Corruption from a Cross-Cultural Perspective

J. N. Hooker
Carnegie Mellon University

University of Glasgow
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Caveats on culture…

- Every culture is different.
  - Any brief discussion vastly oversimplifies.
Caveats on culture…

- I am not stereotyping individuals in a culture.
  - Every culture has the full range of personalities.
  - Cultures differ on how these personalities fit into a system.
  - Cultures are like ecosystems.
Caveats on culture…

- I make no judgments about which culture is “better.”
Obligation to another culture

- Most cultures have norms for dealing with other cultures.
  - Even the West does, despite its universalism:
    - Avoid action that, if generally adopted, would undermine a cultural system it presupposes.
What is corruption?

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- It undermines the system.
What is corruption?

- Corruption corrupts.
- It undermines the system.
- Different cultures use radically different systems to get things done.
  - Rule-based
  - Relationship-based
Cultural systems

- Rule-based = life is organized primarily by rules.

- Australia, Europe, North America
Cultural systems

- *Relationship-based* = life is organized primarily around **personal relationships**.
  - Africa, Asia, Middle East, South America
Corruption as culturally defined

- What is *corrupt* here may be *acceptable* elsewhere
  - For example: purchasing agent
    - Agent may award contract based on *quality of the bids* or based on *personal connections*.
  - Here, cronyism is corrupting.
    - Due to *conflict of interest* (company vs. agent)
Corruption as culturally defined

- In much of Asia (for example), cronyism is foundation for trust.
  - There is **no conflict of interest**.
  - Company wants trusted suppliers.
Corruption as culturally defined elsewhere may be corrupt elsewhere.

Here, lawsuits are routine. Disputes are resolved by appeal to the rules.

Assume individual responsibility.
Corruption as culturally defined

- In Japan, lawsuits are corrupting.
  - They would **undermine rather than restore harmony**.
  - Yasumoto Takagi of Japan Airlines
  - Shohei Nazawa of Yamaichi Securities.
- Moving to another firm in mid-project.
Corruption as culturally defined

- What is corrupt here and elsewhere may be corrupt *for different reasons*
  - Here, bribery is corrupt because it *undermines the rules*.
    - There must be a general expectation that people will obey the rules.
  - In relationship-based countries, bribery is corrupt because it *undermines personal relationships*.
    - It is a short-cut around relationship building.
Kodak in Taiwan

- U.S. manager was posted in Kodak’s Taiwan branch.
  - He met with a team representing a potential Taiwanese supplier.
Kodak in Taiwan

- U.S. manager was posted in Kodak’s Taiwan branch.
  - He met with a team representing a potential Taiwanese supplier.
  - When the team left, he noticed that one of them left his briefcase.
Kodak in Taiwan

- While looking for the owner’s name, he found the case to be full of cash.
Kodak in Taiwan

- At least they are offering a bribe instead of demanding one.
  - In some industries, you can’t get your foot in the door without paying someone off.
Kodak in Taiwan

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  - In some industries, you can’t get your foot in the door without paying someone off.

- Kickbacks ("commissions") are routine in Taiwan but corrupting nonetheless.
  - Why are they corrupting?
Chinese/Taiwanese business is based largely on family and/or *guānxì* relationships.

- *Guānxì* is Mandarin Chinese for “connection” or “relationship.”
- *Guānxì* develops by doing mutual favors and building mutual obligations.
- The favors are **not** quid pro quo. They cement the relationship.
Kodak in Taiwan

- *Guānxì* provides a basis for **long-term** trust relationships.
  - It is uncivilized to renege on *guānxì*.
  - Given a proper relationship, one’s word is his bond.
  - Legal enforcement is irrelevant.
Kodak in Taiwan

- Bribery **short-cuts** the process of building *guānxì*.
  - Relationship-based systems tend to slide into bribery.
    - As rule-based systems can slide into cheating.
  - Bribery/kickbacks do not provide the stable, long-term relationships required by a complex civilization.
One should not exacerbate this weakness in the system.

Bribery may sometimes be necessary, but one should not go along with it simply to "do as the Romans do."
Kodak in Taiwan

- What to do about the briefcase?
  - The manager dispatched a *trusted* subordinate to return the briefcase to the owner.
  - He sent a vaguely worded message to the owner’s boss, stating that he was returning lost property.
    - The owner clearly got the cash from his boss.
    - Otherwise the manager would think the money was delivered.
Kodak in Taiwan

- Cronyism ≠ bribery
  - **Responsible** cronyism is not corrupting.
    - Can be advantageous in Confucian culture.
  - Problematic in government
    - Chinese civil service exams. Han Dynasty, > 2000 years ago.
Efficiency vs. Stability

- Bribery is a natural weakness of relationship-based cultures.
- It is a shortcut to relationship building.
Efficiency vs. Stability

- Cheating is a natural weakness of rule-based cultures.
  - More reliance on guilt and respect for rules than supervision.
Efficiency vs. Stability

- Rule-based, transparent business is **fast and efficient**.
  - Can do business with strangers.
  - No need to build personal trust relationships.

- But it is **unstable**.
  - Relies on functional political/legal environment
  - Vulnerable to unethical behavior – e.g., financial crisis
Efficiency vs. Stability

- Relationship-based business is slow but can be very stable.

- Built great civilizations.
- Survived 1000s of years of political upheaval in China (oldest living civilization)
Enron in India

- The Dabhol electric power plant.
  - India’s largest-ever private foreign investment.
  - Bechtel & GE also involved.
Enron in India

- Addressed growing Indian economy & unreliable electricity supply.
- Spearheaded by Enron executive Rebecca Mark.
- In principle, a brilliant idea.
Enron in India

- Rebecca Mark of Enron obtained guarantee of 25% ROI from Indian government.
  - Yet electricity price projected to be 2 to 5 times prevailing rate.
  - Due partly to reliance on LNG from Enron subsidiary in Qatar.
  - Her flamboyant manner attracted media attention.
Enron in India

- Indian political situation
  - Congress Party was in political trouble.
    - Party of Nehru, Indira Gandhi, Rajiv Gandhi, Sonia Gandhi.
    - Accused of corruption.
Enron in India

- **Indian political situation**
  - Congress Party was in political trouble.
    - Party of Nehru, Indira Gandhi, Rajiv Gandhi, Sonia Gandhi.
    - Accused of corruption.
  - BJP (Bharatiya Janata Party) exploited Hindu nationalism & discontent with Congress party.
    - Hindu nationalists destroy mosque at Ayodhya in 1992, with backing from A. B. Vajpayee and BJP. Riots result in 2000 deaths.
    - BJP comes to power in 1998, with Vajpayee as P.M.
Enron in India

- Became an issue in BJP campaign.
  - BJP leader Gopinath Munde stated...
    - “It is reasonably clear that several unseen factors and forces seem to have worked to get Enron what it wanted.”
  - Journalist Raghu Dhar reported Enron’s offer of $1 million per year for him to keep quiet.
- Enron played into BJP’s hand.
Enron in India

- Much public protest.
  - Amnesty International cited rough treatment of demonstrators.
Enron in India

- Indian government backed off from deal after BJP took power.
- Bush administration pressured India
  - Visits from Dick Cheney, Colin Powell.
  - Dropped the matter after 9/11, Enron troubles.
Enron in India

- Rebecca Mark passed over for Enron CEO.
- Ken Lay chose Jeffrey Skilling
Enron in India

Power plant sat mostly idle by Indian government.

Being brought online slowly until 2009.
Enron in India

- Lessons
  - Bribery in the sense of influence peddling is corrupt.
    - Even if it is rather frequent.
    - “Facilitating payments” require a different analysis.
  - Understand the political and cultural situation.
Enron in India

How to get things done

Work through connections

- Family, friends of family.
- Contacts with high-ranking people.
LKK in China

- LKK (Lee Kum Kee) food and health products
  - Founded in rural Guangdong province in 1888.
    - By 2005, 3900 workers.
    - Markets in 80 countries.
LKK in China

- LKK
  - Lee Man Tat is group chairman.
    - Appointed 4 sons to head company divisions.
    - Seeks professional managers who are “culturally attuned to the firm and to family as CEOs of its divisions”
LKK in China

- LKK
  - Responsible nepotism need not be corrupting in a Confucian context.

"Luck, son, is when preparation meets nepotism."
Nortel in Canada

- Nortel Networks
  - Bill-and-hold transactions.
    - Customer takes delivery next quarter.
    - Nortel records revenue this quarter.
    - For purpose of income smoothing.
Nortel in Canada

Nortel Networks

GAAP conditions for bill-and-hold

- Legitimate business reason.
- Customer requests it.
- Nortel offered incentives to customers...
- To request bill-and-hold in writing.
- E.g., discounts.
Accounting fraud

Lack of transparency is corrupting

Family-based business is culturally infeasible in much of the West

Families are too weak to withstand stress.

Must therefore do business with strangers.

Requires transparency.

This is the purpose of accounting.
Nortel in Canada

- A case of light supervision
  - Executives arrested June 2008, but…
    - Perhaps only because of egregious violations over years.
    - Nortel filed for bankruptcy in January 2009.

Frank Dunn, former Nortel CEO
Celtel in West Africa

  - Mo Ibrahim (Sudanese) & Terry Rhodes (British)
Celtel in West Africa

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Celtel in West Africa

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  - Purchased $750K operating license, approval bogged down.
  - Requested meeting with officials.
  - Awkward silence after introductions.
Celtel in West Africa

- Fax had requested $50K bribes for meeting.
  - Was sent to Amsterdam office that morning.
Celtel in West Africa

- Bribery represents corruption of village leadership customs.
  - Rational redistribution of wealth through leader’s patronage.
  - Undermined by migration of men from villages.
Scenario: Middle East

- MBA student in Turkey.
  - Payment demanded at passport control.
  - Not actually corrupting.
  - Other bribes may be corrupting.
Scenario: Middle East

- **Wasta** in the Middle East
  - Authority of *sheikhs*.
  - *Wasta* as access to influential people.
  - Good *wasta* and bad *wasta*
Scenario: Korea

- Permit for U.S. accounting firm.
- Consultant offers to deliver a "gift."
Scenario: Korea

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- Cultural role of gifts.
  - Token of gratitude.
  - Wedding or condolence.
Scenario: Korea

- Regulation and *chaebol*.
  - Gifts as cementing a relationship between business and regulator.
Ethics and personhood

- **Western cultures**
  - Humans are rational, autonomous individuals.
    - No individual can have inherent authority.
    - Focus on justice, equality
    - Rules must have authority because they are reasonable.
    - Universality of reason.
Ethics and personhood

- **Middle Eastern cultures**
  - Monotheism.
    - World is secular, which gives permission to manipulate nature.
    - One God implies that God’s law must be universal.
    - Relationship-based, but well developed legal tradition.
Ethics and personhood

- Confucian cultures
  - Personhood is defined by relatedness to extended family.
    - Personal authority and saving face.
    - Non-family relations based on *guānxi*.
    - Duty to family and friends.
    - Stable, nontransparent system.
    - Justice secondary.
Ethics and personhood

- Many African cultures
  - Unit of human existence is the community.
    - Individual welfare inseparable from communal welfare.
    - Redistribution of resources, perhaps by chief.
    - Seen as dysfunctional today, but may offer lessons in communal culture.
Ethics and personhood

- Hindu culture
  - Humans are defined by connectedness.
    - Unity of *brahman/atman* is refined expression.
    - Ideal is imperfectly realized in networking.
  - Project: strive toward ideal rather than attempt to Westernize.
Corruption and culture

Cultural diversity

- Forced blending of cultures can lead to dysfunction and corruption.

- Corruption can of course be indigenous as well.
Corruption and culture

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  - Forced blending of cultures can lead to dysfunction and corruption.
    - Corruption can of course be indigenous as well.
  - But coexistence preserves resources for dealing with rapidly changing world.
    - Cultures have borrowed from each other for eons, without sacrificing their integrity.
Corruption and culture

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  - Forced blending of cultures can lead to dysfunction and corruption.
    - Corruption can of course be indigenous as well.
  - But coexistence preserves resources for dealing with rapidly changing world.
    - Cultures have borrowed from each other for eons, without sacrificing their integrity.
    - Diversity per se is not a source of conflict.
Corruption and culture

- Cultural diversity
  - Like ecological diversity, it is good for the planet.