Cross-cultural Business Ethics and Sustainability

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March 2017
Culture, Ethics and Sustainability

- Every culture has a **logic of its own**.
- Its unique way of getting things done.
Culture, Ethics and Sustainability

A guiding ethical principle:

- A practice is **ethical** in a culture only if it is **sustainable**.
- **General adoption** of the practice is consistent with **long-term functioning** of the culture.
What we normally regard as **sustainable practices** are **special cases** of this principle.

Environmental, social, economic.
Outline

- What is culture?
- How cultures differ
  - Rule-based vs relationship-based
  - Power distance
  - Shame vs guilt
  - High and low context
  - Polychronic/monochronic
  - Bribery vs cheating
Outline

- Corruption around the world
  - What is corruption?
  - Kodak in Taiwan
  - Western financial crisis
  - LKK in China
  - Celtel in Africa
**What culture is not**

Culture is **not** primarily about food, language, dress, customs, holidays.
What culture is

Culture is about **how we think**.

It determines our deepest assumptions, most of which we not even aware.

- Like an iceberg, culture lies mostly beneath the surface.
Culture vs. personality

- Every culture contains the **full range** of human personalities.
  - Culture is about the framework into which these personalities fit, **not** about “national character.”
  - However, different personalities succeed in different cultures.
Cultural globalization?

- World economy is now **multi-polar**.
  - Successful nations exploit their unique cultural traits.
  - Less pressure to Westernize.
  - Result: **Cultural deglobalization**.
  - Communication technology supports this trend.
Caveats

- There are 5000+ cultures in the world.
  - This talk must vastly oversimplify.
- No judgments.
  - I don’t know which cultures are “better.”
  - Aim is to understand them.
How cultures differ

- Cultures are very different.
- But they can be classified roughly as:
  - relationship-based
  - rule-based.
Relationship-based = life is organized primarily around personal relationships.

- Africa, Asia, Middle East, South America
Rule-based = life is organized primarily by rules.

- Australia, Europe, North America
Deals

- Personal trust vs. contracts & law
- Trust the person vs. trust the system.

Traffic behavior

- Negotiation vs. regulation.
Dealing with **stress**

- Family & friends vs. technology & engineering.

Filipino family
No culture is purely rule-based or relationship-based.

- It wouldn’t work.
  - You can’t build a brick house purely out of brick.
  - Or a wood house purely out of wood.

- Nonetheless, one system tends to dominate.
Many cultural traits **correlate** with the rule-based, relationship-based distinction.

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Power distance

Power distance is the degree to which less powerful people accept their subordinate position.
Relationship-based countries tend to be **high** power distance.

- Behavior is regulated by **people** with authority.
- Rules are legitimated and enforced by authority figures.

Deng Xiaoping
De facto leader of China
1978-1992
Rule-based countries tend to be **low** power distance.

- People respect the **rules** more than superiors.
- **Example:** Sweden.

Karl XVI Gustaf
Swedish King since 1973
High power distance:

- Children obey and respect parents, teachers.
- Employees are reluctant to challenge the boss or discuss problems.
  - Guangzhou executives
  - Filipino maids
High power distance:

- Good boss is **authoritarian** but **takes care** of subordinates.
- Makes decisions on a case-by-case basis.
- Possibly large differences in salary/skills.

Dalit (untouchable)
India
Low power distance:

- Children are allowed to contradict their parents.
- Two-way discussion in classroom.
- Discipline may be a problem; parents side with child rather than teacher.
- No corporal punishment.
Low power distance:

- Consultative management.
- Employees bring concerns and grievances to the boss.
- Good boss **inspires** workers and treats them **equally**.
- Go by the rules rather than case by case.
- Smaller salary differences; workers may resent executive perks.
  - Scandinavian offices.

Solidarity logo, Poland
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Shame and guilt

Shame and guilt are mechanisms for enforcing behavior norms.
**Relationship-based** cultures enforce behavior norms by **shame**.

- Loss of face.
- Humiliation.
- Punishment on the spot.
- No guilt.

- Shohei Nazawa and Yamaichi Securities
- Akio Toyoda in Congressional testimony.
Key point for shame-based cultures:

- People expect **direct and constant supervision**.
  - Department store clerk.
  - Guangzhou office.

- Failure to supervise **gives permission** to break the “rules.”
  - Exam cheating.
  - Company rules.
Asian countries

- **Manage face correctly.**
  - Don’t cause employees to lose face by public embarrassment.
  - Unless they have already lost face by incompetence or malfeasance.

Middle Eastern countries

- Be authoritarian but **just.**
  - Listen to employee petitions and take them seriously.

Latin American countries

- **Respect honor.**
  - Arabic origins of *machismo.*
Guilt is more important in rule-based cultures.

- Guilt encourages obedience to rules without supervision.
- But it may be a poor motivator and carry high psychological cost.
  - *Ein gutes Gewissen ist an sanftes Ruhekissen.*
- Guilt is reinforced by fear of punishment.
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Context

- In **low-context cultures**, information and behavior norms are spelled out.
  - Typical of rule-based cultures.
  - The rules are spelled out.
- In **high-context cultures**, these are implicit in the cultural context.
  - Norms are transmitted by the people around you.
  - Particularly authority figures.
In **low-context** cultures,

- There are many **signs**, timetables, maps.
- **Contracts** are written, long, and detailed.
  - Fixed once signed.
  - Disputes resolved by lawsuits.
- People expect the rules to be in writing.
  - Company policy, e.g. vacation
- People **pay attention to written rules**.
  - Example: restroom sign.
In **high-context** cultures,
- People already know what to do.
- **Contracts** are vague, verbal, or nonexistent.
  - Except in “low uncertainty tolerance” cultures, e.g. Latin America.
  - Agreements evolve with the situation.
  - Legal system weak.
  - Disputes resolved by negotiation.
- People **don’t pay attention to written rules**.
  - Expect personal correction, e.g. no smoking
  - But good for high-tech information transfer.
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**Time consciousness**

- **Monochronic cultures**
  - People do one thing at a time.
  - Deadlines, schedules, queues important.

- **Polychronic cultures**
  - OK to do several things at once.
Monochronic culture *structures and organizes* time

- Sense of control, security.
- Ironically, deals with stress.

Time partitioned into *intervals*

- Each devoted to one task.
- Appointments and punctuality important.
- Orderly queues.
Monochronic time is a **measurable substance**
- Can be spent, saved, wasted.
- Time is money.
- Deadlines important.
- A handicap in cross-cultural negotiation.

**Arrangements made in advance**
- Travel arrangements, e.g. in Scandinavia

**Deadlines**
- People get nervous, speed up as deadline approaches.
Polychronic time is **elastic**.

- Punctuality unimportant.
- Important people keep others waiting, not vice-versa.

OK to deal with several people at once

- Your host may talk to others, take phone calls, etc.
- Clerk will serve several at once.
- Queue may be a mob.
Activity
- Activity **makes** times rather than filling it.
- Idleness **stops** time.
- **Not** a sign of laziness.

Arrangements made at last minute
- Travel arrangements, e.g. India

Deadlines
- Not inclined to speed up as deadline approaches.
- Relaxed about tight connections, etc.
Stress management

Rule-based/monochronic cultures

- People believe they have control over their lives.
- People are held personally responsible for their problems, even illness.
- Rely on technological fix.
- Control life by controlling the environment (engineering).
Relationship-based/polychronic cultures

- Life are governed by larger forces.
- When the going gets tough, rely on each other, higher power.
- In some cultures, control life by controlling one’s state of mind.
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Corruption is behavior that undermines a business culture. By definition, corruption is unsustainable. So corrupting behavior is different across cultures.
Ethics across cultures

Every culture has ethical norms.
- Practices that help the culture work.

But cultures work differently
- So the norms may differ.
Ethical norms – and cultures – stem from different conceptions of **who we are**.

- **Rule-based:** autonomous, rational **individuals**
  - We are equal & so must respect rules rather than people.
  - Hence rule-based, focused on rationality.
  - Ethics based on **equality, fairness**.

- **Relationship-based:** part of a **larger unit**.
  - Extended family, community, ethnic group.
  - Must respect people with authority.
  - Ethics based on **care**.
Corruption around the world

We will focus on corruption.

Where different ethical norms are most obvious in business.
What is corruption?

Corruption corrupts.
What is corruption?

- Corruption corrupts.
- It undermines the system.
What is corruption?

- Corruption corrupts.
- It undermines the system.
  - Rule-based and relationship-based systems tend to have different norms.
Corruption as culturally defined

- What is *corrupt* in one system may be *acceptable* in another.

  - *For example: cronyism* may be OK in a relationship-based culture.
  - *But only in the right circumstances...*
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.
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

- 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.*
- Kickbacks (“commissions”) are common in Taiwan but corrupting nonetheless.
  - Why are they corrupting?
Kodak in Taiwan

Chinese/Taiwanese business is often based on *guānxì*.

- Relationship of mutual obligation and mutual trust.
- Legal enforcement is unnecessary.
- Requires cultivation over a long period.
- There need not be a conflict of interest.
  - It is in the company’s interest for you to deal with trusted friends.
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.

Three Gorges Dam, Yangtze River
Kodak in Taiwan

One should not exacerbate this weakness in the system.

One should not go along with bribery simply to “do as the Romans do.”
Kodak in Taiwan

Lesson:

- Cronyism is not the same as bribery.
  - As rule-based systems can slide into cheating.

- Responsible cronyism is sustainable and noncorrupting in a relationship-based culture
  - Responsible = deal with friends because you trust them to deliver, not just because they are friends.
Kodak in Taiwan

However, cronyism is problematic in government.

- Chinese civil service exams, introduced by Han Dynasty >2000 years ago.
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.
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.

- Minimal supervision.
- As in financial crisis of 2008...
Financial Crisis of 2008

- **Subprime mortgage loans** were popular in U.S. in early 2000s.
  - 20% of mortgage market
  - Borrowers failed to meet normal standards.
Financial Crisis of 2008

- Lenders sold mortgages to big banks.
  - To be repackaged as "Collateralized debt obligations" (CDOs)
  - Lenders became extremely lax on due diligence.
  - No one was watching.
Financial Crisis of 2008

Ratings agencies gave CDOs triple-A ratings.

- Banks pay agencies for ratings, resulting in conflict of interest.
- Banks sold AAA-rated CDOs to unsuspecting funds worldwide.
Financial Crisis of 2008

Credit default swaps gave the illusion of security.

- $62 trillion outstanding.
- Form of insurance, but not regulated as such.
- Sold without regard to adequate capital reserves.
Financial Crisis of 2008

  - Credit froze worldwide because assets could not be valued.
  - Highly-leveraged banks collapsed, or threatened collapse.
Financial Crisis of 2008

Result:  Worst recession since Great Depression of 1930s.

- Still recovering.
- Political fallout: Tea Party and Congressional gridlock.
Financial Crisis of 2008

- Western-style corruption.
  - Mortgages without due diligence.
  - Over-leveraged banks in search of short-term profit.
  - Improper ratings.
  - Unsecured credit default swaps.
  - The US in particular tends to have a short-term perspective.
Bribery vs. Extortion

Common legal distinction:

- A *bribe* is a payment intended to influence a decision.
- An *extortion* payment is required to obtain something to which you are already entitled (in a timely manner).
- A *facilitating payment* is a small, routine extortion payment.

Relevant law

- *U.K. Bribery Act (2010)*
- *U.S. Foreign Corrupt Practices Act*
Bribery vs. Extortion

Payments/gifts may be illegal in the host country. Especially when government officials are involved.
Nepotism

Nepotism may or may not be corrupting.

Often questionable in rule-based cultures.

- May result in hiring of unqualified individuals.
- Viewed as unfair.

“Nepotism” is a polite way of saying “you have no chance in hell of ever being promoted.”
Nepotism

Nepotism may or may not be corrupting.

- Often questionable in rule-based cultures.
  - May result in hiring of unqualified individuals.
  - Viewed as unfair.
- May be functional in relationship-based cultures...

“Nepotism” is a polite way of saying “you have no chance in hell of ever being promoted.”
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

Remains a family-run business.

- *Lee Man Tat is group chairman.*
  - Appointed 4 sons to head company divisions after they studied in USA.
  - He was well aware of their talents/weakness and placed them accordingly.
  - Authority of father/uncle/ grandfather in a Confucian culture can be an advantage for nepotism.
Lesson:

- Responsible nepotism need not be corrupting in a Confucian context.
  - Responsible = hire relatives based on their loyalty to family and known talents, not simply because they are relatives

- Confucian cultures naturally have a long-term perspective.
Celtel in Africa

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


- Mo Ibrahim (Sudanese) & Terry Rhodes (British)
- Purchased $750K operating license, approval bogged down.
Celtel in Africa


- Mo Ibrahim (Sudanese) & Terry Rhodes (British)
- Purchased $750K operating license, approval bogged down.
- Requested meeting with officials.
- Awkward silence after introductions.
Celtel in Africa

Fax had requested $50K bribes for meeting.

Was sent to Amsterdam office that morning.
Celtel in Africa

- Celtel gave up on this country.
- ...but found ways to avoid bribery elsewhere.
  - *Helped finance schools in lieu of payments to politicians.*
  - *Organized event to publicize coming mobile phones.*
    - Consumers pressured politicians to issue permit without further delay... or bribes.
Celtel in Africa

Lesson:

- Traditional African culture was sustainable for 1000s of years!
  - Rational redistribution of wealth through leader’s patronage allowed villages to survive.
  - Bribery results from corruption of village leadership customs during colonial era.
Discussion

Questions? Comments?