

## Effects of Guanxi with Supervisor on Whistleblowing

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### I. Introduction

Fraud, waste, theft, pollution, sexual harassment, bribery, and other forms of corporate and personal malfeasance all have the potential to extract significant economic and reputational costs for affected firms. However, early awareness of these problems may allow the negative consequences of these events to be mitigated, managed, or eliminated before they have a chance to manifest. Whistleblowing is an important mechanism to report wrongdoing where employees recognize the potential for misbehavior to exert a negative influence on their welfare and blow the whistle as a consequence (Liyanarachchi and Newdick, 2009).

Employees that “blow the whistle” are an essential element of a company’s internal control system and are instrumental in the early identification of corporate and personal misconduct (Patel, 2003). Although whistleblowing is a critical component of the internal controls for many firms from all countries, the propensity for employees to do so is directly related to the cultural norms prevalent within each domain (Hwang *et al.*, 2013; Patel, 2003).

Moreover, whistleblowing plays a significant role in both the Committee of Sponsoring Organizations of the Treadway Commission report (COSO, 2013) and the Sarbanes-Oxley Act of 2002. According to the 2013 KPMG Integrity Survey, seventy-five percent of employees reported that they had observed misconduct in their organizations within the previous 12 months (KPMG, 2013), and a recent survey by PWC (2018) indicates that half of all fraudulent misconduct investigated by global companies was committed by employees.

Understanding whistleblowing behavior is important because prior research has shown that employees are an important resource for detecting fraud and other types of misconduct in organizations (Micelli *et al.*, 2008). Indeed, the Association of Certified Fraud Examiners state that whistleblowers were responsible for detecting and reporting nearly 40% of identified fraud cases (ACFE, 2016).

Given the importance of whistleblowing to organizations, it is vital to understand the antecedent factors that influence the intention to blow the whistle and how whistleblowing behavior may differ as a function of cultural influences and other situational factors (Gao *et al.*, 2015). One such influence that is relevant in certain Asian cultures is guanxi, an unspecified, ambiguous and subtle set of interpersonal relationships that guide behavior in all aspects of life. Guanxi with supervisor is an informal leader-member relationship in workplaces and refers to a “particularistic relationship between individuals and their immediate supervisors” and is based on mutual interest and benefits and developed “through social interactions after work” (Zhang and Deng, 2016, 414). In the West, the term could mean that who you know is more important than what you know.

As a critical attribute in the organization-employee relationship, organizational trust must be considered when evaluating whistleblowing behaviors (e.g., Seifert *et al.*, 2013; Mayer *et al.*, 1995; Wong *et al.*, 2003). The more one trusts the organization, the greater the likelihood they will blow the whistle (Seifert *et al.*, 2013).

In this study, we investigate how guanxi with supervisor influences the whistleblowing decision and the role that organizational trust plays in that association by evaluating the responses of nearly two hundred Chinese bankers. We find that guanxi between the employee and their supervisor positively influences whistleblowing through both internal and external channels. We further find that organizational trust mediates the association between guanxi and internal

whistleblowing. Our study adds to the existing business ethics literature by documenting the mediation effects of organizational trust between guanxi with supervisor and whistleblowing intentions.

The remainder of this article is organized as follows. We begin with an in-depth discussion of the constructs and develop our hypotheses. We then discuss our sample and the methods used to analyze their responses followed by the presentation of our results. We next consider the implications of our findings and conclude with an evaluation of the limitations inherent to our study.

## **II. Literature Review and Development of Hypotheses**

### **Whistleblowing**

Whistleblowing may be defined as “the disclosure by organization members (former or current) of illegal, immoral, or illegitimate practices under control of their employers, to persons or organizations that may be able to effect action” (Near and Miceli, 1985, 4). The whistleblower may elect to either report the wrongdoing internally to those at a higher organizational level within the firm, or externally to an authority outside the firm such as the media, government, advocacy group, professional organization or political representative—each of which has its own implications and ramifications (Culiberg and Mihelič, 2016).

Whistleblowing poses an ethical dilemma for the whistleblower, and the decision to do so is influenced by a diverse set of individual and situational factors. These include professional, ethical and cultural implications, individual beliefs regarding religious values, morality and loyalty, as well as support from ones’ supervisor, group norms, the type and seriousness of the transgression, the anticipated responsiveness to the complaint, perceptions of organizational justice and the level of the whistleblower’s ethical and moral reasoning (Hwang *et al.*, 2008; Brody *et al.*, 1999; Culiberg and Mihelič, 2016; Gao *et al.*, 2015; Sims and Keenan, 1998; Seifert *et al.*, 2013; Ho and Redfern, 2010; Near *et al.*, 2004).

Internal whistleblowing has been considered an effective internal control mechanism to prevent wrongdoing in the banking sector (Zhang *et al.*, 2009). Typically, whistleblowers prefer to expose wrongdoing via internal channels because doing so reduces their risk of retaliation and is less likely to subject the firm to public exposure, governmental inquiry and possible fines or litigation (Berry, 2004). Conversely, external channels are preferred when the whistleblower believes that the internal parties are complicit in the wrongdoing, or if internal channels were already employed without result (Zakaria *et al.*, 2016; Miceli and Near, 1992).

Many researchers investigating whistleblowing have done so in consideration of the whistleblower’s level of ethical reasoning and have used a variety of normative models to pattern the behavior. These models all share certain commonalities including the presumption that the whistleblower’s “moral decision-making process draws on a complex combination of situational and individual contingencies, moral philosophies and personal values” (Ho and Redfern, 2010, 209). Moreover, the whistleblower’s unique personal attributes combined with various situational and cultural variables interact with cognitive processes as part of the decision-making process. Guanxi may be such a variable that could influence whistleblowing decision making (Ho and Redfern, 2010; Au and Wong, 2000).

As noted above, ethics and whistleblowing behavior are influenced by culture (Brody *et al.*, 1999; Patel, 2003). Those from collectivist nations, such as China, have been shown to be less likely to blow the whistle than those from more individualistic countries such as Australia or the U.S. due to a desire to save face, maintain organizational harmony and honor the requirements of guanxi relationships (Hwang *et al.*, 2013; Patel, 2003). Consequently, national culture could have a critical impact on ethical perceptions and behaviors in terms of whistleblowing behavior (Allyne, 2016). Specifically, Confucian ethics may significantly influence whistleblowing intentions because reporting wrongdoing may deteriorate the harmony between coworkers (Park *et al.*, 2005).

Studies have shown that one of the primary impediments to whistleblowing is fear of retaliation from the organization and/or its members (Zhang *et al.*, 2009). This fear is not unreasonable in a Chinese context given Gong’s (2000) finding that more than 10,000 Chinese whistleblowers had suffered from a variety of retaliatory actions including transfer, demotion, harassment, termination, and even death.

### **Guanxi**

Guanxi may be defined as “a quality relationship that determines the appropriate behaviors and treatment of each other” (Chen and Tjosvold, 2006, 1730). This concept is deeply rooted in Confucianism and has been a fundamental

component of Chinese culture for more than twenty-five hundred years (Zhang and Zhang, 2006). Confucianism stresses the importance of reciprocity, loyalty, and harmony. Within the context of Confucianism, guanxi defines the roles and behaviors of interpersonal relationships, and may be conceptualized as a series of concentric spheres of influence expanding outward from the individual based on the relative degree of the commitment and trust which are implicitly intertwined within these guanxi circles (Zhang and Zhang, 2006). The closest circle is familial guanxi and is an extension of the Confucian notion of filial piety wherein children are expected to respect and obey their parents even if doing so requires self-sacrifice, or if the parents are behaving illegally or immorally (Ho and Redfern, 2010; Yeh and Bedford, 2004). This is followed by the duty and reverence the citizen owes their ruler and extends outward to include friends and acquaintances.

In Asian cultures, the concept of filial piety extends to the workplace wherein supervisors are obliged to support and protect their subordinates, and in return subordinates are expected to be loyal, obedient, respectful, submissive and supportive of their superiors in the same manner that a son is expected to defer to his father or the citizen is expected to be loyal to the sovereign (Ho and Redfern, 2010; Snell, 1999; Park *et al.*, 2005).

In this study, we evaluate the influence of guanxi with supervisor. Like generalized guanxi, this type of guanxi is unofficial and informal but is based on a formal work relationship, and the extent to which it impacts organizational outcomes, is a function of official policies and practices (Zhang *et al.*, 2014). Guanxi with supervisor helps employees reach their career goals and is established and developed through social interactions outside of the work setting (Zhang and Deng, 2016; Law *et al.*, 2000). As such, guanxi with supervisor may be an influential factor in the decision to blow the whistle (Ho and Redfern, 2010; Au and Wong, 2000).

Previous research has demonstrated that guanxi with supervisor is a critical interpersonal relationship in Chinese society and has been associated with increases in trust, obedience, loyalty, job satisfaction and organizational citizenship behaviors, and decreases in counterproductive work behaviors (Zhang and Deng, 2016; Lin and Ho, 2010; Chen *et al.*, 2009).

Some researchers have characterized guanxi as a dual-edged sword, conveying both benefits and detrimental consequences (Warren *et al.*, 2004; Fan *et al.*, 2014; Zhang *et al.*, 2014). For example, Au and Wong (2000) and Fan *et al.* (2012) find that guanxi has a negative influence on ethical judgement, and Liu *et al.* (2011) revealed that guanxi has a negative impact on audit quality among Chinese auditors. Zhang and Zhang (2006) note that guanxi is often associated with corruption, bribery, cronyism, and nepotism culminating in under the table dealing or privileged treatment. On the other hand, guanxi also has been shown to be advantageous by improving economic and operational business performance, increasing organizational efficiency, reducing transaction costs, and providing a competitive advantage. (Luo *et al.*, 2012; Fan *et al.*, 2014; Davies *et al.*, 1995; Chan *et al.*, 2002; Zhang and Zhang, 2006). Further, Warren *et al.* (2004) noted that some guanxi is beneficial and generates trust at the managerial level, while other guanxi is harmful by lowering ethical standards at the organizational level.

Lin and Ho (2010) found that guanxi with supervisor was related to conscientiousness, performance, and organizational citizenship behaviors as individuals try to promote harmony in their interactions with their supervisor and with their colleagues. By conducting qualitative interviews with managers in China, Xing *et al.* (2016) found that guanxi is a key human resource asset that improves firms' performance. Guanxi with supervisor increases employees' job satisfaction and reduces their tendencies to engage in counterproductive work behaviors (Zhang and Deng, 2016).

Zhang *et al.* (2014) noted that guanxi with supervisor is similar to the Western notion of leader-member exchange (Graen and Uhl-Bien, 1995) given that both describe the subordinate-supervisor relationship and both are grounded in social exchange theory. Both constructs involve mutual obligations between the two parties that are unspecified and unguaranteed. However, while each is based on reciprocity, the informal rules associated with the reciprocity are different for each. Empirical analyses have shown that the guanxi with supervisor is correlated but unique and distinct from both leader-member exchange and supervisor support (e.g., Law *et al.*, 2000; Zhang *et al.*, 2014; Chen *et al.*, 2009). In addition, an analysis by Chen *et al.* (2009) identified a multi-dimensional structure to the guanxi with supervisor construct by finding three correlated but distinct components: affective attachment, personal life inclusion and deference to supervisor.

### **Guanxi and Whistleblowing**

In this study we evaluate the possible duality of guanxi with supervisor when considering whistleblowing behavior. Fan (2002) noted that while guanxi may bring benefits to organizations and individuals, those benefits are often obtained at

the expense of others, and therefore guanxi must be studied within the context of all stakeholders. For example, if one ignores wrongdoing, they may allow harm to come to others (individuals, the firm or the public). Conversely, exposing the transgression may serve the greater good, but it may also jeopardize interpersonal relationships and invite retaliation (Culiberg and Mihelič, 2016).

Moreover, there is ambiguity in Confucian teaching regarding the ethicality of whistleblowing that lends uncertainty with regard to how Chinese employees will react to wrongdoing within the context of guanxi (Park *et al.*, 2005). For example, one passage from the Analects of Confucius (Li, 1999) which lends support for remaining silent states “Rare is a person who, while filial to his parents and deferential to his elder siblings, harbors designs to challenge the authorities...Filiality and deference are the foundation of nobleness” (Park *et al.* 2005, 388). Conversely, other passages state “To do nothing when righteous actions are called for is cowardly” and “A noble man is one with virtue and courage, a man who speaks up for righteousness” thereby lending credence to an alternative interpretation supporting whistleblowing (Park *et al.*, 2005, 388).

On one hand, if individuals fully subscribe to the concept of guanxi with supervisor, they may overemphasize the tenet of respecting ones’ superior and support their supervisor’s illegal or unethical behavior without question (Wright *et al.*, 2002). Being faithful and trustworthy in one’s personal relationships is a foundation of Confucian teaching and guanxi. Subordinates rarely question one’s superior in Chinese culture. Indeed, subordinates are expected to be compliant and submissive and not challenge their superior (Snell, 1999). Thus, an employee that has a strong guanxi relationship with a supervisor that is engaged in wrongdoing may reduce the subordinate’s intention to blow the whistle because maintaining a good relationship with one’s superior is very important in Chinese culture (Ho and Redfern, 2010).

Hwang *et al.* (2013) note that Chinese may be less likely to blow the whistle to avoid uncomfortable work situations arising through the disclosure of wrongdoing, and their analyses showed that the fear of retaliation from exposing illegitimate, illegal, or immoral practices was higher for Chinese participants relative to those from the U.S. They speculated that higher levels of guanxi would reduce the tendency to blow the whistle because doing so is not in accord with the values inherent to guanxi relationships and may result in retribution. Blowing the whistle violates the unspoken code of reciprocity and equanimity in guanxi relationships and results in the whistleblower failing to fulfill their responsibilities to the guanxi partner, almost certainly doing serious damage to the whistleblower’s reputation and causing a loss of face and loss of trust from other members of the guanxi circle (Hwang *et al.*, 2008). Furthermore, Zhang *et al.* (2009, 27) noted that whistleblowing “can be considered unacceptable and unethical behavior by any Chinese employee, for this act is considered a break of trust between employees and employers” and which would be seen as disloyal.

Zhang *et al.* (2009) also found that traditional Confucian culture, political ideology and social values influence the perceptions of Chinese people regarding the ethicality of whistleblowing. Given that blowing the whistle on a superior’s illegal practices creates conflict and confrontation by definition, and because the strictures of guanxi are intended to maintain harmony and stability, it is possible that guanxi with superior has a negative effect on whistleblowing behaviors (Patel, 2003).

On the other hand, if participants uphold the Confucian values of loyalty, obedience, and deference to the greater good, guanxi with supervisor combined with higher-order ethical reasoning could generate a positive association between guanxi and whistleblowing intentions. Fan (2002) noted that Confucius taught that moral concerns were always more important than the pursuit of business interests. It has been found that supervisor support positively influences the intention to blow the whistle (Culiberg and Mihelič, 2016). Additionally, Liu *et al.* (2015, 115) concluded that “authentic leadership in the Chinese cultural context plays a positive role in promoting internal whistleblowing by building the team psychological safety and personal identification.”

Since positive guanxi with supervisor implies supervisor support by definition, possibly guanxi is positively associated with whistleblowing intentions. Subordinates may view a supervisor’s misdeeds as a breach of their psychological contract and react by reporting the act. Moreover, given that our sample is comprised of experienced and educated professionals in a highly regulated industry it is possible that they have received ethics training and operate at a relatively high level of moral reasoning that allows them to transcend the cultural constraints of traditional guanxi relationships, thereby allowing for a positive association between guanxi with supervisor and whistleblowing intentions. Moreover, Keil *et al.* (2010) provide evidence that trust in supervisor could increase whistleblowing intention as the

perceived benefits of reporting exceed the perceived costs and guanxi could enhance trust at the managerial level (Warren *et al.*, 2004).

Given the foregoing, we present the following competing hypotheses:

H1: There is a negative association between guanxi with supervisor and whistleblowing intentions.

H2: There is a positive association between guanxi with supervisor and whistleblowing intentions.

### **Organizational Trust**

Organizational trust has been defined as “expectations, assumptions, or beliefs about the likelihood that another’s future actions will be beneficial, favorable, or at least not detrimental to one’s interest,” (Robinson, 1996, 575) and has been recognized as an important factor in long term organization–employee relationships (Atkinson and Butcher, 2003). Prior research has shown that organizational trust is positively associated with citizenship behaviors (e.g., whistleblowing) and organizational commitment and negatively associated with turnover intentions (Dirks and Ferrin, 2002; Organ and Ryan, 1995; Cook and Wall, 1980; Costigan *et al.*, 1998; Wong *et al.*, 2003). Moreover, Siefert *et al.* (2013) found that both organizational trust and trust in ones’ supervisor mediated the association between perceptions of organizational justice and the likelihood of blowing the whistle. The concept of guanxi may play a similar role in a Chinese context (Li, 2008; Peng and Lin, 2017).

Because the definition of trust includes an explicit element of vulnerability, the need for trust arises only in situations of risk (Mayer *et al.*, 1995). Blowing the whistle and exposing oneself to potential retaliation, retribution, and recrimination certainly meet this criterion. Moreover, a positive relationship with one’s supervisor (i.e., guanxi) increases one’s overall propensity to trust in the organization (Siefert *et al.*, 2013). There is reason to believe that those who trust their management team are more likely to blow the whistle (Cassemath and Wortley, 2013), but if the potential whistleblower doubts the integrity of management or their ability to prevent or stop the wrongdoing, they may decide that the risk is too high and remain silent as a consequence. Binikos (2008) found that the likelihood of internal whistleblowing is higher in situations of high organizational trust and lower when it was absent.

Informal social connections such as guanxi have been found to positively influence the level of organizational trust (Luo, 2005). Because guanxi positively impacts employees’ trust in their supervisors and because managers are viewed as representatives of the organization, trust in one’s supervisor is associated with their trust in the organization (Wong *et al.*, 2003). Using leader–member exchange theory (LMX theory), Luo and Cheng (2015) argue that guanxi with leader promotes higher organizational trust, as an in-group member of a guanxi circle results in more closed relations and greater affective-based trust (Ng and Chua, 2006). In addition, Yang and Wang (2011) find that organizational trust plays a mediating role on the effect of guanxi on firm’s performance. As a dimension of social capital, employee trust in their organizations is impacted by the social ties of supervisors and subordinates (Wang *et al.*, 2012).

Based on the foregoing, we expect that guanxi with supervisor will be positively associated with organizational trust and that organizational trust will be associated with whistleblowing intentions, thereby mediating the association between guanxi and whistleblowing intentions. Formally,

H3: Guanxi with supervisor will be positively associated with organizational trust.

H4: Organizational trust will be positively associated with whistleblowing intentions.

### **III. Methodology and Analysis**

#### **Participants**

Two hundred fifty surveys with information consent were distributed to bank employees in eastern China.<sup>1</sup> A total of one hundred ninety useable surveys were retrieved by one of the authors. Participants completed the survey voluntarily and anonymously. We selected this sample population for a number of reasons. First, banks are a critical part of the financial system and bank employees’ deviant behaviors are major source of banks’ operational risk (Qin, 2012). Second, the banking

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<sup>1</sup> One of the authors contacted managers at nine banks in Eastern China (two were international banks and the remainder were national banks). The instruments were distributed within their respective banks and collected by one of the authors between May and September 2017.

and financial services industry was one of the three most represented sectors in the fraud cases examined by ACFE (2016). Lastly, it is important to understand whistleblowing behavior in the banking industry because unethical behavior and fraud in this sector typically have “low visibility and high complexity,” making the role of the whistleblower even more important (Zhang *et al.*, 2009, 30).

More than half of the study’s participants were female (55%) with an average age of 32.6 years. Our respondents were experienced with mean work tenure of 8.6 years. Our sample was educated with ninety percent of the participants having completed at least a four-year undergraduate degree. About twenty-seven percent were either supervisors or managers in their banks. In addition, half of participants indicated that their bank has an award for whistleblowing which indicates a certain level of awareness of the issues.

### **Translation**

The back-translation method was used for translating the experimental instrument into Mandarin Chinese. The English version of the instrument was first translated into Chinese by a bilingual Chinese individual who obtained PhD degrees in the U.S. Then, the Chinese version was translated back into English by a different bilingual Chinese professor who teaches English business course at a university in China. Finally, the two versions were reviewed by a bank manager who had foreign education in English speaking country by comparing the back-translated English version with the original English version to ensure that no inconsistencies or inaccuracies occurred during the translation process.

### **Instrument**

#### ***Whistleblowing***

To evaluate how participants would respond in a whistleblowing situation, we provided the following scenario as part of the instrument package:

One day, you unintentionally witness a behavior conducted by your supervisor (you directly report to this supervisor). The behavior may be commercial bribery, false expense claims, or theft of company property. This behavior is not very dangerous to life safety, but it is an illegal behavior damaging to the interests of the coworkers, the organization, and the public. Then what would you do?

Whistleblowing behavior was measured by examining both internal (3 items) and external whistleblowing intentions (3 items) respectively (Park *et al.*, 2005; Zakaria *et al.*, 2016). Example responses include: “I would report it to an upper level of management in the organization” and “I would report it through channels outside of the organization.” Adequate reliabilities were found for both internal whistleblowing ( $\alpha = 0.863$ ) and external whistleblowing ( $\alpha = 0.941$ ). All constructs were measured using a seven-point Likert scale (1 “strongly disagree” to 7 “strongly agree”).

#### ***Guanxi with Supervisor***

We adopted a six-item scale of guanxi with supervisor from Law *et al.* (2000). Examples of items include “during holidays or after office hours, I would call my supervisor or visit him/her” and “I always actively share with my supervisor about my thoughts, problems, needs, and feelings.” The Cronbach’s  $\alpha$  was 0.846, indicating a good reliability.

#### ***Organizational Trust***

Three items of organizational trust were adopted from Dulac *et al.* (2008). These items include “I believe my organization has high integrity,” “My organization is always honest and truthful,” and “In general, I believe my organization motives and intentions are good.” The Cronbach’s alpha for this scale was 0.930. All constructs were measured using a seven-point Likert scale (1 “strongly disagree” to 7 “strongly agree”).

### **Statistical Analysis**

Before evaluating the theoretical model depicted in Figure 1, we first conducted confirmatory factor analysis<sup>2</sup> on the data to test construct and discriminant validity. Doing so allows us to assess whether the factors will load on their

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<sup>2</sup> Our sample included 190 observations with 14 indicators, resulting in subject-to-variable ratio well above the threshold value of 5 for covariance-based SEM (Hair *et al.* 2010). Moreover, the data exceeded the recommended minimum sample size for SEM (i.e., “10 times the largest number of formative indicators used to measure one construct or 10 times the largest number of structural paths directed at a particular construct in the structural model” (Hair *et al.*, 2014, p. 23).

respective underlying constructs. Anderson and Gerbing (1988) state that the measurement model must be assessed before evaluating the structural linkages in the theoretical model. We next used AMOS<sup>®</sup> structural equation modeling software to evaluate the theoretical model. We then dropped any statistically insignificant paths from the model based on the output of Wald<sup>3</sup> tests applied to the full model to generate the final structural model.

### ***Common Method Bias***

Given all constructs are measured using a self-reported survey instrument, the possibility of common method bias has to be considered (Conway and Lance, 2010). Using Harman's (1967) single-factor test, the results indicate that common method bias does not appear to be of concern. Each of the measured constructs shows a high degree of reliability (Cronbach's  $\alpha > 0.80$ ), further confirming construct validity.

### ***Measurement Model Tests***

Table 1 presents the means and standard deviations for each of the latent variables in our analyses and provides their inter-item correlations. All constructs were significantly correlated with each other with the exception of external whistleblowing and organizational trust. In addition, all correlations were below the maximum recommended threshold value of 0.75 indicating multicollinearity is not a concern (Green *et al.*, 1978).

Table 1 Descriptive Statistics<sup>a</sup>

	Mean	S.D.	GX	ORGTR	IW	EW
GX	3.67	1.21	.725	.277**	.339**	.286**
ORGTR	5.35	1.28		.904	.448**	0.088
IW	4.76	1.3			.825	.420**
EW	3.62	1.62				.918

\*\*  $p < 0.01$

a: Diagonal elements are the square root of the average variance extracted (AVE).

b: Off-diagonal elements are the Inter-Construct Correlations

GX: guanxi

ORGTR: organizational trust

IW: internal whistleblowing

EW: external whistleblowing

Following the procedures recommended by Fornell and Larcker (1981), we examined the convergent and discriminant validity of the latent constructs. Table 2 presents the items comprising each latent variable,<sup>4</sup> the standardized coefficients for each of the manifest indicators, the Cronbach's alpha reliability coefficient and the average variance extracted for each latent variable. The results presented on Table 2 demonstrate that all of the factor loadings exceed 0.50, the composite reliability for each of the latent variables are all greater than 0.80, and the average variance extracted (AVE) are all more than 0.50, all of which support convergent validity.

Discriminant validity may be assessed by evaluating the correlation between the constructs relative to the square root of each constructs' AVE (Fornell and Larcker, 1981). In addition, as shown in Table 1, all of inter-item correlations are less than the square root of the individual AVEs thereby providing evidence of discriminant validity among the constructs.

Table 3 presents a goodness-of-fit summary for each of our models. We use several different metrics to assess model fit given Fogarty *et al.*'s (2000) admonition that there is no single definitive measure. As shown, the  $\chi^2/df$  ratio for the measurement model is less than Tabachnick and Fidell's (2007) rigorous upper limit of 2.0, and each of the other fit

<sup>3</sup> The Wald test is a post-hoc procedure that is sample-specific, and not driven by theory. Therefore, to determine whether the relations uncovered in this investigation are valid, replication is needed with another sample.

<sup>4</sup> Initial inspection of the data showed that all items for the latent variables loaded well ( $> 0.50$ ) on their constructs with the exception of guanxi6. This item was excluded from all analyses.

indices (GFI, NFI, IFI, and CFI) each exceed the 0.90 minimum prescribed by Bentler (1990) for well-fitting models. In addition, the RMSEA is close to Hu and Bentler's (1999) rigorous upper threshold of 0.06.

Table 2. Item Measures and Tests of Internal and Convergent reliability

Item Measure	Item Measure Name	Mean (s.d.)	Factor Loadings	Cronbach's $\alpha$ Composite Reliability	Average Variance Extracted
<b>Guanxi with supervisor</b>		3.67 (1.21)		0.846	0.526
During holidays or after office hours, I would call my supervisor or visit him/her	Guanxi1	3.30 (1.60)	0.645		
I always actively share with my supervisor about my thoughts, problems, needs, and feelings	Guanxi2	4.44 (1.61)	0.663		
My supervisor invites me to his/her home for lunch or dinner	Guanxi3	3.46 (1.82)	0.807		
On special occasions such as my supervisor's birthday, I would definitely visit my supervisor and send him her gifts	Guanxi4	3.53 (1.65)	0.789		
I care about and have a good understanding of my supervisor's family conditions	Guanxi5	3.56 (1.62)	0.707		
When there are conflicting opinions, I will definitely stand on my supervisor's side	Guanxi6	3.74 (1.47)	N/A		
<b>Internal whistleblowing</b>		4.76 (1.30)		0.863	0.680
I would report it to an upper level of management in the organization	IW1	4.78 (1.49)	0.892		
I would report it to my upper level supervisor	IW2	4.75 (1.47)	0.860		
I would report it by using internal procedures	IW3	4.76 (1.47)	0.710		
<b>External whistleblowing</b>		3.62 (1.62)		0.941	0.843
I would report it through channels outside of the organization	EW1	3.83 (1.73)	0.812		
I would disclose it by going public	EW2	3.52 (1.72)	0.962		
I would report it to the appropriate authorities outside of the organization	EW3	3.52 (1.69)	0.972		
<b>Organizational trust</b>		5.35 (1.28)		0.930	0.818
I believe my organization has high integrity	OrgT1	5.33 (1.43)	0.938		
my organization is always honest and truthful	OrgT2	5.33 (1.40)	0.978		
In general, I believe my organization motives and intentions are good	OrgT3	5.39 (1.29)	0.786		



Table 3. Summary of model fit

MODEL	$\chi^2$	df	p	$\chi^2/df$	GFI	NFI	IFI	CFI	RMSEA	RMSEA 90% Confidence Interval
1. Final Measurement model	134.07	71	<.001	1.88	0.909	0.933	0.967	0.914	0.069	0.051 - 0.086
1. Theoretical Model (Figure 1)	122.49	70	<.001	1.75	0.917	0.938	0.973	0.964	0.063	0.044 - 0.081
2. Final Structural Model (Figure 2)	122.57	71	<.001	1.73	0.917	0.938	0.973	0.973	0.062	0.043 - 0.080
<b>Standard for Acceptance</b>	NA	NA	>.05	< 2.0-3.0	>.90-.95	>.90-.95	>.90-.95	>.90-.95	< .06 - .10	NA

GFI – Goodness of fit index

NFI – Normed fit index

IFI – Incremental fit index

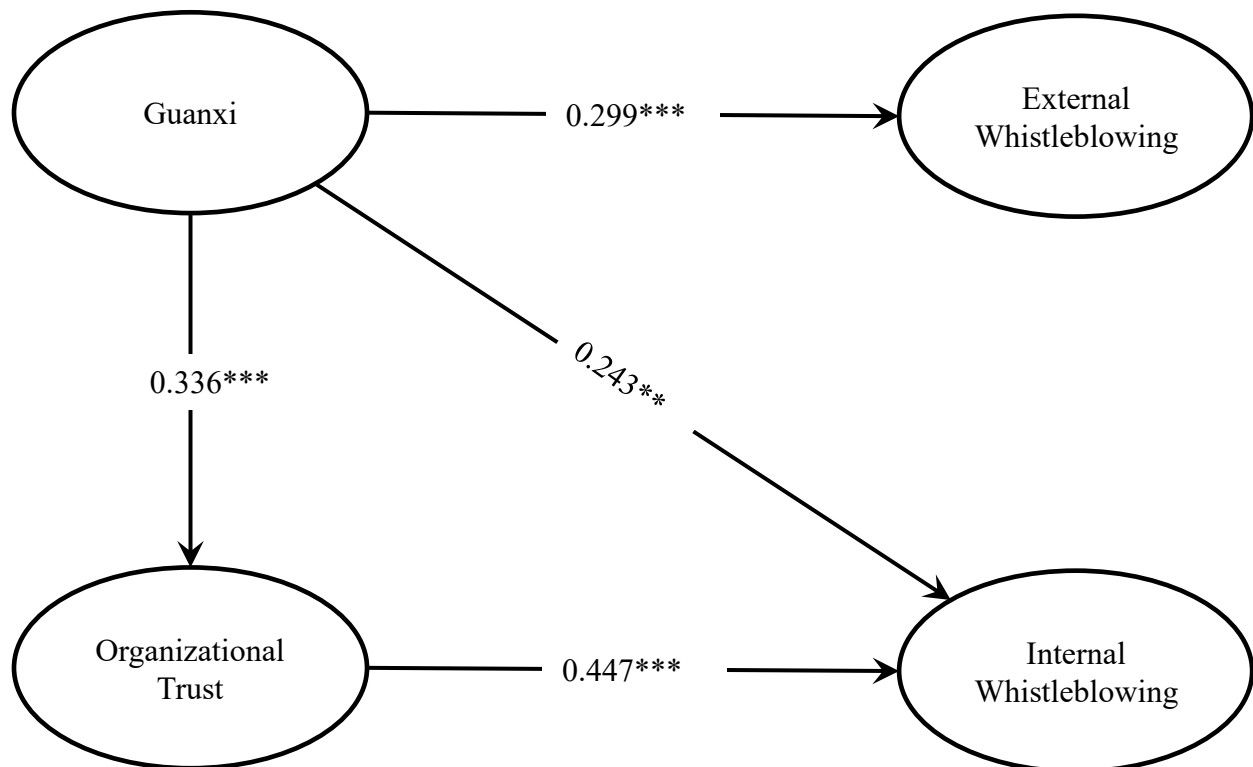
CFI – Comparative fit index

RMSEA – Root mean square error of the approximation

### Theoretical Model

Table 3 provides the fit statistics for the theoretical model and shows an incremental improvement. As with the measurement model, all of the metrics shown exceed the minimums that describe good model fit. Review of the data showed that the hypothesized path between organizational trust and external whistleblowing was insignificant. This was not unexpected given the lack of a statistically significant correlation between the two constructs. This path was dropped to obtain our final structural model shown in Figure 1.

Figure 1. Structural Model



\*\*\* p < .01 (two-tailed)

#### IV. Results

As shown in Figure 1, guanxi with supervisor exerts a positive influence on each of the other latent variables in the model. It has a direct and positive effect on both external whistleblowing ( $\beta = 0.299$ ;  $p < 0.001$ ) and internal whistleblowing ( $\beta = 0.243$ ;  $p = 0.002$ ). Consequently, H1 is rejected in favor of H2. Guanxi also exerts a positive influence on organizational trust ( $\beta = 0.336$ ;  $p < 0.001$ ) thereby supporting H3. In addition, H4 is partially supported as evidenced by a positive association ( $\beta = 0.336$ ;  $p < 0.001$ ) between organizational trust and internal whistleblowing. The indirect effect of guanxi through organizational trust combined with its direct influence results in guanxi with supervisor exerting a total effect of 0.393 on internal whistleblowing intentions. However, we failed to find a statistically significant association between organizational trust and external whistleblowing, thereby only partially supporting H4. Although organizational trust is unrelated to external whistleblowing intentions, it is positively associated with blowing the whistle through internal channels. This likely indicates that if organization members trust that the firm will protect them, they will be more inclined to blow the whistle than would otherwise be the case.

We find that guanxi with supervisor is positively associated with both organizational trust and whistleblowing intentions (both internal and external). This finding may be attributable, in part, to our measure of guanxi. As noted earlier, we used the Law *et al.* (2000) six-item instrument which is unidimensional in nature and seems to capture primarily the “personal life inclusion” dimension (four items) identified by Chen *et al.* (2009). One item would be associated with the “Affective attachment” dimension (guanxi2 - “I always actively share with my supervisor about my thoughts, problems, needs, and feelings”). Theoretically, the affective attachment would be the most similar to supervisor support, and it is interesting to note that the mean for guanxi2 is significantly higher than all of the other guanxi indicators.

#### V. Discussion

In this study we offered competing hypotheses regarding the effect that guanxi with supervisor would have on whistleblowing intentions and found a strong positive association between guanxi and both internal and external whistleblowing. We also identified that guanxi had a positive influence on organizational trust and that trust had a positive impact on internal whistleblowing intentions.

We make at least two notable contributions with our study. First, we find that our sample of experienced and educated Chinese participants did not seem to have particularly close ties (guanxi) with their supervisors, but to the extent that they did, the “personal life inclusion” element (Chen *et al.* 2009) of guanxi with supervisor appears to have led to enhanced trust and increases in whistleblowing intentions through both internal and external channels. We also show that organizational trust is related to whistleblowing within the firm but unassociated with whistleblowing through external channels, perhaps because the potential whistleblowers are unconcerned about internal retribution if they expose the wrongdoing to outside parties where they may be protected by statute.

Our study has implications for researchers and practitioners. From a research standpoint, this study provides empirical evidence of the positive impact of guanxi on employees’ whistleblowing intentions and highlights the importance that informal ties in the organization may have on employee ethical judgment and decision making. Zhang and Deng (2016) suggested future research on guanxi and its influence on work outcomes. Our study answers the call by investigating the how guanxi influences employee whistleblowing intention with organizational trust serving as a mediation mechanism. From a practice perspective, our study provides valuable insights regarding the importance of developing and maintaining a good relationship with employees given its positive influence on whistleblowing intention.

There are several things to note about our findings. First, only organizational trust had unambiguously positive responses. That is, given the seven-point measurement of all constructs with seven being “strongly agree” and one representing “strongly disagree”, only in the case of organizational trust did the responses (both individually and in aggregate) exhibit an affirmative response with average scores significantly greater than 5.0. In contrast, both guanxi and external whistleblowing (both individually<sup>5</sup> and in aggregate) both reflected an overall disagreement with the statement(s) because their means were all significantly less than 4.0 (See Table 3 for means and standard deviations). Responses associated with internal whistleblowing reflected neither agreement nor disagreement. These data indicate that, in general,

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<sup>5</sup> Except EW3

our participants trusted their organization, but that they did not particularly ascribe to the traditional Confucian values associated with guanxi. This attitude may be a reflection of their age, education, and/or experience.

Recall that the average age of our respondents was over 32 and that all had attended college. Younger people are more prone to engage in lower levels of ethical reasoning (Snell, 1999). Thus, given that our sample is comprised of experienced and educated professionals in a highly regulated industry, possibly they have received ethics training and operate at a relatively high level of moral reasoning that allows them to transcend the cultural constraints of traditional guanxi relationships, thereby allowing for a positive association between guanxi with supervisor and whistleblowing intentions. Our results also support the work of Farooq *et al.* (2014) by confirming the mediation effect of organizational trust on the relation between guanxi with supervisors and employee outcomes (e.g., internal whistleblowing intention).

Our study is subject to a number of limitations. First, cross-sectional data is inadequate to establish the proposed causal relationships among guanxi with supervisor, whistleblowing intention and organizational trust. Second, the participants are highly educated professionals from the banking industry is highly regulated industry and likely not representative the total population of potential whistleblowers. Different samples may have different perceptions of guanxi and reveal different results. In addition, our measure of guanxi may not have been the best available to use for this particular study. As many items relate to working setting, it may not capture the employees' perception of the supervisor/employee relationship outside of the work setting. However, the measure incorporated is widely accepted and has been used in dozens of other empirical studies. Another possible limitation to the study is the lack of specificity regarding the supervisor's offense as the accumulation of small offenses that also will erode supervisor's credibility. Prior research has demonstrated that different types of offense elicit different whistleblowing intentions (Near *et al.*, 2004). Possibly our respondents viewed the offense in different mental contexts leading to different responses. A more specific delineation of the offense may have mitigated this possibility. Lastly, generalizability is a concern. A self-report survey was used to obtain respondents' behavior intentions, which may limit the results due to social desirability bias.

Our results suggest several avenues for future research. First, this study demonstrates that the mediation effects of organizational trust on the relation between guanxi and employees' whistleblowing intention and future research could examine the effects of guanxi on judgment and decision making in other ethical dilemmas and/or different mediation mechanisms. Future research could extend this research using different ethical scenarios. Another avenue for future research would be replicate the current study using the multidimensional instrument developed by Chen *et al.* (2009) in a different population.

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