders are more likely to be actually followed.

Cultural environment may also partially explain the big discrepancy related to the existence of anonymous reporting hotline for unethical conduct (11.4% CR, 45.4% SK). Culturally, in Korean companies, it is more difficult to openly express disapproval, discontent or criticism, especially in front of people with which relationship has been established. This makes it difficult for employees to react to unethical practices when they encounter them and the chance of using anonymous reporting hotline may be an important facilitating factor. Again, another factor may also be the larger share of big-size companies in the Korean sample, as big-size companies tend to have more resources available for the creation of institutionalized BE tools.

An interesting aspect of BE also is who businessmen feel responsible to. Table 8 shows that in SK, respondents feel most accountable to customers (mean rank 2.8), employees (2.9) and stockholders (3.3). While in the CR, the order of social groups is the same (customers 1.7, employees 2.8 and stockholders 3.0), we may still observe some differences. For example, in the CR, customers are seen as the highest priority much more clearly than in Korea (mean rank difference between the first and the second is 1.1 for CR and 0.1 for Korea), and Czech respondents feel overall less responsible to local community and government than Korean respondents do. Furthermore, compared with CR, in SK, we may also observe stronger responsibility towards society in general and government. This finding is well in line with GLOBE project finding, which reports stronger institutional collectivism for Korea (5.20) than for the CR (3.60).

As for situations when the interests of companies and respondents' personal ethics diverge, Czech respondents report experience with this type of conflict more often (50.8%) than Korean respondents (31.6%, Table 9). It is possible to speculate whether this might be related to the strong power distance and hierarchical authoritarianism in Korea, meaning that managers, bosses and CEO's will be more likely seen as opinion leaders and more easily identified with. In addition, Korean employees also culturally show extreme loyalty to their companies (Choi & Nakano, 2008), which may mean that company values become relatively more internalized within their employees than is the case in the Czech Republic. This might equally partially explain why Czech respondents would report ethical conflicts resulting from differences in personal ethics and company interests more often than Korean respondents.

Related to the same issue, it is important to know whether, when facing ethical conflicts, respondents tend to decide based on their own ethical standards or rather in favour of their organizations' interest. Table 10 documents that in this respect, Czech respondents are strongly situational (64.5%), while majority of Korean respondents would base their decision on company interests (54.1% in SK, 12.9% in the CR), and only 19.7% would decide based on the situation. This is again well in line with high loyalty of Korean employees to their organizations, supported by the cultural features mentioned in the above paragraph (hierarchical authoritarianism and power distance) coupled with in-group collectivism (5.54 for Korea, 3.18 for the CR, GLOBE Project Homepage), outsider-insider concept, and particularistic relationships.

We also examined the factors that influence respondents in making their ethical/unethical decisions. As for ethical decisions (Table 11), in both countries, respondents report being most strongly influenced by their personal code of behaviour, followed by company policy, and behaviour of one's equals in the company. This seems to be quite surprising, especially in case of Korea, where, when faced with a situation of ethical conflict between their personal ethics and company interests, more than half of respondents reported they would act to

support their companies. Similarly, it also seems to be inconsistent with the above cultural analysis. However, potential explanation of this discrepancy may be that since certain types of behaviour (e.g. following leaders or persons higher in hierarchy) are so much internalized and have become part of common behavioural patterns that respondents are not aware of them and are thus not able to objectively assess their influence. This explanation would be supported by so-called iceberg theory of culture, according to which only 10% of cultural patterns, values, etc. are easy to directly observe, and remaining 90% stay hidden in people's sub-consciousness.

Furthermore, the answers related to respondents making unethical decisions (Table 12) also help shed some more light on this issue. In this case, mean ranks for the CR and SK differ, as would be expected based on prevailing cultural features. Czech respondents report they are most strongly influenced by personal financial needs, followed by improper or lack of company policy, and the behaviour of one's superiors. However, for Korean respondents, behaviour of one's superiors is the strongest factor, just as it would be predicted based on Korean cultural features, followed by company policy or lack thereof and ethical climate of the industry. In both cases, ethical climate of the industry seems to be somewhat stronger factor for South Korea, which would be in line with the main idea of Hall & Soskice (2001), that to be able to operate successfully, business environment agents must be in line with types of relationships, supervision and monitoring capacities typical for their environment. In case of South Korea, such environment would emphasize stronger interconnectedness between various economic agents. In relative comparison, Czech business environment supports somewhat stronger arm's-length relationships and their relatively more competitive nature.

Finally, respondents were presented with four dilemmas related to the above issues. In each case, respondents received description of a situation and were asked what they would do in such a situation and how they think an average manager would behave. The first dilemma asked whether padding his/her expense account by an executive is considered acceptable (Table 13). Again, the answers of both respondent nationalities seem surprisingly similar. In both cases, a very small percentage of respondents consider this behaviour acceptable (CR 5.1%, SK 6.5%), and a very large portion of respondents consider it unacceptable regardless of circumstances (CR 67.8%, SK 68.5%). Similarly, in both countries respondents view themselves as more ethical than an average manager (AM), as they believe that an average manager would more often follow the behaviour of other executives or superiors. Again, this seems to be in contradiction with some of Korean cultural features – however, we may attempt at some explanation. First, the same argument as in discussion about the results in Table 11 (internalization and unawareness of oneself being influenced by cultural features) can be used. Furthermore, in this first dilemma, respondents are facing a situation that harms the interests of their company. So, lesser willingness to follow the behaviour of one's superiors (or other executives – meaning peers) might be explained by strong loyalty to company, which would bear stronger influence than the cultural predisposition to follow people higher in hierarchy.

In the second situation, respondents were asked if they would hire competitor's employee if this meant the chance of learning more details about the competitor's scientific discovery. The answers for both nationalities were similar, but not the same. In the CR, almost 80% of respondents would try to hire the employee, while in Korea only slightly less than 60% of respondents would try to do so. This answer is interesting considering the fact that Korean economy is more strongly based on technology intensive production and the sample consist of relatively more large size and manufacturing companies. These facts would actually rather

suggest that Korean respondents should attempt to hire such employees more often than Czech respondents, who mostly come from non-manufacturing or SME companies. More research will be needed to verify and explain this finding. As for the difference between AM and respondents' own behaviour, similarly to the above, AM was perceived as less ethical than respondents themselves.

In Situation 3, respondents were asked whether, if they were company executives, they would be willing to provide a bribe in form of 'consulting fee' to the minister of a foreign country where such practice is common, in exchange for special assistance with obtaining a large contract generating substantial profit for respondents' company. In this case, we may notice some substantial differences in the answers of both national groups involved. In the CR, a little less than 40% of respondents would refuse to pay, even if it meant the loss of the sale, and slightly over 53% of respondents would pay the fee but at the same time feel it was unethical. This is in strong contrast with Korean answers, according to which majority (almost 54%) of respondents would pay the fee and also feel it was ethical considering moral climate of the foreign country. 27% of Korean respondents would pay, but feel it was unethical, and slightly less than 20% would refuse to pay. In sum, around 80% of Korean respondents would pay, while around 62% of Czech respondents said they would do so. But what seems more important is how respondents said they would *feel* about providing such payment. It seems that Czech perceptions would be more strongly influenced by their own standards – they would provide the payment but feel it was not ethical, while in case of Korean respondents, they would rely more on the climate of the foreign nation. This is in line with previous finding (Table 11, Table 12) that ethical climate of the industry plays stronger role in (un) ethical decision making of Korean managers and that Korean respondents appear more situational. This behaviour may also be explained by relatively more particularistic nature of Korean and relatively more universalistic nature of Czech culture.

Finally, in the last dilemma, respondents were supposed to imagine they were a regional sales manager whose sales staff were giving money to purchasing agents with the view of obtaining sales, and they were asked how they would act. In both countries, most respondents would issue an order to stop future payments, while not reducing salespeople's pay (CR 59.3%, SK 49.9%). However, as for the second most common answer, in the Czech Republic it was that respondents would say and do nothing (25.4%), whereas in SK it was that respondents would issue an order stopping such payments and at the same time reduce salespeople's pay (37.5%, CR 15.3%), while only 12.6% said they would not say or do anything. More research is needed to help explain this finding. The behaviour of an AM was again perceived as less ethical than that of respondents themselves; however, we may notice that while in the CR around 70% of respondents thought that AM would say and do nothing, in Korea, only around 44% of respondents thought so. Here, the explanation for higher scepticism of Czech Respondents may be the legacy of previous (communist) regime, in which most people developed the attitude of being passive with little initiative, which they then expect from others. Interesting difference may also be observed regarding the idea that an AM would issue an order stopping future payments and at the same time reduce salespeople's pay. This behaviour of an AM was expected by 7% of Czech, but almost 24% of Korean respondents.

V Conclusion

This paper focused on two important aspects of business environment – governance practices and business ethics – in two countries, the Czech Republic and South Korea. The choice of

these two countries was motivated by increasing investment of Korean companies in the CR, as they have chosen the CR as one of the major points of entry into the EU. From the investor's viewpoint, BE along with prevailing governance practice represent that kind of information that have important influence over investment decisions. Rising investment and increased trade exchange also bring higher chance of conflict and misunderstanding caused by different cultural practices, which have influence of all aspects of business environment, including BE and governance. This paper thus also briefly summarised common cultural practices in both countries and attempted to explain some governance and BE attributes by the use of cultural factors.

As for the main data sources, we used World Governance Indicators to assess country governance, the results of our own business ethics survey to describe prevailing BE practices, and Hofstede, Trompenaars and GLOBE project models to provide culture-related explanations.

With regards to governance, this text finds that although the CR seems ranks somewhat better on four out of six WGI aggregate indicators (Voice and Accountability, Political Stability and Absence of Violence, Regulatory Quality, and Rule of Law), as the confidence intervals for both countries overlap, better CR performance can only be confirmed for one indicator, i.e. Political Stability and Absence of Violence. Similarly, South Korea seems to outperform the CR on Government Effectiveness and Control of Corruption, however, again, due to the overlap on confidence intervals, this result is not clear. We equally find that on all six aggregate indicators, SK and the CR show very similar strengths as well as weaknesses, with the main difference being in the ranking, rather than different components or attributes themselves.

Specifically, regarding VA, in both, the CR and Korea, political participation, stability of democratic institutions, and political and social integration are considered as strong points, while low law-making body effectiveness, low government policy-making transparency and favouritism in government officials are considered the weakest points. For PSAV, limited civil conflict, and relatively good government stability are considered as strong points for both countries. In addition, other strengths of CR include human right protection. As for the weak points, for CR they are increasing ethnic tensions and some security risk, with high cost of terrorism for SK. In terms of GE, for the CR, high level of provision of public goods is generally considered a strong point, with government decision making and ineffective implementation of policies receiving most criticism. In SK, consensus building and resource efficiency are reported among positively viewed aspects, while excessive bureaucracy with political interference in public service, along with less efficient distribution of public goods (in contrast to CR) are viewed as main weaknesses. On RQ dimension, for both countries, smooth transition towards democratic regime ensuring market competition is considered as strength. As for weaknesses, in the CR, they are excessive government regulations, while in SK barriers to entry and effect of taxation on business are consider of major importance. With respect to RL, in both countries, judiciary system and the existence of law and order are seen positively, while property and intellectual property rights protection seems insufficient. Finally, in terms of CC, heavily criticised areas for both countries include corruption, and frequent occurrence of bribing and favouritism among government institutions. However, in this case, it is important to point out that again, there is strong disagreement on the extent to which corruption does between various composite indicators of this dimension, so these findings seem controversial.

In terms of BE, we find that quite a lot of ethical attitudes and perceptions are more similar than we might expect. In general, we may say that Korean respondents perceive unethical practices as less of a problem and report their existence is lesser number of cases than the Czech respondents. In both countries, unethical practices related to bribing and unfair pricing practices seem to bother respondents most, while Koreans report difficulties with unfair competitive practices much less than Czech respondents. As for BE tools, in BE promotion, Korean companies rely more heavily on CEO's as opinion leaders, and punishment for unethical behaviour, whereas in the CR, the number one tool is corporate philosophy including ethics. However, this difference may also be due to different composition of sample, since Czech sample include a large share of SME than the Korean sample. In terms of responsibility felt toward different social groups, overall, Czech respondents feel less responsible to local community, society, and government than Korean respondents. Czech respondents report experience with ethical conflict between their personal ethics and the interests of their organizations more often than Korean respondents, and they appear much more situational than Korean respondents, who would in more than half of cases base their decision on company interests, rather than personal ethics. In BE related decision making, respondents report being strongly influenced by their personal ethics, which seems contradictory to the above finding. On the other hand, in making unethical decisions, Korean respondents would more strongly follow their superiors than Czech respondents would, and, overall, Koreans would place higher importance on ethical climate of the industry than Czech respondents. When faced with four hypothetical situations, in both countries, respondents thought they were more ethical than an average manager. The main difference was that in their behaviour and in how they felt about their own acts, Koreans would be more strongly influenced by the overall ethical climate than Czech respondents.

The text also attempted to explain differences in BE by the use of various categories of cultural. Overall, we may say that cultural categories seem to be a good tool in explaining such differences, as we may have observed that many differences in findings can be attributed to Korean collectivism, high power distance and high particularism, compare to more individualistic, relatively less power-distant and universalistic nature of the Czech Republic.

From the analysis of both topics, governance as well as business ethics practices, we could have seen one important thing. It seems that more similarities than differences regarding both aspects of business environment exist that could be expected. This shows that the problem of business practice differences between the CR and SK cannot be presented as the problem of the West vs. East, which would be very tempting to do. Indeed, this view would be a clear simplification and distortion of the existing situation. In some cases, practitioners or analysts may not recognize the fact that culturally, the CR falls somewhere in the middle between the 'Western' and 'Eastern' culture as generally described in cultural studies. Furthermore, even Korean environment has gone through some changes, and although culture is stable in the long-run, certain perceptions and attitudes may have become modified by the spread of modernity, democracy and capitalist thinking.

We understand that certain concerns related to our findings much be recognized. First, with regards to governance practices, the aim to break down the aggregate indicators into composite indicators revealed that in many cases, the evaluation of various aspects included in the dimensions vary substantially across organizations providing such evaluations. Furthermore, as most organizations use a significant portion of perception-based data, the indexes are prone to being culturally biased. Furthermore, when talking about cultural

background, we realize that corporate governance might be influenced by different cultural practices more strongly than country-level data may be able to reveal. In terms of BE practices and cultural backgrounds, an important factor may be that while Korean survey was conducted in 2005, the Czech one was conducted in 2010, which is in the aftermath of Global Financial Crisis and following Great Recession. That is also the reason that we did not include certain type of data in this research, although it was available to us (e.g., whether respondents felt ethical practices had improved or worsened over the last ten years, etc.). Furthermore, CR sample consists of a larger share of SME and a lesser share of manufacturing companies than the Korean one (while still being representative for the local economy). Finally, major concern related to both, governance as well as BE practices is, that they reflect perceptions of respondents and people, rather than some kind of objective data. This is important as perceptions may sometimes be difficult to compare – behaviour that may be considered ethical or common in one country may appear unethical in another (e.g. guidance by ethical climate of industry of foreign nation in the BE result part). Furthermore, as culture is internalized and to a large extent stays hidden in people's unconsciousness, it may be difficult to compare the extent to which certain governance or ethics attribute is present in the society, as the common example with a glass which is seen as (half) full or (half) empty illustrates.

Despite the above concerns, we think that our findings are interesting and will provide some interesting insights for academics, and, especially, practitioners, who come in everyday dealings with the other culture. In this respect, we believe it is especially important we have attempted to explain existing practices by the use of cultural categories, which may help businessmen understand that certain types of behaviour are not the result of unethical attitudes per-se, but rather of the overall cultural context. It is also of value to realize, that despite differing cultures, common practices in both cultures are more similar than one might expect, which may help to overcome distrust in the attempt to establish closer and stronger business ties between these two distant and culturally different territories.

Our paper also points as some areas for future research, which would be more detailed analysis of certain ethical attitudes and, especially, more detailed breakdown of governance practices and firm-level analysis of corporate governance practices as related to cultural background of both countries.

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Tables

Table 1: Hofstede ‘6 D’ Model - South Korea and the Czech Republic

Dimension	South Korea	Czech Republic
Power Distance	60	57
Individualism	18	58
Masculinity	39	57
Uncertainty Avoidance	85	74
Long-Term Orientation	100	70
Indulgence	29	29

Each dimension takes value from 0 to 100 (maximum).

Source: <http://geert-hofstede.com/>, accessed: March, 27th, 2015

Table 2: GLOBE Project – South Korea and the Czech Republic (Societal Practices/Values)

Dimension	South Korea		Czech Republic	
	Societal Practices	Values	Societal Practices	Values
Uncertainty Avoidance	3.55	4.67	4.44	3.64
Future Orientation	3.97	5.69	3.63	2.95
Power distance	5.61	2.55	3.59	4.35
Institutional Collectivism	5.20	3.90	3.60	3.85
Humane Orientation	3.81	5.60	4.17	3.39
Performance orientation	4.55	5.25	4.11	2.35
In-group collectivism	5.54	5.41	3.18	4.06
Gender egalitarianism	2.50	4.22	3.79	3.78
Assertiveness	4.40	3.75	3.69	4.14

Each dimension takes value from 0 to 7 (maximum)

Data for May, 2004

Source: <http://business.nmsu.edu/research/programs/globe/instruments/>, accessed: March, 27, 2015

Table 3: Worldwide Governance Indicators: Czech Republic and South Korea

Aggregate Indicator	Estimate	Percentile Rank	Confidence Interval
Voice and Accountability (VA)			
CR	0.96	76.78	70.75- 86.79
SK	0.69	68.25	63.21- 73.58
Political Stability and Absence of Violence/Terrorism (PSAV)			
CR	1.05	84.36	67.45- 98.11
SK	0.24	56.87	41.98- 65.57
Government Effectiveness (GE)			
CR	0.88	75.12	69.52- 84.76
SK	1.12	82.30	73.33- 88.57
Regulatory Quality (RQ)			
CR	1.09	81.82	74.29- 90.00
SK	0.98	79.90	73.33- 86.67
Rule of Law (RL)			
CR	1.00	82.46	73.11- 86.32
SK	0.94	78.67	71.23- 85.85
Control of Corruption			
CR	0.19	62.68	57.62- 68.10
SK	0.55	70.33	65.71- 74.29

Data for 2013.

Estimate ranges from approximately -2.5 to 2.5 (best performance).

Source: <http://info.worldbank.org/governance/wgi/index.aspx#doc-cross>, accessed: March, 10th, 2015

Table 4: Descriptive statistics of respondents

Descriptive Statistics		CR	Korea
		N=60	N=386
1. Age			
	29 or under	10%	7.3%
	30-39	42%	60.9%
	40-49	20%	29.3%
	50 or over	27%	2.6%
2. Management position			
	Top management (president, chairman of board, executive director and board member)	22%	0.8%
	Upper middle management (functional department head, assistant director of department and deputy director of department)	32%	24.6%
	Lower middle management (functional unit head)	32%	37.8%
	Other (non-management personnel, assistant manager, supervisor and government officer)	15%	36.8%
3. Industry			
	Manufacturing	14%	54.1%
	Non-manufacturing (mining, construction, transportation, and other service industries)	86%	45.9%
4. Company size: number of employees*			
	1-249 (Small and medium enterprises)	63%	25%
	250 or more (Large enterprises)	37%	75%

*Company size classification is based on Recommendation 2003/361/EC regarding the SMEs definition commonly used within the EU (<http://ec.europa.eu/enterprise/policies/sme/>).

Table 5: Existence of unethical practices

	CR (%)	Korea (%)
None*	15.0	48.4
Yes, a few	61.7	32.9
Yes, many	16.7	2.8
Don't know	6.7	15.8

CR N =60, Korea N =386,

*For Korea "Almost none"

Table 6: Unethical practices most wanted to eliminate

	CR (%)	Korea (%)
Giving of gifts, gratuities, and briberies	53.2	56.2
Price discrimination and unfair pricing	46.8	28.1
Dishonesty in making or keeping a contract	42.6	11.6
Miscellaneous unfair competitive practices	42.6	5.8
Price collusion by competitors	27.7	19.8
Cheating customers	27.7	12.4
Dishonest advertising	23.4	1.7
Unfairness to employees	21.3	14.9
Overselling	12.8	7.4
Unfair credit practices	10.6	3.3
Other and unspecified	4.3	0.8

The question was designed as multiple-choices type; the respondents were asked to check as many answers as applicable. Percentage among those who answered this question.

CR N =47, Average number of answers per respondent: 3.13

Korea N =121, Average number of answers per respondent: 1.6

Table 7: Methods of building ethical values into the organization

	CR (%)	Korea (%)
Corporate philosophy including ethics	86.4	50.1
Code of ethics	45.5	48.2
Contribution to social/cultural activity	43.2	31.2
Punishment for unethical conduct	34.1	56.3
Employee training in ethics	27.3	44.6
CEO's frequent statements on ethics	18.2	62.1
Following parent company's philosophy	18.2	17.3
Anonymous reporting hotline for unethical conduct	11.4	45.4
Suggestion system on ethics	6.8	
Ombudsman	6.8	29.2
Social auditing	6.8	14.5
Ethics committee	0.0	22.6
Department or employees in charge of company's ethics		35.1
Other and unspecified	0.0	1.4

CR N =44, Average number of different tools per company: 3.05

Korea N =359, Average number of different tools per company: 4.6

Table 8: Company responsible to social groups (mean ranks)

	CR	Korea
Customers	1.7	2.8
Employees	2.8	2.9
Stockholders	3.0	3.3
Suppliers*	4.3	4.3
Society in general	4.4	5.0
Government	6.1	5.0
Dealer	6.3	
Local community	6.4	4.7

CR N =58, Korea N =386

Number 1: social group to which respondents feel most responsible, n. 8: social group to which respondents feel least responsible.

*For Korea "Collaborating company"

Table 9: Experience of conflicts between company interests and personal ethics

	CR (%)	Korea (%)
Yes	50.8	31.6
No	49.2	68.4

CR N=59, Korea N =386

Table 10: Ethical decision - company interests or personal ethics

	CR (%)	Korea (%)
Company interests	12.9	54.1
Personal ethics	22.6	26.2
Depends on the situation	64.5	19.7

CR N =31, Korea N =122

Table 11: Factors influencing ethical decisions (mean ranks)

	CR	Korea
One's personal code of behavior	1.9	2.0
Company policy	2.3	2.4
The behavior of one's superiors	2.7	2.8
The behavior of one's equals in the company	3.7	3.9
Ethical climate of the industry	4.3	3.9

Number 1 the most influential factor, n. 5 the least influential factor.

CR N =58, Korea N =379

Table 12: Factors influencing unethical decisions (mean ranks)

	CR	Korea
One's personal financial needs	2.4	3.5
Company policy or lack thereof	2.7	2.8
The behavior of one's superiors	2.8	2.7
The behavior of one's equals in the company	3.3	4.0
Ethical climate of the industry	3.7	3.3

Number 1 the most influential factor, n. 5 the least influential factor.

CR N =58

Korea N =376

Table 13: Hypothetical situations - Czech Republic, South Korea

	CR		South Korea	
	O (%)	AM (%)	O (%)	AM (%)
Situation 1				
Acceptable if other executives in the company do the same thing	5.1	31.6	6.5	22.4
Acceptable if the executive's superior knows about it and says nothing	27.1	40.4	25.0	37.0
Unacceptable regardless of the circumstances	67.8	28.1	68.5	40.6
Situation 2				
Probably would	79.7	96.6	59.8	84.8
Probably would not	20.3	3.4	40.2	15.2
Situation 3				
Refuse to pay, even if sale is lost	37.9	5.3	19.4	8.7
Pay the fee, feeling it was ethical in the moral climate of the foreign nation	8.6	33.3	53.5	48.0
Pay the fee, feeling it was unethical but necessary to help insure the sale	53.4	61.4	27.0	43.3
Situation 4				
Issue an order stopping future payments and reduce salespeople's pay in the amount equal to their commissions on the sales gained as a result of future payments	15.3	7.0	37.5	23.7
Issue an order stopping future payments, but do not reduce sales people's pay	59.3	22.8	49.9	32.1
Say and do nothing	25.4	70.2	12.6	44.2

O=oneself, AM = Average manager

CR = Czech Republic, SK = South Korea

Situation 1: CR N = 59, SK N = 384

Situation 2: CR N = 59, SK N = 383

Situation 3: CR N = 58, SK N = 381

Situation 4: CR N = 59, SK N = 381

Situation 1: An executive earning EUR 100,000 a year has been padding his expense account by about EUR 5,000 a year. What do you think?

Situation 2: Imagine that you are the president of a company in a highly competitive industry. You learn that a competitor has made an important scientific discovery which will give him an advantage that will substantially reduce the profits of your company for about a year. If there were some hope of hiring one of the competitor's employees who knew the details of the discovery, what would you do?

Situation 3: The minister of a foreign nation, where extraordinary payments to lubricate the decision-making machinery are common, asks you, as a company executive, for a EUR 250,000 (about 6,250,000 CZK) consulting fee. In return, he promises special assistance in obtaining a 100 million EUR (2. bil CZK) contract which should produce, at least, a 5 million EUR (125 mil CZK) profit for your company.

Situation 4: Imagine that you are a regional sales manager for a large industrial supply company and your salespeople are giving money to purchasing agents to obtain sales. This is beyond the generally acceptable meal or promotional item. Assuming that no laws are being violated, what would you do?

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