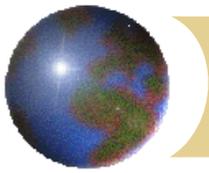


# *Cross-cultural Business Ethics*

John Hooker

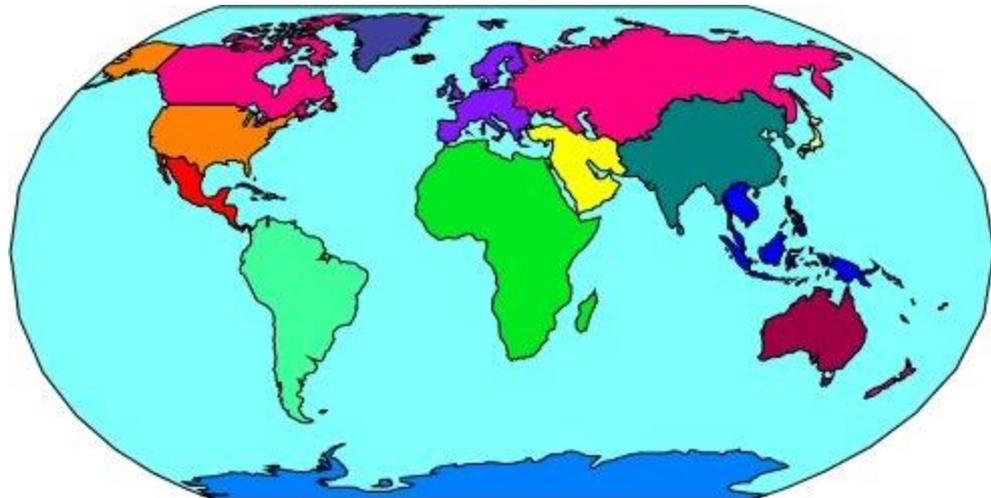
Carnegie Mellon University, USA

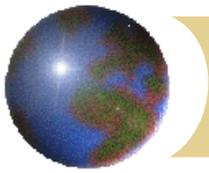
Engineers Australia Seminar, 7 May 2014



# *Culture and management*

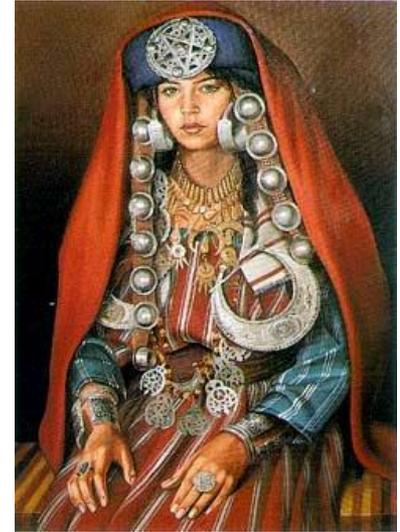
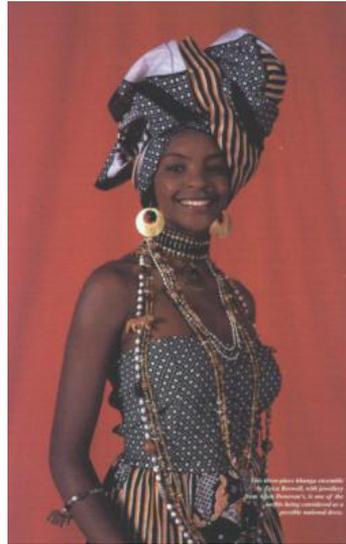
- ⊕ Every culture has a **logic of its own**.
- ⊕ Its unique way of getting things done.
- ⊕ Knowing this is the key to success.

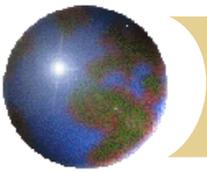




# *What culture is not*

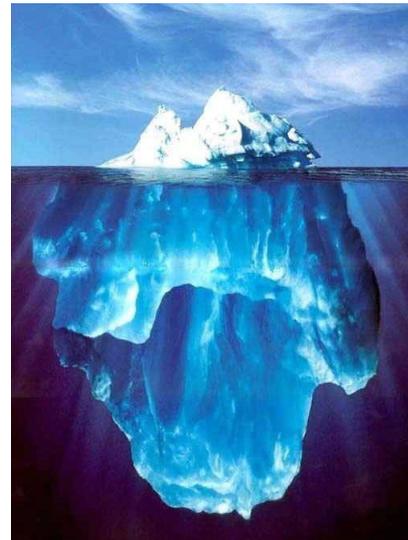
- ✪ Culture is **not** primarily about food, language, dress, customs, holidays.

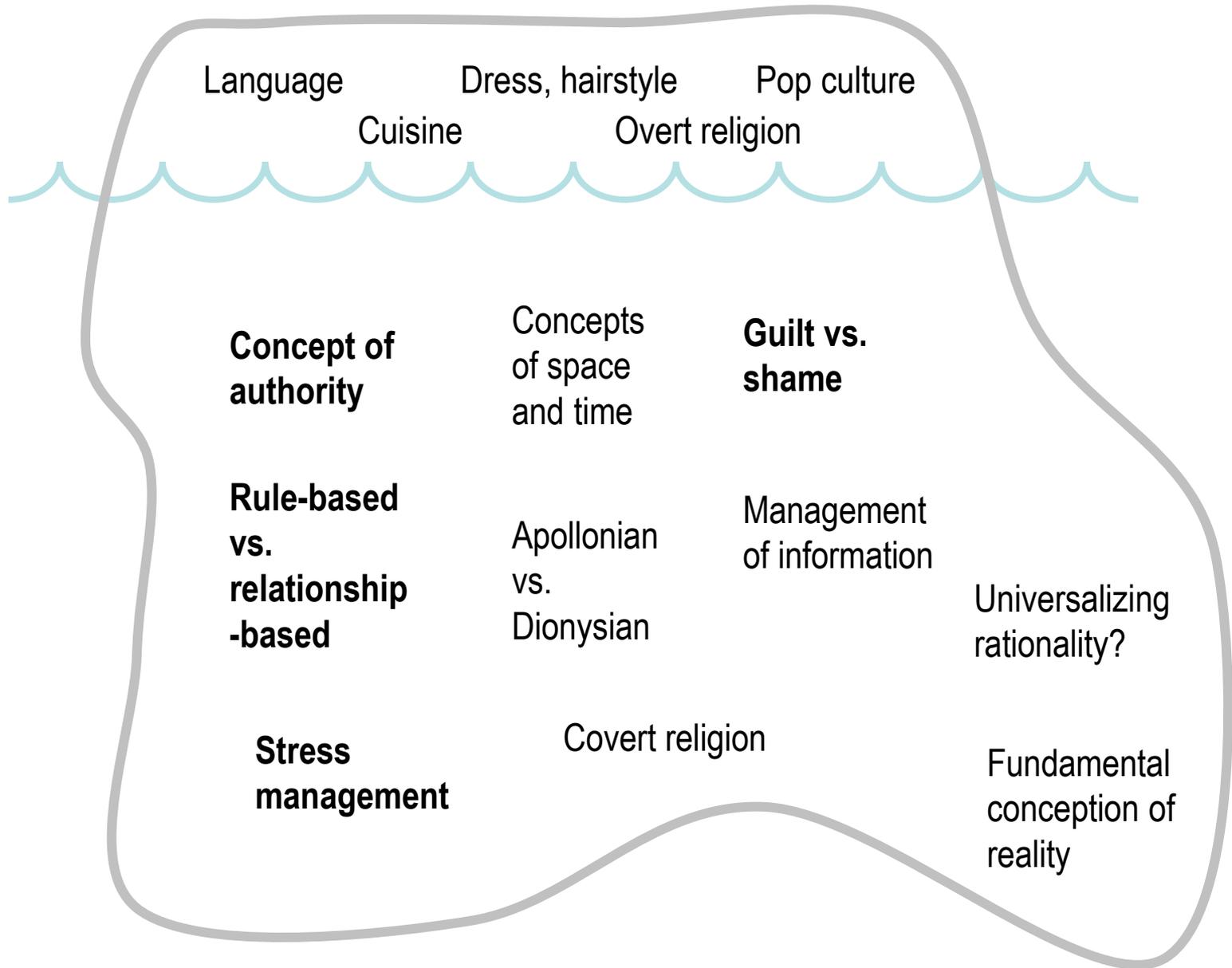
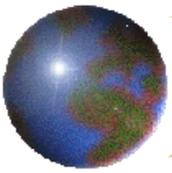


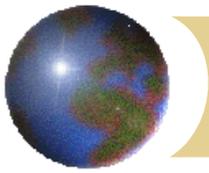


# *What culture is*

- ✦ 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.

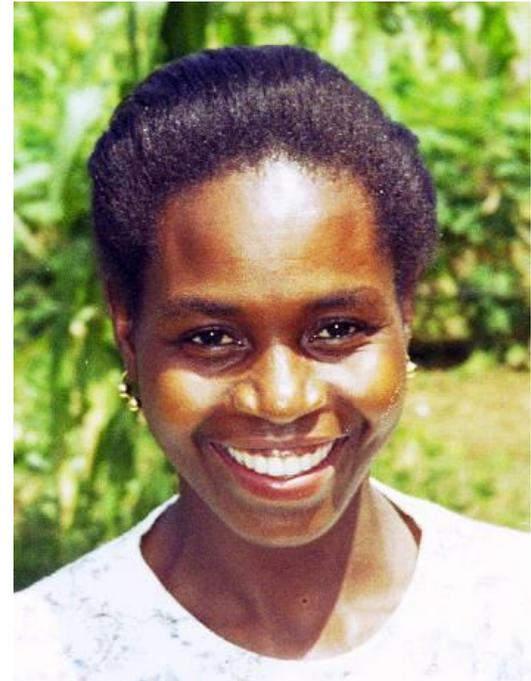


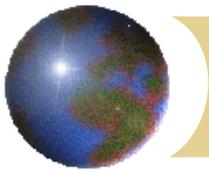




# *Culture vs. personality*

- ✦ 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.

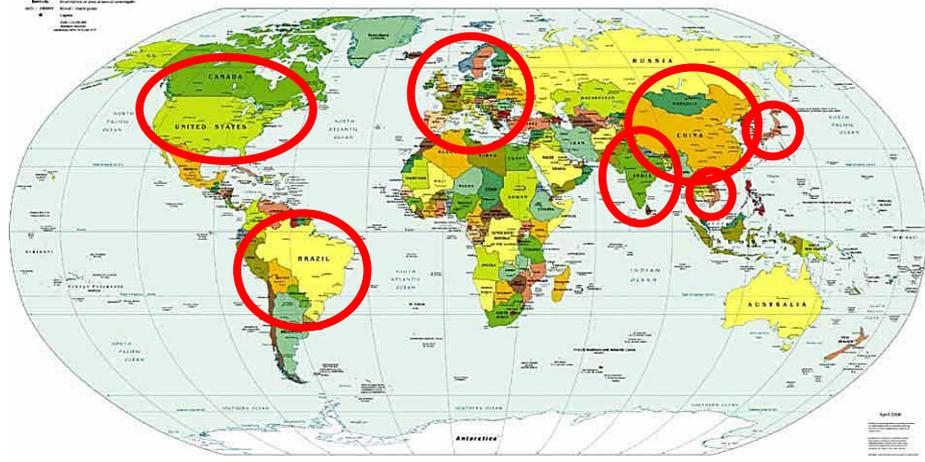


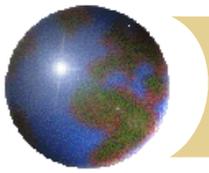


# *Cultural globalization?*

- ✚ 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.

Political Map of the World, April 2000

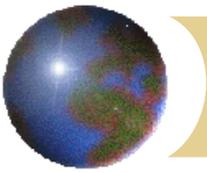




# *Caveats*

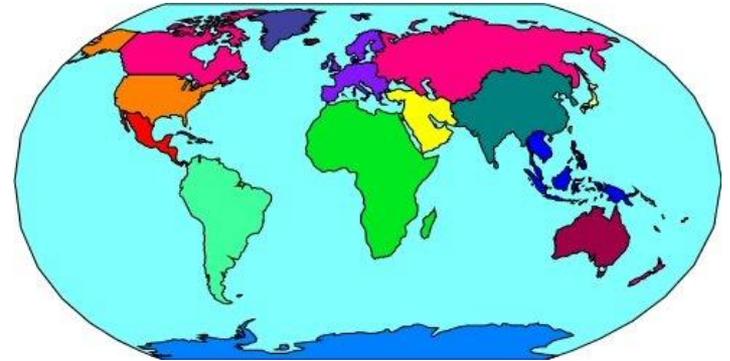
- ✦ There are 5000+ cultures in the world.
  - ❏ This talk must vastly oversimplify.
- ✦ No judgments.
  - ❏ I don't know which cultures are "better."
  - ❏ Aim is to understand them.

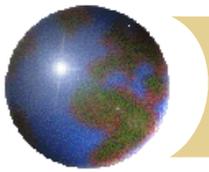




# Outline

- ⊕ Part 1: How cultures differ
  - ❏ Rule-based vs relationship-based
  - ❏ Power distance
  - ❏ Shame vs guilt
  - ❏ High and low context
  - ❏ Polychronic/monochronic
  - ❏ Bribery vs cheating

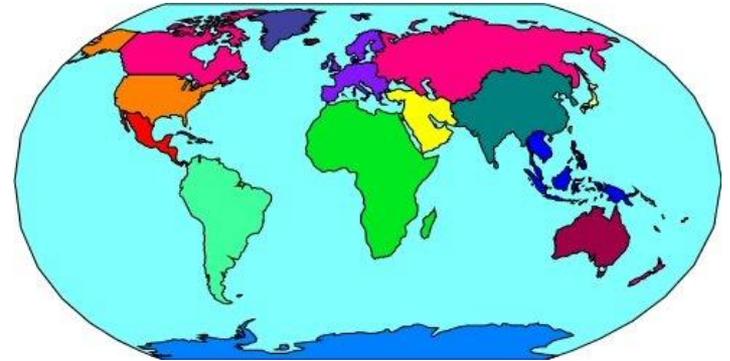




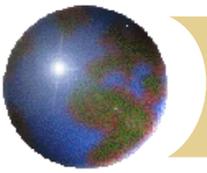
# Outline

## ✦ Part 2: Corruption around the world

- ✦ What is corruption?
- ✦ Kodak in Taiwan
- ✦ Western financial crisis
- ✦ Passport control in Turkey
- ✦ Enron in India
- ✦ LKK in China
- ✦ Leighton in Asia and Middle East
- ✦ Celtel in Africa
- ✦ Supply chains: Mattel in China
- ✦ Supply chains: Apparel industry in south Asia



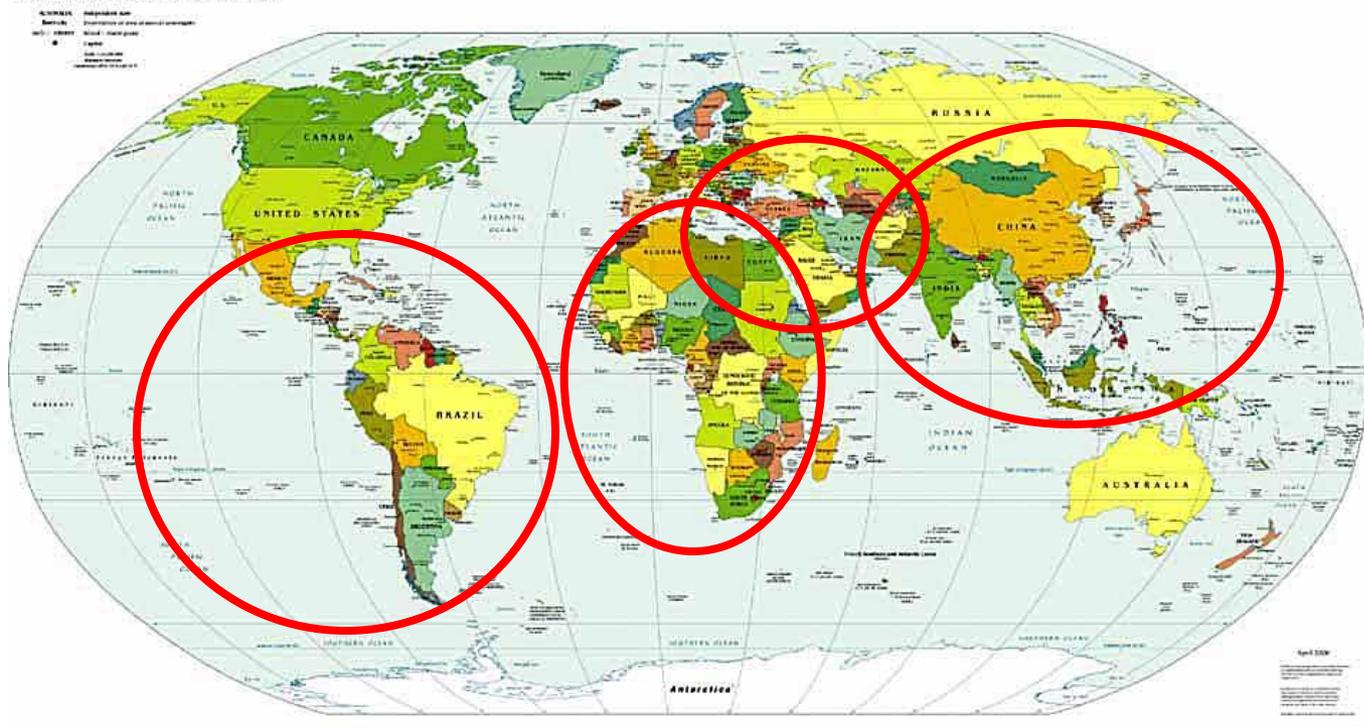


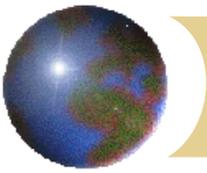


✦ *Relationship-based* = life is organized primarily around **personal relationships**.

✦ Africa, Asia, Middle East, South America

Political Map of the World, April 2000



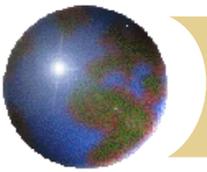


✚ *Rule-based* = life is organized primarily by **rules**.

▣ Australia, Europe, North America

Political Map of the World, April 2000





## ✚ Meetings

- ✚ Personal connections vs. strictly business

## ✚ Deals

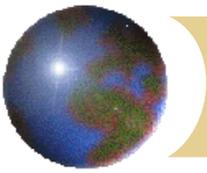
- ✚ Personal trust vs. contracts & law
- ✚ Trust the **person** vs. trust the **system**.

## ✚ Traffic behavior

- ✚ Negotiation vs. regulation.



Traffic in China

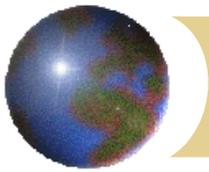


## ✦ Dealing with **stress**

- ✦ Family & friends vs. technology & engineering.



Filipino family

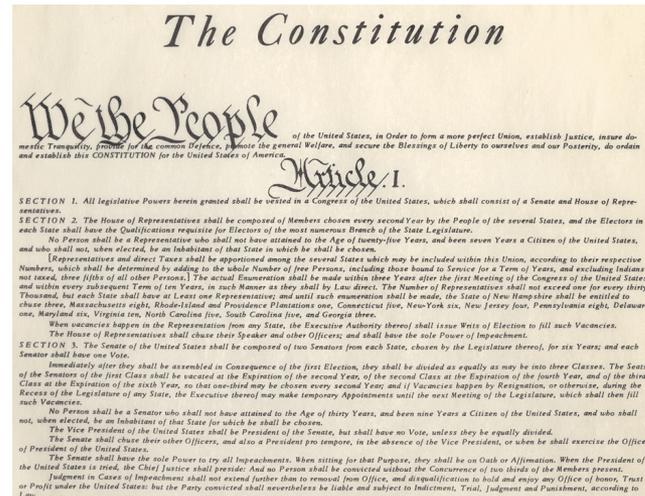


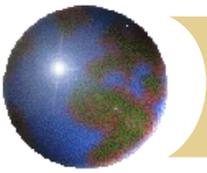
## ☉ Concept of authority.

- ☒ Relationship-based – authority rests in the **person**.
- ☒ Rule-based – authority derives from **rules**.



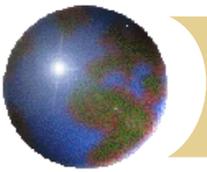
Custodian of the Two Holy Mosques  
King Abdullah bin Abdul Aziz Al-Saud





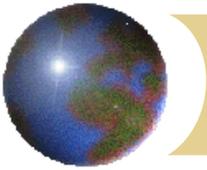
- ❖ No culture is purely rule-based or relationship-based.
  - ❖ It wouldn't work.
    - You can't build a brick house purely out of brick.
    - Or a wood house purely out of wood.
  - ❖ Nonetheless, one system tends to dominate.



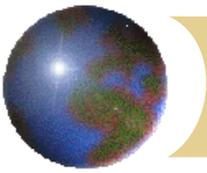


- Many cultural traits **correlate** with the rule-based, relationship-based distinction.

<b>Relationship-based</b>	<b>Rule-based</b>
High power distance	Low power distance
Shame-based	Guilt-based
High-context	Low-context
Polychronic	Monochronic
Corruption as bribery	Corruption as cheating



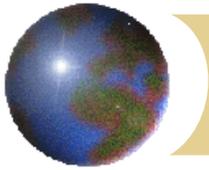
<b>Relationship-based</b>	<b>Rule-based</b>
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# *Power distance*

- ✦ **Power distance** is the degree to which less powerful people **accept** their subordinate position.



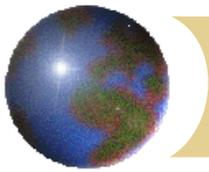


✚ Relationship-based countries tend to be **high** power distance.

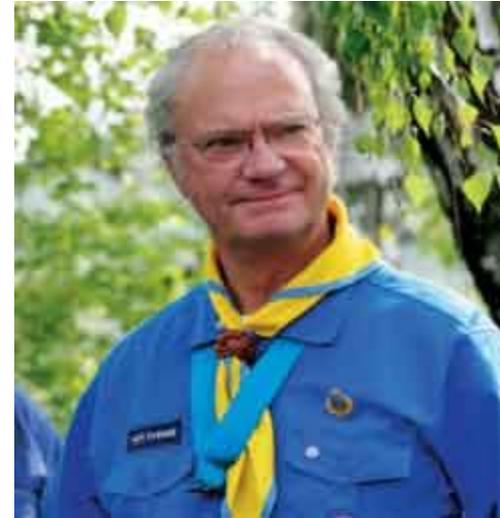
- ✚ Behavior is regulated by **people** with authority.
- ✚ Rules are legitimated and enforced by authority figures.



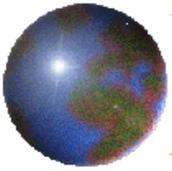
Deng Xiaoping  
De facto leader of China  
1978-1992



- ✦ Rule-based countries tend to be **low** power distance.
  - ✦ People respect the **rules** more than superiors.
  - ✦ Example: Sweden.



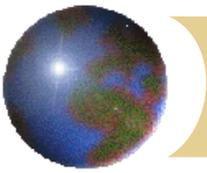
Karl XVI Gustaf  
Swedish King since 1973



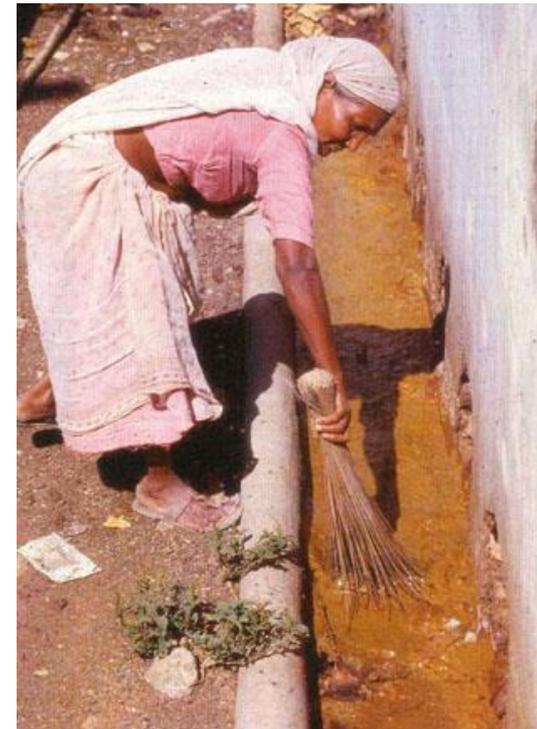
## ❖ High power distance:

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

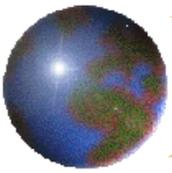




- ❖ High power distance:
  - ❖ Good boss is **authoritarian** but **takes care** of subordinates.
  - ❖ Makes decisions on a case-by-case basis.
  - ❖ Possibly large differences in salary/skills.



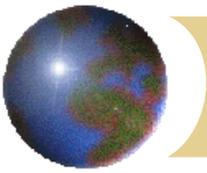
Dalit (untouchable)  
India



## ✦ 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.



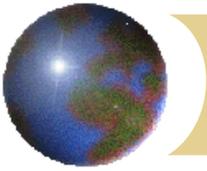


## ✦ Low power distance:

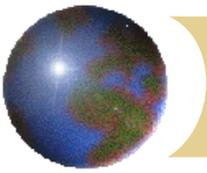
- ✦ Consultative management.
- ✦ Employees bring concerns and grievances to the boss.
- ✦ Good boss **inspires** workers and treats them **equally**.
- ✦ Go by the rules rather than case by case.
- ✦ Labor unions.
- ✦ Smaller salary differences; workers may resent executive perks.
  - Scandinavian vs. U.S. offices.
  - Power distance higher in U.S. business



Solidarity logo, Poland



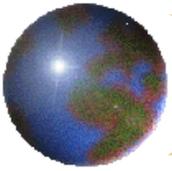
<b>Relationship-based</b>	<b>Rule-based</b>
High power distance	Low power distance
<b>Shame-based</b>	<b>Guilt-based</b>
High-context	Low-context
Polychronic	Monochronic
Corruption as bribery	Corruption as cheating



# *Shame and guilt*

- ✦ **Shame** and **guilt** are mechanisms for enforcing behavior norms.

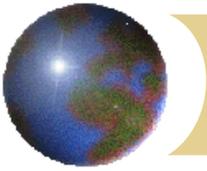




❖ **Relationship-based** cultures enforce behavior norms by **shame**.

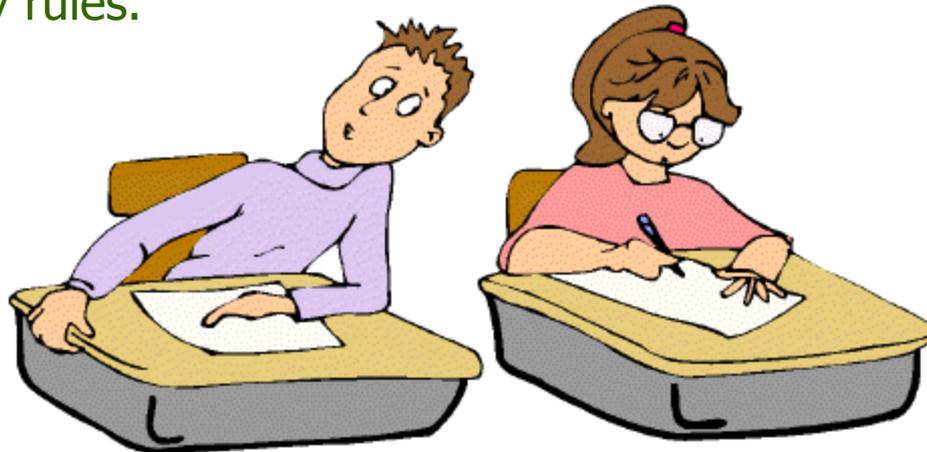
- ❖ Loss of face.
- ❖ Humiliation.
- ❖ Punishment on the spot.
- ❖ No guilt.
  - Shohei Nazawa and Yamaichi Securities
  - JAL Flight 123 (1985), Yusomoto Takagi apologized & compensated victims' families. Boeing apparently at fault.
  - Akio Toyoda in Congressional testimony.

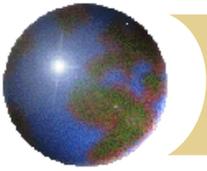




❖ Key point for shame-based cultures:

- ❖ 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

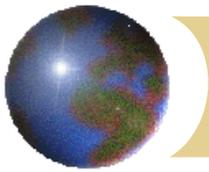
### ✚ Be authoritarian but **just**.

- Listen to employee petitions and take them seriously.

## ✚ Latin American countries

### ✚ Respect **honor**.

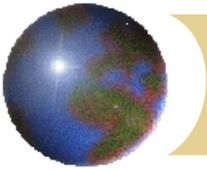
- Arabic origins of *machismo*.



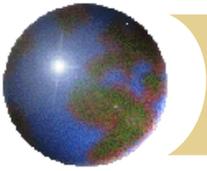
✚ **Guilt** is more important in **rule-based** cultures.

- ❏ 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.



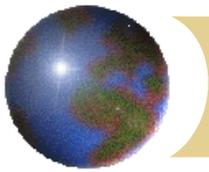


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# *Context*

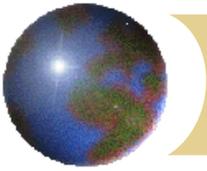
- ❖ In **low-context cultures**, information and behavior norms are spelled out.
  - ❖ Typical of rule-based cultures.
  - ❖ The rules are spelled out.
- ❖ In **high-context cultures**, these are implicit in the cultural context.
  - ❖ Norms are transmitted by the people around you.
  - ❖ Particularly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

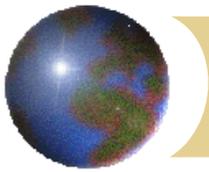




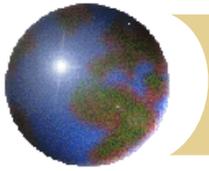
❖ In **high-context** cultures,

- ❖ 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.





<b>Relationship-based</b>	<b>Rule-based</b>
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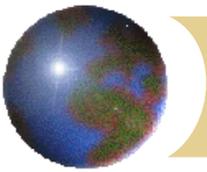
# *Time consciousness*

## ⊕ **Monochronic** cultures

- ⊞ People do one thing at a time.
- ⊞ Deadlines, schedules, queues important.

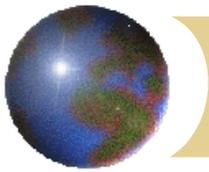
## ⊕ **Polychronic** cultures

- ⊞ OK to do several things at once.

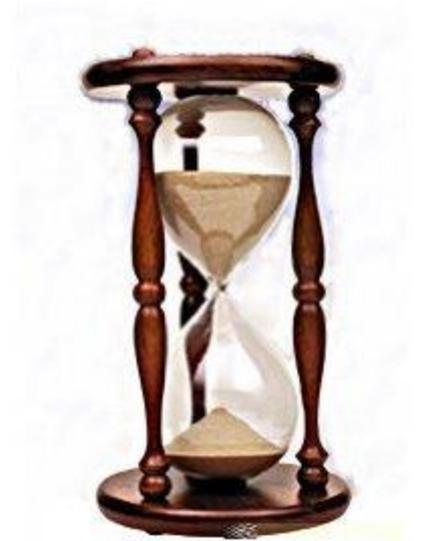


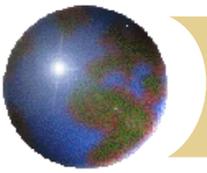
- ❖ Monochronic culture **structures and organizes** time
  - ❖ Sense of control, security.
  - ❖ Ironically, deals with stress.
- ❖ Time partitioned into **intervals**
  - ❖ Each devoted to one task.
  - ❖ Appointments and punctuality important.
  - ❖ Orderly queues.



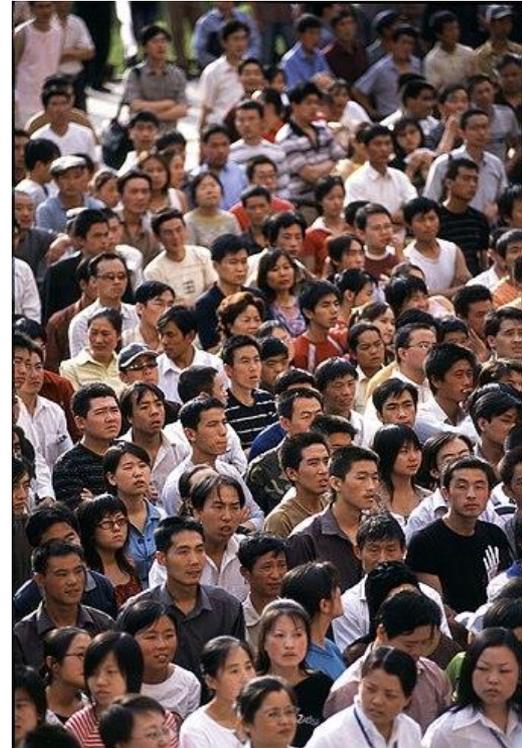


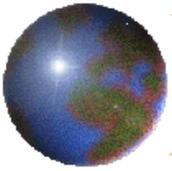
- ❖ Monochronic time is a **measurable substance**
  - ❖ Can be spent, saved, wasted.
  - ❖ Time is money.
  - ❖ Deadlines important.
  - ❖ A handicap in cross-cultural negotiation.
- ❖ Arrangements made in advance
  - ❖ Travel arrangements, e.g. in Scandinavia
- ❖ Deadlines
  - ❖ People get nervous, 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

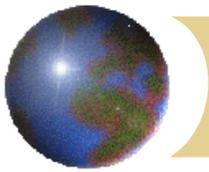
- ✦ Activity **makes** time rather than filling it.
- ✦ Idleness **stops** time.
- ✦ **Not** a sign of laziness.

## ✦ Arrangements made at last minute

- ✦ Travel arrangements, e.g. India

## ✦ Deadlines

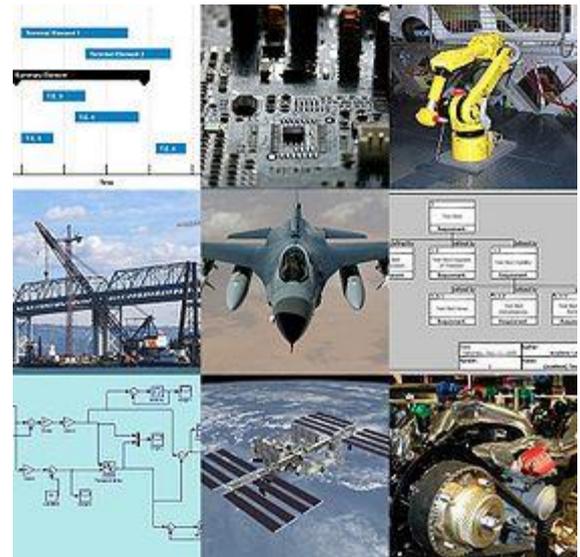
- ✦ Not inclined to speed up as deadline approaches.
- ✦ Relaxed about tight connections, etc.

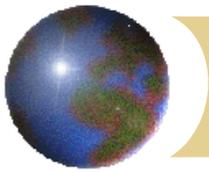


# *Stress management*

## ⊕ Rule-based/monochronic cultures

- ❏ People believe they have control over their lives.
- ❏ When the going gets tough, the tough get going.
- ❏ Rely on technological fix.
- ❏ Control life by controlling the environment (engineering).

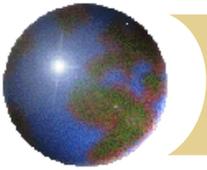




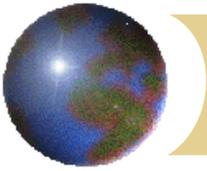
## ✦ Relationship-based/polychronic cultures

- ✦ Life are governed by outside forces.
- ✦ When the going gets tough, rely on each other, higher power.
- ✦ In some cultures, control life by controlling one's state of mind.





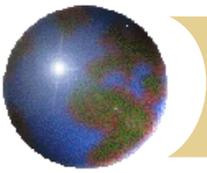
<b>Relationship-based</b>	<b>Rule-based</b>
High power distance	Low power distance
Shame-based	Guilt-based
High-context	Low-context
Polychronic	Monochronic
<b>Corruption as bribery</b>	<b>Corruption as cheating</b>



# *Corruption*

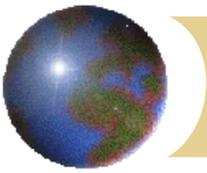
- ❖ **Corruption** is behavior that undermines a cultural system.
- ❖ So corrupting behavior is **different** across cultures.





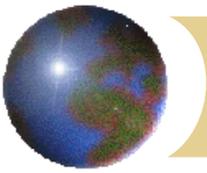
- ❖ In relationship-based cultures, **bribery** is common.
  - ❖ Also kickbacks, facilitating payments.
  - ❖ Short cut to relationship building.
  - ❖ System is **slow** but **stable**.
    - e.g., Chinese economy
    - *Guānxi*.





- ❖ In rule-based cultures, **cheating** is common.
  - ❖ Income tax evasion, business scandals, plagiarism.
  - ❖ Relatively little supervision.
  - ❖ System is **efficient** but **unstable**.
    - Global financial freeze.





⊕ Ethical norms – and cultures – stem from different conceptions of **who we are**.

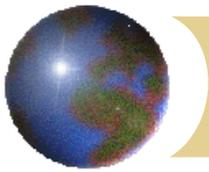
⊕ *Rule-based:* autonomous, rational **individuals**

- 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**.

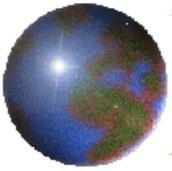




# *Ethics across cultures*

- ✿ Every culture has ethical norms.
  - ❏ *Practices that help the culture work.*
- ✿ But cultures work differently
  - ❏ *So the norms may differ.*

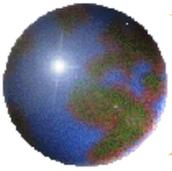




# *Corruption around the world*

- ✚ We will focus on corruption.
  - ▣ *Where different ethical norms are most obvious in business.*

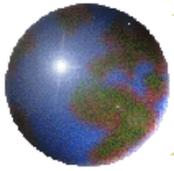




# *What is corruption?*

- ✚ Corruption **corrupts**.

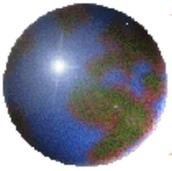
WHAT  
IS  
CORRUPTION ?



# *What is corruption?*

- ✚ Corruption **corrupts**.
- ✚ It undermines the system.

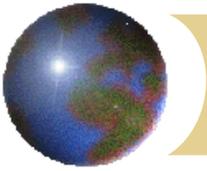
WHAT  
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# *What is corruption?*

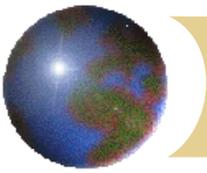
- ✦ Corruption **corrupts**.
- ✦ It undermines the system.
  - ✦ *Rule-based and relationship-based systems tend to have different norms.*

WHAT  
IS  
CORRUPTION ?



# *Corruption as culturally defined*

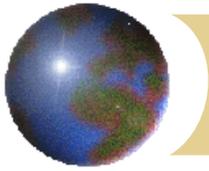
- ✚ What is *corrupt* in one system may be *acceptable* in another.
  - ✚ *For example: **cronyism** may be OK in a relationship-based culture.*
  - ✚ *But only in the right circumstances...*



# *Kodak in Taiwan*

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

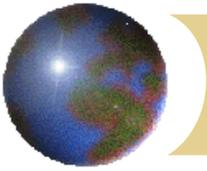




## *Kodak in Taiwan*

- ❖ 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.

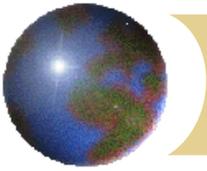




## *Kodak in Taiwan*

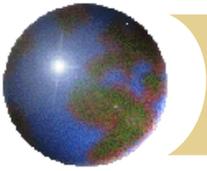


- ❖ While looking for the owner's name, he found the case to be full of **cash**.



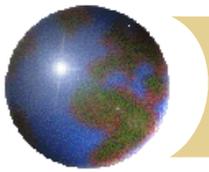
## *Kodak in Taiwan*

- ✚ 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*

- ✦ 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?*



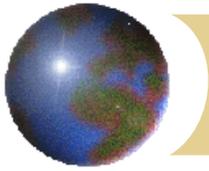
# *Kodak in Taiwan*

✿ 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*

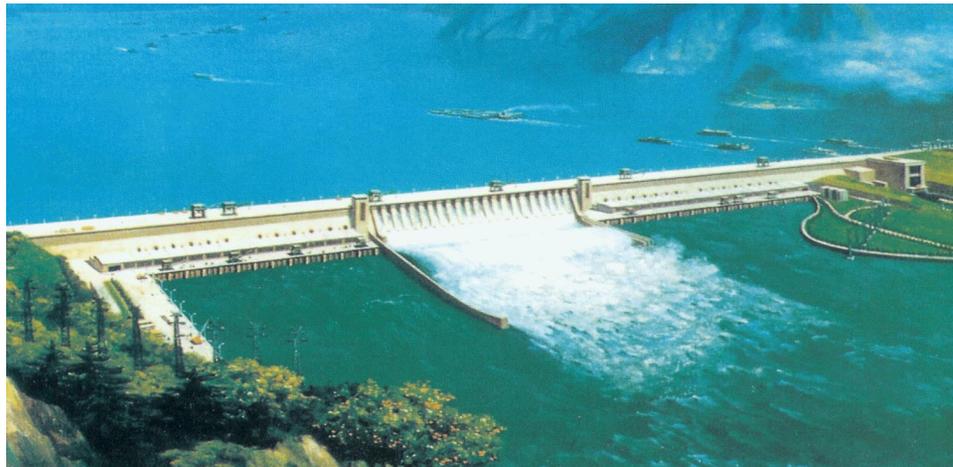
关系



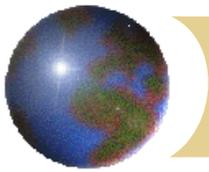


# *Kodak in Taiwan*

- ❖ 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.*



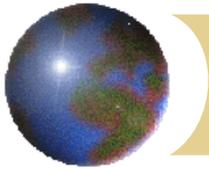
Three Gorges Dam,  
Yangtze River



# *Kodak in Taiwan*

- ✚ One should not exacerbate this weakness in the system.
  - ✚ *Bribery may sometimes be necessary, but one should not go along with it simply to "do as the Romans do."*

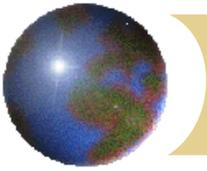




# *Kodak in Taiwan*

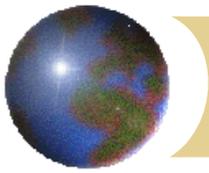
- ✚ What to do about the briefcase?
  - ✚ *The manager dispatched a trusted subordinate to return the briefcase to the owner.*
  - ✚ *He sent a vaguely worded message to the owner's boss, stating that he was returning lost property.*
    - The owner clearly got the cash from his boss.
    - Otherwise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





# *Kodak in Taiwan*

- ✚ Cronyism ≠ bribery
  - ✚ ***Responsible cronyism is not corrupting.***
    - Can be advantageous in a Confucian culture.



# *Kodak in Taiwan*

## ✿ Cronyism ≠ bribery

### ❏ **Responsible** cronyism is not corrupting.

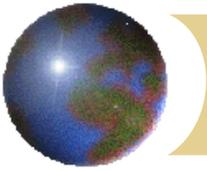
- Can be advantageous in a Confucian culture.

### ❏ Problematic in government.

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



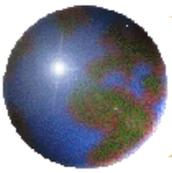
Ming  
Dynasty  
exam  
booths  
1873



# *Efficiency vs. Stability*

- ✿ Bribery is a natural weakness of relationship-based cultures.
  - ✿ *It is a shortcut to relationship building.*

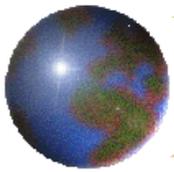




# *Efficiency vs. Stability*

- ☛ Cheating is a natural weakness of rule-based cultures.
  - ☛ *Minimal supervision.*
  - ☛ *As in financial crisis of 2008...*



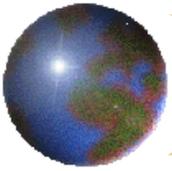


# *Financial Crisis of 2008*

✿ **Subprime mortgage loans** were popular in U.S. in early 2000s.

- ✿ *20% of mortgage market*
- *Borrowers failed to meet normal standards.*

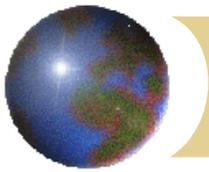




# *Financial Crisis of 2008*

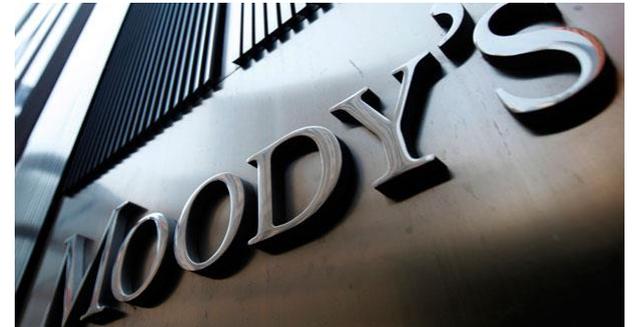
- ❖ Lenders sold mortgages to big banks.
  - ❖ *To be repackaged as "Collateralized debt obligations" (CDOs)*
  - ❖ *Lenders became extremely lax on due diligence.*
  - ❖ *No one was watching.*

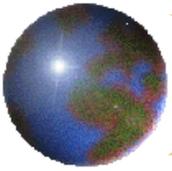




# *Financial Crisis of 2008*

- ✦ 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.*



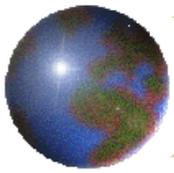


# *Financial Crisis of 2008*

✚ 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.*

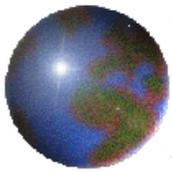




# *Financial Crisis of 2008*

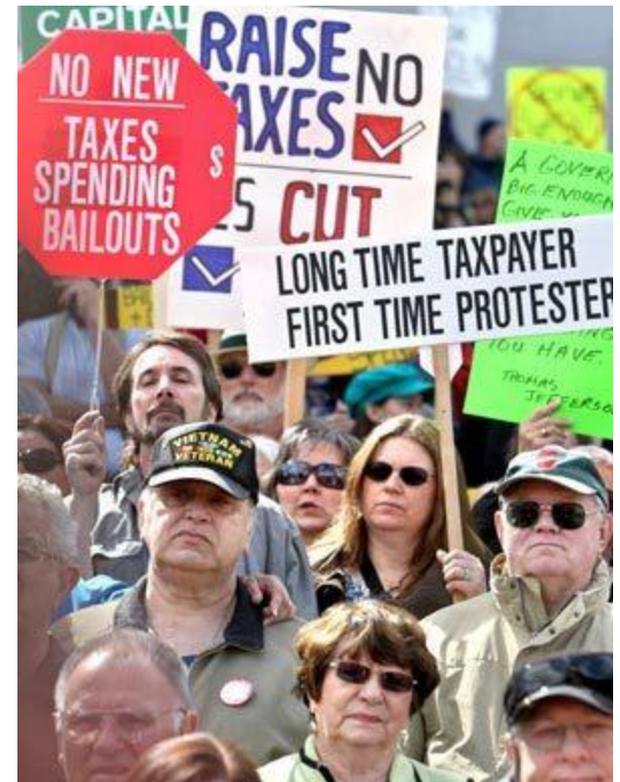
- ❖ CDOs became “poison” in 2008.
  - ❖ *Credit froze worldwide because assets could not be valued.*
  - ❖ *Highly-leveraged banks collapsed, or threatened collapse.*
  - ❖ *Massive bailout by taxpayers and U.S. Federal Reserve Bank.*

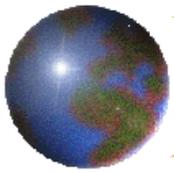




# *Financial Crisis of 2008*

- ✪ Result: Worst recession since Great Depression of 1930s.
  - ✦ *Still recovering.*
  - ✦ *Political fallout: Tea Party and Congressional gridlock.*

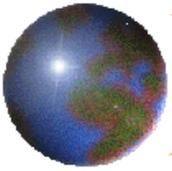




# *Financial Crisis of 2008*

- ❖ Western-style corruption.
  - ❖ *Mortgages without due diligence.*
  - ❖ *Over-leveraged banks in search of short-term profit.*
  - ❖ *Improper ratings.*
  - ❖ *Unsecured credit default swaps.*





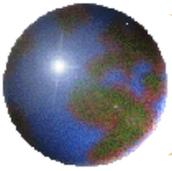
# *Bribery vs. Extortion*

## ✚ 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

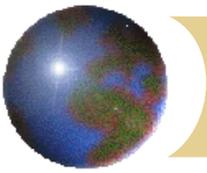
- ✚ *U.K. Bribery Act (2010)*
- ✚ *U.S. Foreign Corrupt Practices Act*
- ✚ *Australian Criminal Code (implements OECD Convention)*



# *Bribery vs. Extortion*

- ✪ Payments/gifts may be illegal in the host country.
  - ✚ *Especially when government officials are involved.*

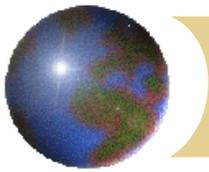




# Passport Control in Turkey

- ✿ MBA student waited in queue at airport passport control.
  - ✿ *Officer took his passport but didn't return it.*

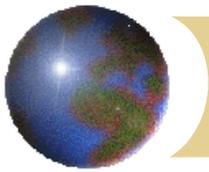




# Passport Control in Turkey

- ✿ MBA student waited in queue at airport passport control.
  - ✦ *Officer took his passport but didn't return it.*
  - ✦ *"Is there a problem with my passport?"*

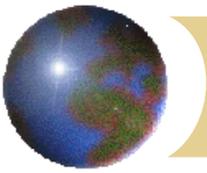




# Passport Control in Turkey

- ✿ MBA student waited in queue at airport passport control.
  - ✿ *Officer took his passport but didn't return it.*
  - ✿ *"Is there a problem with my passport?"*
  - ✿ *"Nothing that \$50 won't fix."*

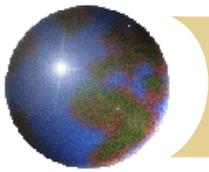




# *Passport Control in Turkey*

- ✦ This is a facilitating payment.
  - ✦ *The student had a visa and was entitled to enter.*
  - ✦ *Inefficient, but perhaps not corrupting.*

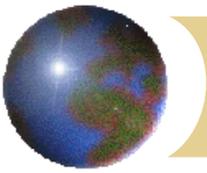




# *Enron in India*

- ✿ The Dabhol electric power plant.
  - ✿ *India's largest-ever private foreign investment.*
  - ✿ *Spearheaded by Enron (1992).*
  - ✿ *Bechtel & General Electric also involved.*

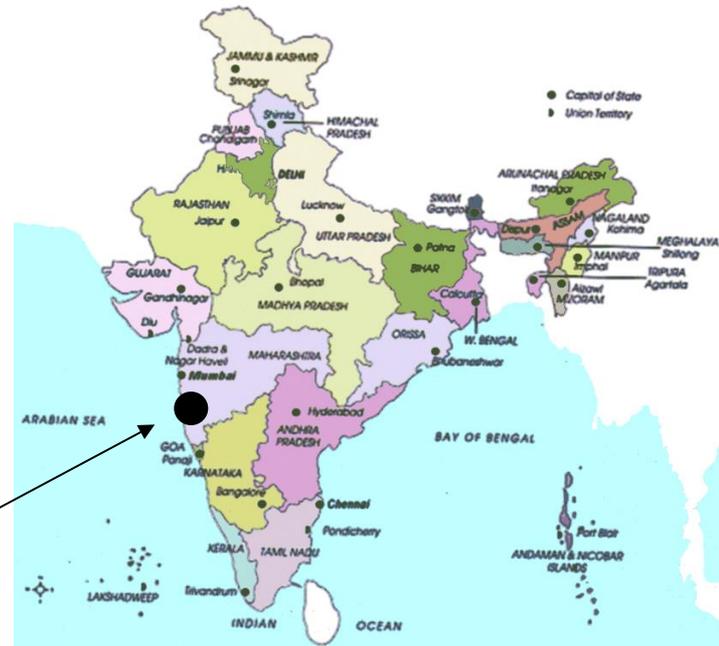


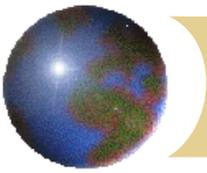


# Enron in India

- ✿ Located at Dabhol in Maharashtra State (1992).
- ✿ Addressed growing Indian economy & unreliable electricity supply.
  - ✦ Spearheaded by Enron executive Rebecca Mark.
  - ✦ In principle, a brilliant idea.

Dabhol

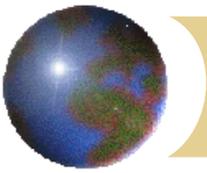




# *Enron in India*

- ❖ 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.*
  - ❖ *Some suspected **bribery** on Enron's part.*



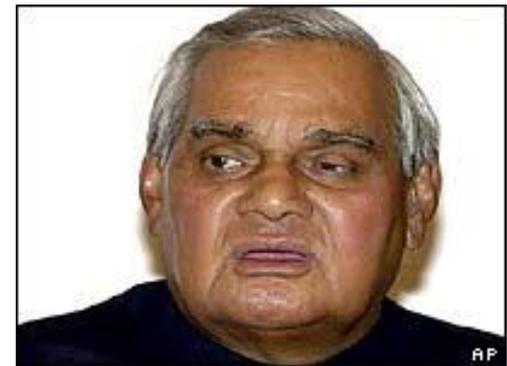


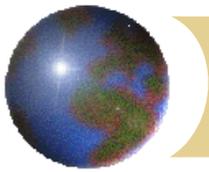
# *Enron in India*

## ✚ Indian political situation.

### ✚ *Congress Party was in political trouble.*

- Party of Nehru, Indira Gandhi, Rajiv Gandhi, Sonia Gandhi.
- Accused of **corruption**.





# *Enron in India*

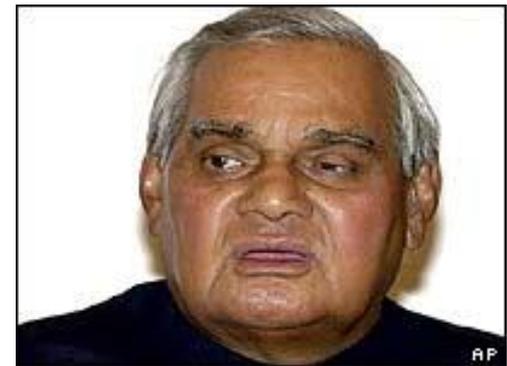
## ❖ Indian political situation.

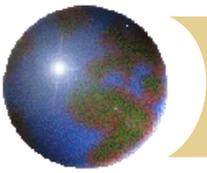
### ❖ *Congress Party was in political trouble.*

- 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 Babri mosque at Ayodhya in 1992.  
Riots result in 2000 deaths.
- BJP comes to power in 1998, with Vajpayee as P.M.





# *Enron in India*

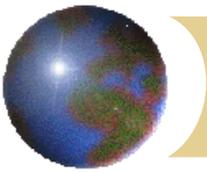
✚ Enron's apparent bribery became an issue in BJP campaign.

✚ *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 reported Enron's offer of \$1 million per year for him to keep quiet.*



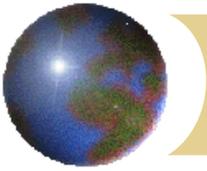


# *Enron in India*

## ✚ Much public protest.

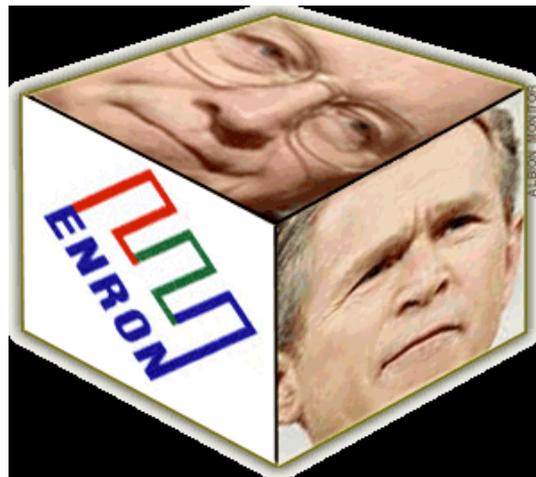
- ✚ *Amnesty International cited rough treatment of demonstrators.*

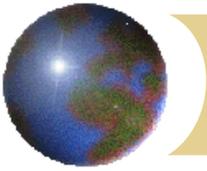




# *Enron in India*

- ❖ 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.*

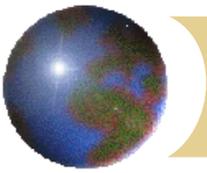




# *Enron in India*

- ✦ Rebecca Mark passed over for Enron CEO.
  - ✦ *Ken Lay chose Jeffrey Skilling.*

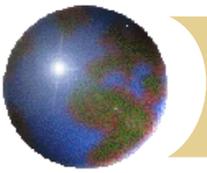




# *Enron in India*

- ✦ Rebecca Mark passed over for Enron CEO.
  - ✦ *Ken Lay chose Jeffrey Skilling.*
  - ✦ *Skilling later convicted of felony charges related to Enron's collapse.*
  - ✦ *Sentenced to prison until 2028, later reduced to 2017.*

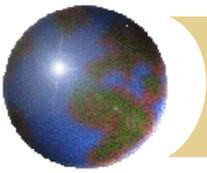




# *Enron in India*

- ❖ Power plant sat mostly idle for years.
  - ❖ *State-owned company took it over in 2006.*
  - ❖ *Resumed operations in 2010.*

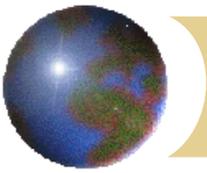




# *Enron in India*

- ✚ How to get things done.
  - ✚ *Work through connections.*
    - Family, friends of family.
    - Contacts with high-ranking people.
  - ✚ *Bribery is corrupting.*
  - ✚ *Bribery of government officials is illegal in India.*





# Nepotism

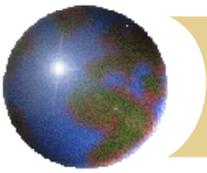
✚ Nepotism may or may not be corrupting.

✚ *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.

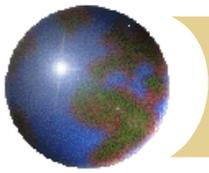
✚ *Often questionable in rule-based cultures.*

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

✚ *May be functional in relationship-based cultures...*



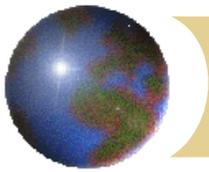
“Nepotism” is a polite way of saying  
“you have no chance in hell of ever being promoted.”



# 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.





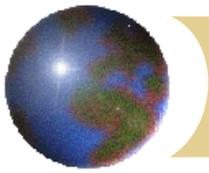
# *LKK in China*

## ✦ 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.





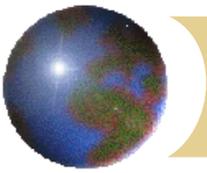
# LKK in China

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

125  
周年紀念启动仪式  
Anniversary Kick-off Ceremony

LEE KUM KEE  
PREMIUM OYSTER SAUCE  
淨重510克 (18安士) NET WT. 510g (18oz)

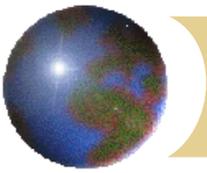
李錦記  
始創1888



# Avoiding Bribery

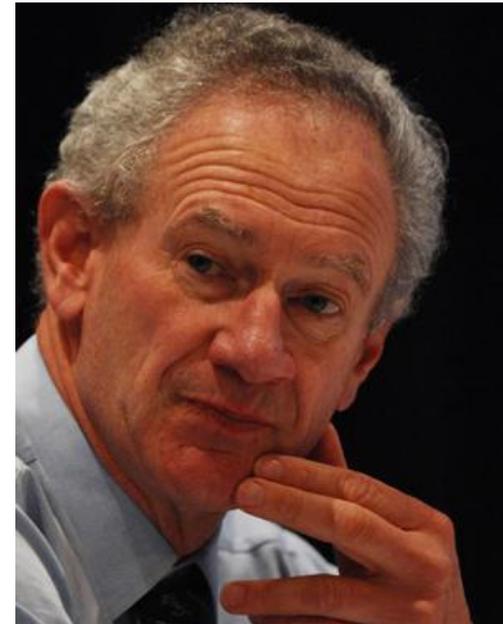
- ✚ Avoiding bribery can be a challenge.
  - ✚ *When legitimate cronyism and "wasta" slip into bribery.*
    - Parts of Asia, Middle East.
  - ✚ *When historical circumstances have disrupted the culture.*
    - War (Iraq, Afghanistan).
    - Conquest by a foreign power (former Soviet Bloc countries).
    - Exploitative colonialism (some African countries.)

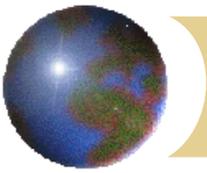




# *Leighton in Asia and Middle East*

- ✚ Major Australian construction firm.
  - ✚ *Grew from minor firm to \$7 billion business*
    - Under leadership of Wal King.
  - ✚ *Corruption scandal breaks*
    - Shortly after Wal King's departure in 2010.





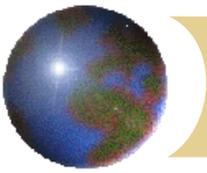
# Leighton Timeline

## 2007

### Leighton buys 45% stake in Dubai-based Al Habtoor Engineering.

- To provide access to Gulf customers thru Riad al Sadik (left), Chairman of joint venture Habtoor Leighton Group.
- Got \$515 contract to build Habtoor Palace Hotel.
- So far, no problems.





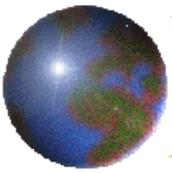
# *Leighton Timeline*

## ✚ 2008

✚ *A senior Leighton project manager allegedly releases competitor bids to a subcontractor.*

- To build a pipelaying barge, the *Eclipse*.
- According to a company whistle-blower.





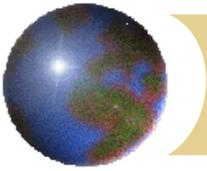
# Leighton Timeline

## ✚ 2009

- ✚ *The same project manager allegedly used Leighton funds to buy \$500,000 worth of steel for Indian company Adani Group.*
  - To build another barge.
  - According to the same whistle-blower.

adani™





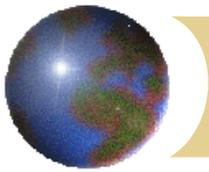
# Leighton Timeline

## ✚ 2009

✚ *The manager says he became involved due to urging of Malaysian middleman Pakianathan Srikumar.*

- Srikumar helped secure \$1 billion in projects for Leighton in Asia, Middle East, Iraq, India.
- Received 10% kickback on some projects, some of which was passed to Leighton executives.
- According to internal Leighton documents.





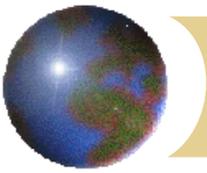
# Leighton Timeline

## ✚ 2009

✚ *Internal memo by acting Leighton CEO David Stewart says top executives knew of \$42 million kickback.*

- To get \$750 million oil pipeline contract in Iraq.
- To a firm (Unaoil) run by Iranian family with connections to Iraqi PM and oil minister.
- Srikumar was reportedly involved.





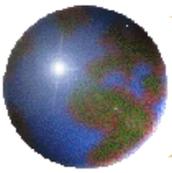
# *Leighton Timeline*

## ✦ 2010

✦ *Leighton International Managing Director David Savage reportedly forms new business venture while at Leighton.*

- Srikumar and al Sadik join his "Project T," chip in \$2 million each and offer to find customers.
- Project T formally established as Stonehouse Construction the day after Savage resigns from Leighton, with Savage as Director.





# *Leighton and Wasta*

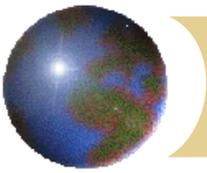
✦ *Wasta* is influence.

✦ *A wasta is a person who provides influence through connections with important people.*

- *Originated in Arab culture as an intermediary between tribes.*

✦ *Srikumar and al Sadik were wastas for Leighton.*

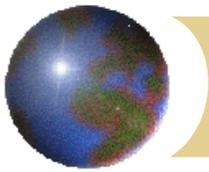




# *Leighton and Wasta*

- ✦ *Wasta* need not be corrupt.
  - ✦ *Ideally, a wasta screens requests judiciously for a sheik, important family, or government official.*
    - *Helps the sheik to exercise his power wisely.*
- ✦ *However, wasta can be corrupted.*
  - ✦ *Especially if the wasta receives money from the client.*
    - *Conflict of interest.*





# *Leighton and Wasta*

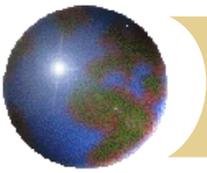
⊕ *Wasta* is a necessity in the Middle East.

- ⊞ *More effective than bribery.*
- ⊞ *Very helpful in Asia, Africa, etc.*

⊕ *Legitimate wastas don't take bribes or kickbacks.*

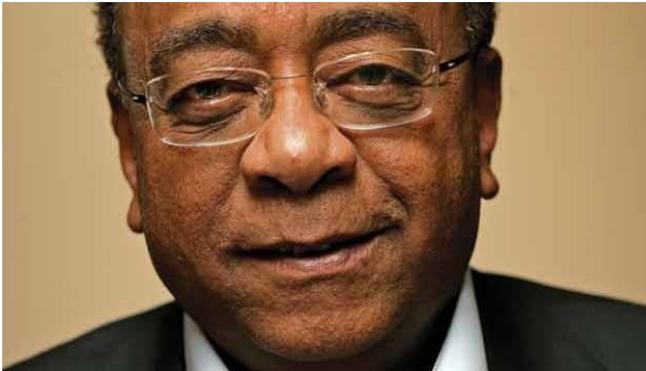
- ⊞ *They are compensated in other ways.*
  - *Increased prestige*
  - *Gratitude from authority figures they serve*
  - *Expectation that the favor will be returned someday.*



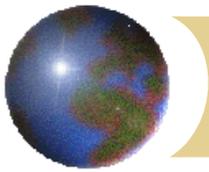


# *Celtel in Africa*

- ✦ Wireless service founded in 1998.
  - ✦ *Mo Ibrahim (Sudanese) & Terry Rhodes (British)*



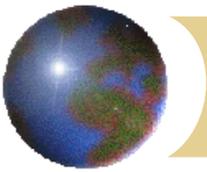
**Terry Rhodes**  
Director



# *Celtel in Africa*

- ❖ Wireless service founded in 1998.
  - ❖ *Mo Ibrahim (Sudanese) & Terry Rhodes (British)*
  - ❖ *Purchased \$750K operating license, approval bogged down.*

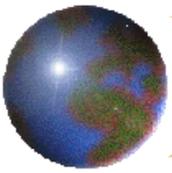




# Celtel in Africa

- ❖ Wireless service founded in 1998.
  - ❖ *Mo Ibrahim (Sudanese) & Terry Rhodes (British)*
  - ❖ *Purchased \$750K operating license, approval bogged down.*
  - ❖ *Requested meeting with officials.*
  - ❖ *Awkward silence after introductions.*

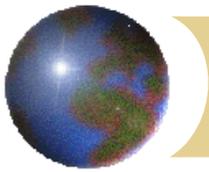




# *Celtel in Africa*

- ✚ Fax had requested \$50K bribes for meeting.
  - ✚ *Was sent to Amsterdam office that morning.*

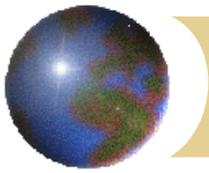




# Celtel in Africa

- ✿ 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.

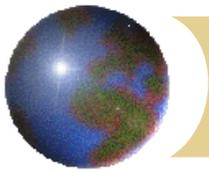




# *Celtel in Africa*

- ✦ Bribery represents corruption of village leadership customs.
  - ✦ *Rational redistribution of wealth through leader's patronage.*
  - ✦ *Undermined by disruption of village life by colonial industries and installation of Western-style government.*

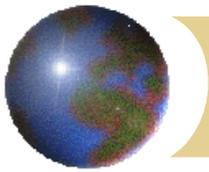




# *Supply Chain Ethics*

- ✦ Supply chains often stretch from a rule-based to a relationship-based culture.
  - ✦ *Contractual specifications may not cross the cultural divide.*

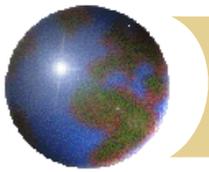




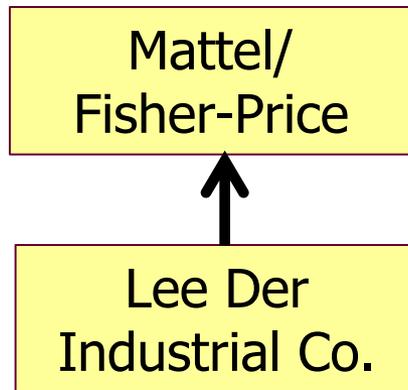
# *Mattel in China*

- ❖ In 2007, Mattel discovered that many of its toys were coated with lead-based paint.
  - ❖ *Lead additive tastes sweet but is toxic to children.*
  - ❖ *Mattel recalled about 1 million toys.*
  - ❖ *Toys were sourced through a supply chain from China.*
  - ❖ *What went wrong?*



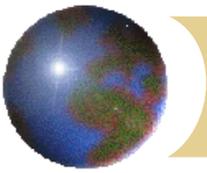


# *Mattel in China*

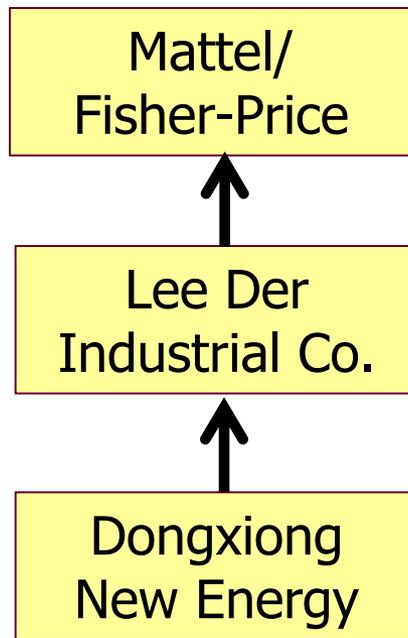


Fisher-Price sourced from Zhang Shuhong, manager of Lee Der Industrial Company. Zhang was totally dedicated to his job. He even lived in a small room at the factory.



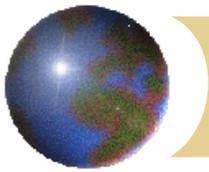


# Mattel in China

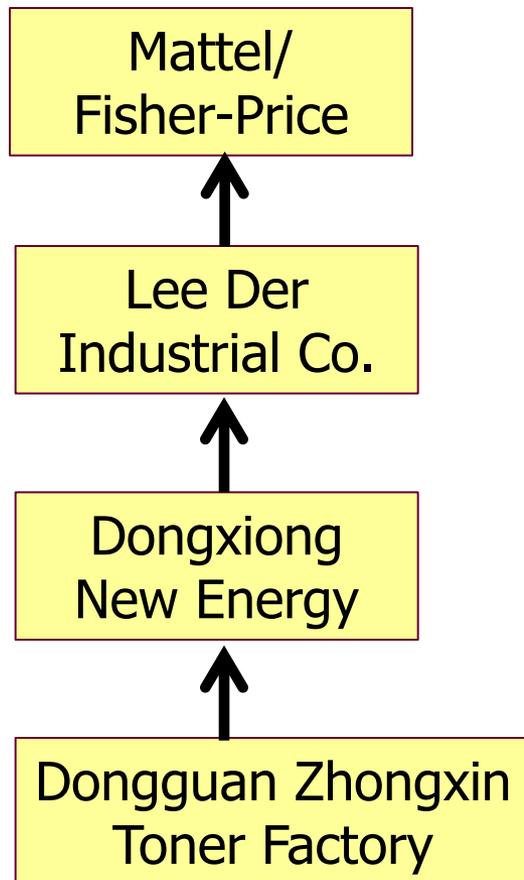


Zhang obtained paint from his trusted *guanxi* partner Liang Jiacheng at Dongxiong New Energy



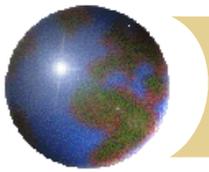


# *Mattel in China*

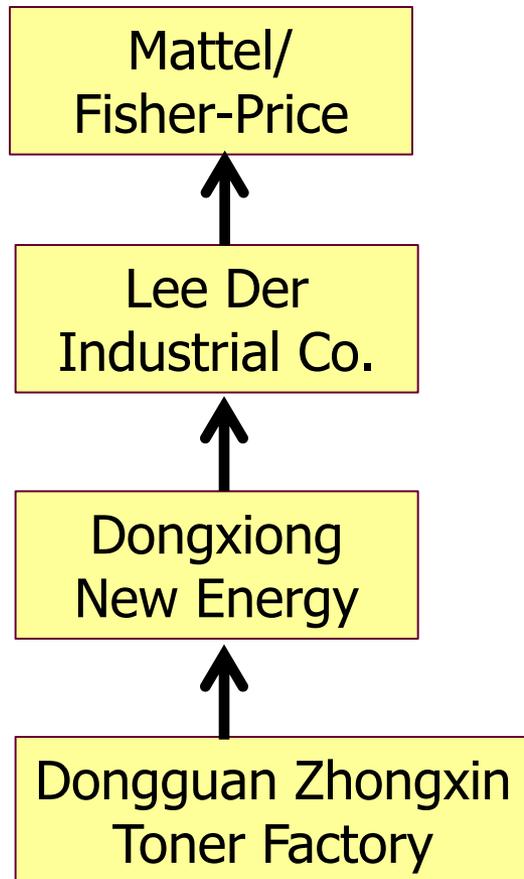


Liang was short of pigment and ordered it over the Web from people he didn't know.



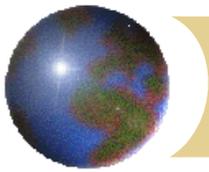


# *Mattel in China*

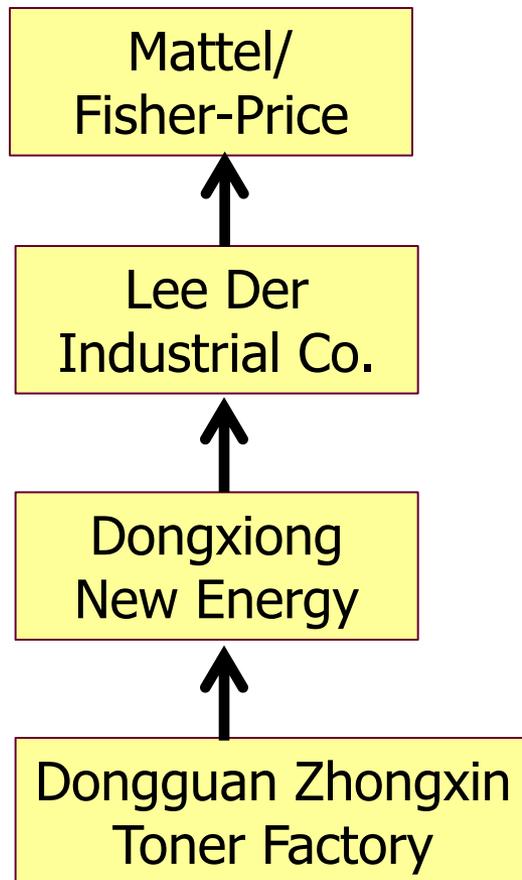


The supplier send lead-based pigment along with a forged certificate.





# Mattel in China



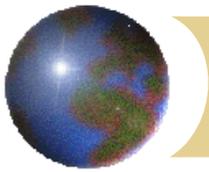
When Mattel discovered the problem, the Chinese government revoked Lee Der's export license. Zhang committed suicide.



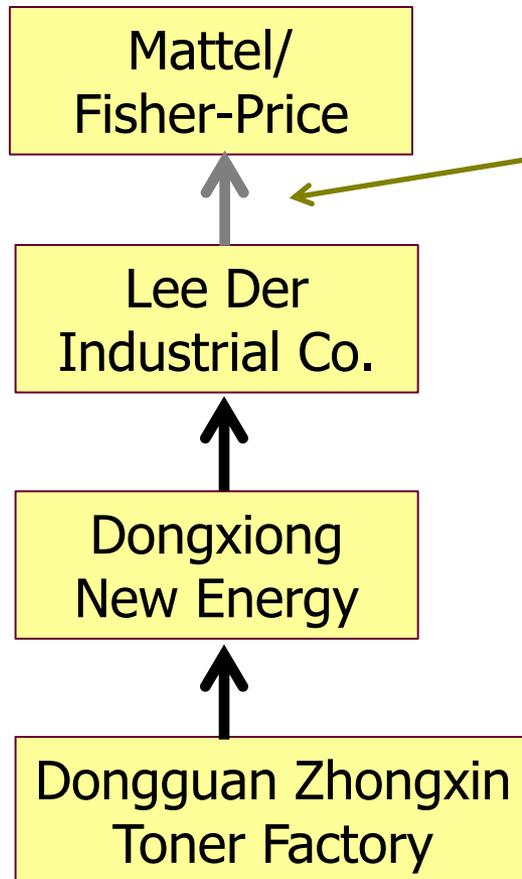
**Chinese Toy  
Exec Commits  
Suicide After  
Recall**

China banned exports  
from the company

Aug 13, 2007 7:59 AM CDT



# Mattel in China

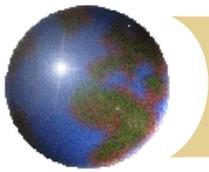


Weak link in the supply chain:

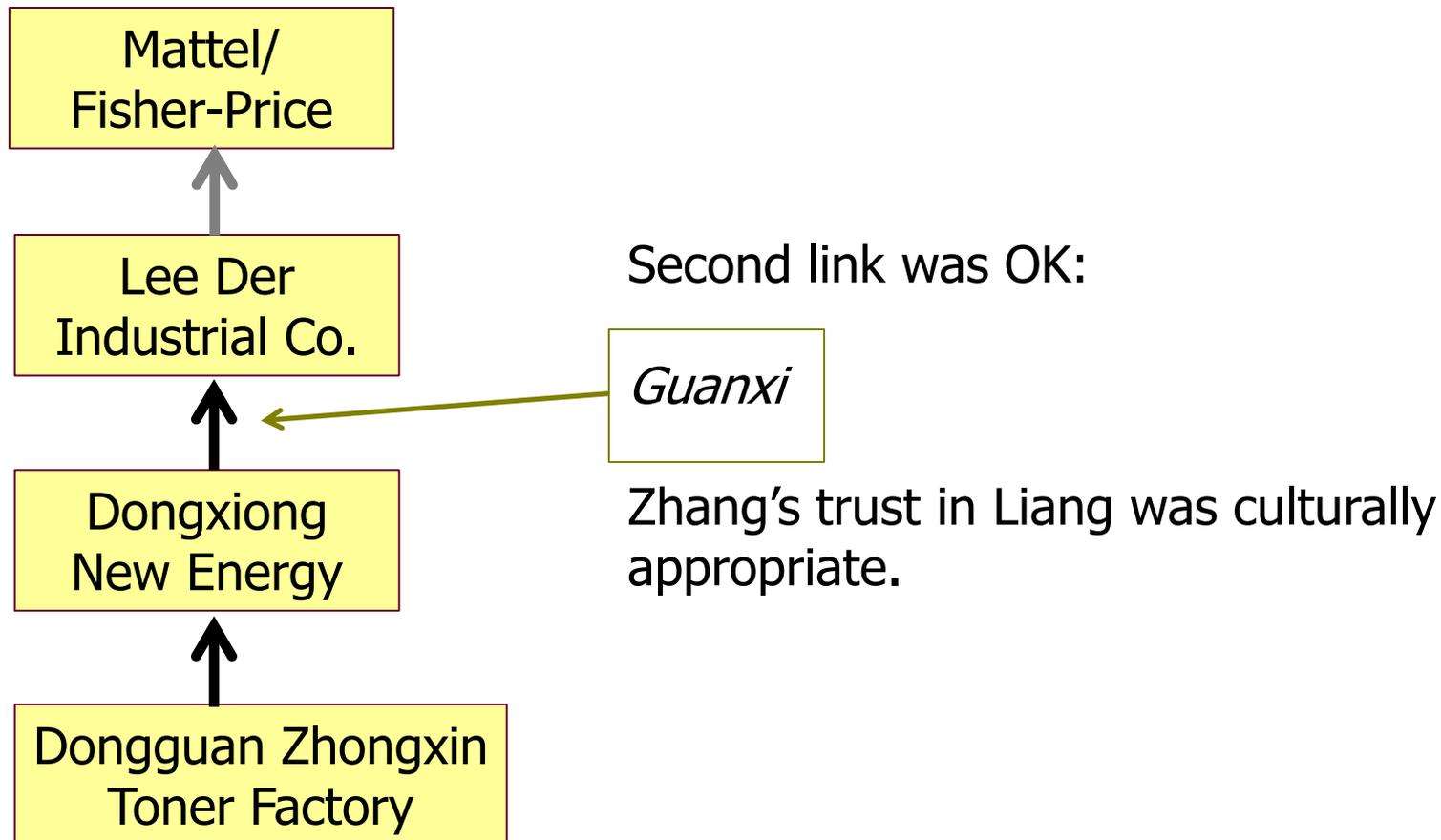
Transition from contract-based to relationship-based business.

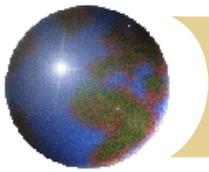
Zhang considered it sufficient to trust his supplier Liang.

A Fisher-Price purchaser who had *guanxi* with Zhang could have learned that Zhang was not performing lead-free certification as required by the contract.



# Mattel in China





# *Mattel in China*

Mattel/  
Fisher-Price



Lee Der  
Industrial Co.



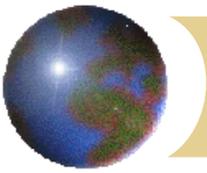
Dongxiong  
New Energy



Dongguan Zhongxin  
Toner Factory

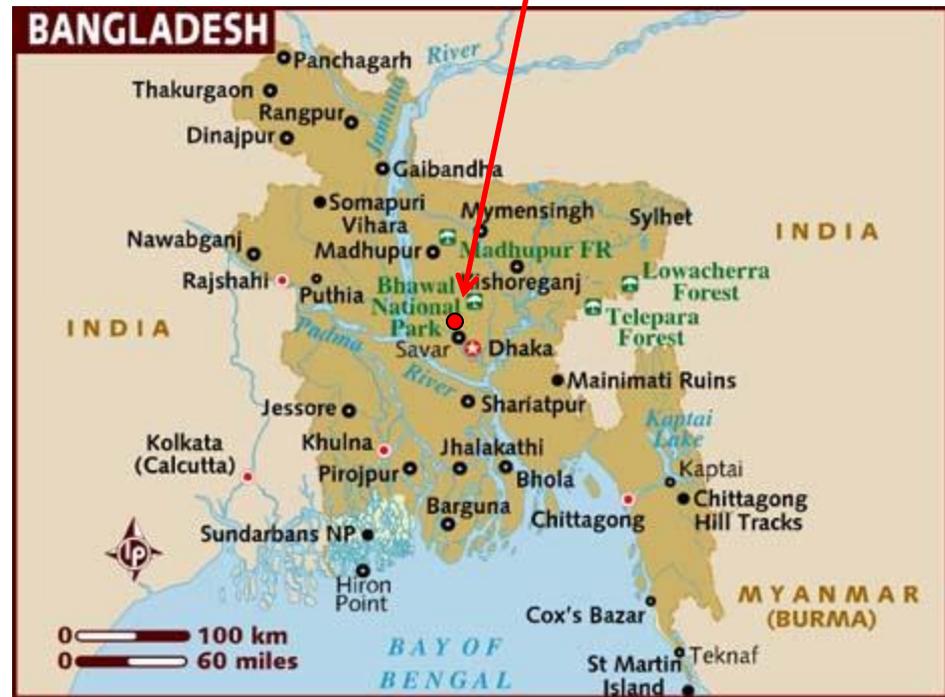
Chain broke at third link:

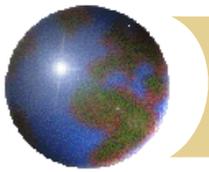
Culturally inappropriate trust of unknown party on the Web.



# Apparel industry in south Asia

- ✦ In April 2013, garment workers in Rana Plaza heard a loud noise.
  - ✦ *8-story factory complex.*
  - ✦ *A large crack formed in the building.*
  - ✦ *An engineer urged everyone to evacuate.*



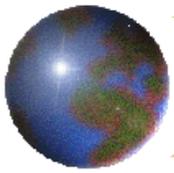


# *Apparel industry in south Asia*

✿ Sohel Rana refused to close the building.

- ✿ *Factory owners ordered workers to show up the next morning.*
- ✿ *Or lose their jobs and several weeks back pay.*

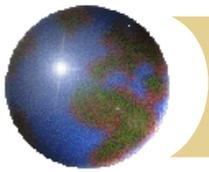




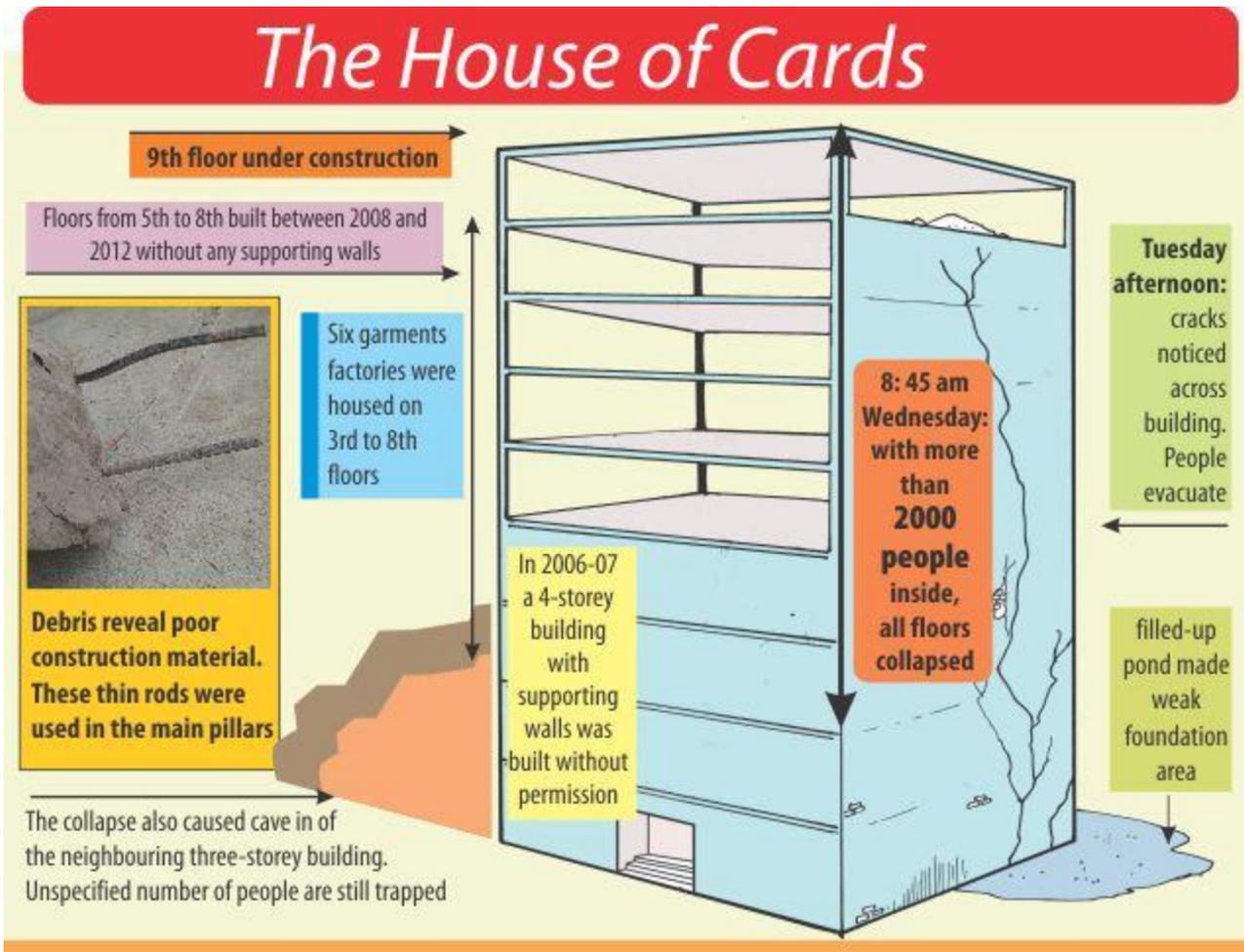
# *Apparel industry in south Asia*

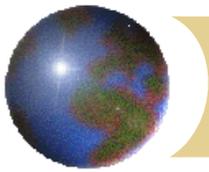
- ✿ At 8:45 am, the building collapsed.
  - ✿ *1129 workers killed, >2000 injured*





# Apparel industry in south Asia

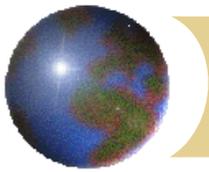




# *Apparel industry in south Asia*

- ❖ Worst disaster in history of garment industry.
- ❖ But not an isolated event.
  - ❖ *289 killed in factory fire, Karachi, Pakistan, Sept 2012*
  - ❖ *25 killed in factory fire, Lahore, Pakistan, Sept 2012*
  - ❖ *117 killed in factory fire, Dhaka, Bangladesh, Nov 2012.*
- ❖ Common theme: unsafe working conditions.
  - ❖ *Locked exits*
  - ❖ *No fire extinguishers*
  - ❖ *Building code violations*



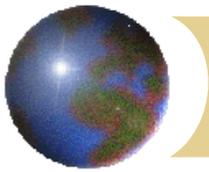


# *Apparel industry in south Asia*

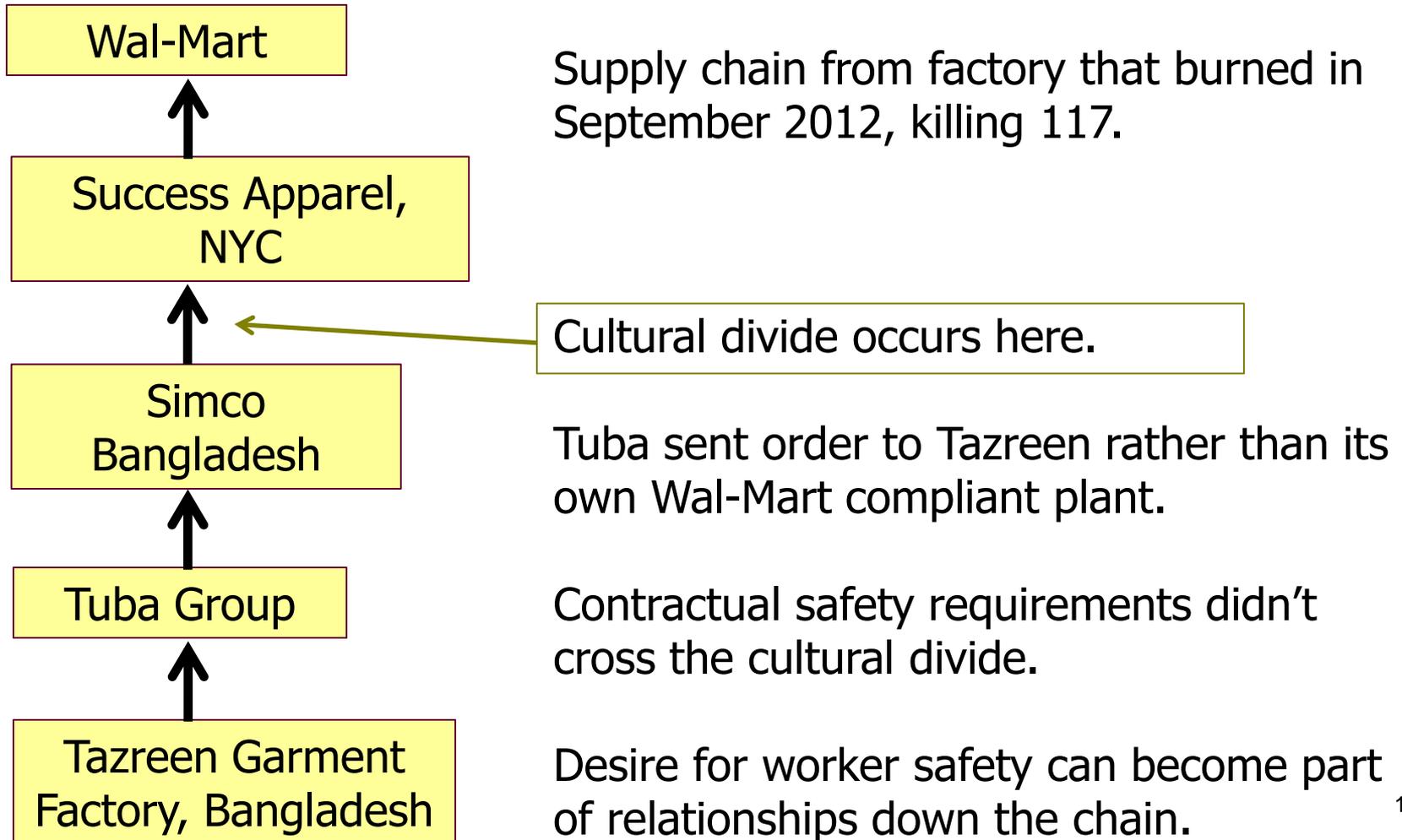
- ✚ Journalists found evidence in the rubble that Western firms were sourcing from these factories.
  - ✚ *Most firms claimed they didn't know about it.*

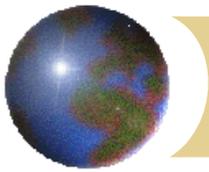


Calvin Klein

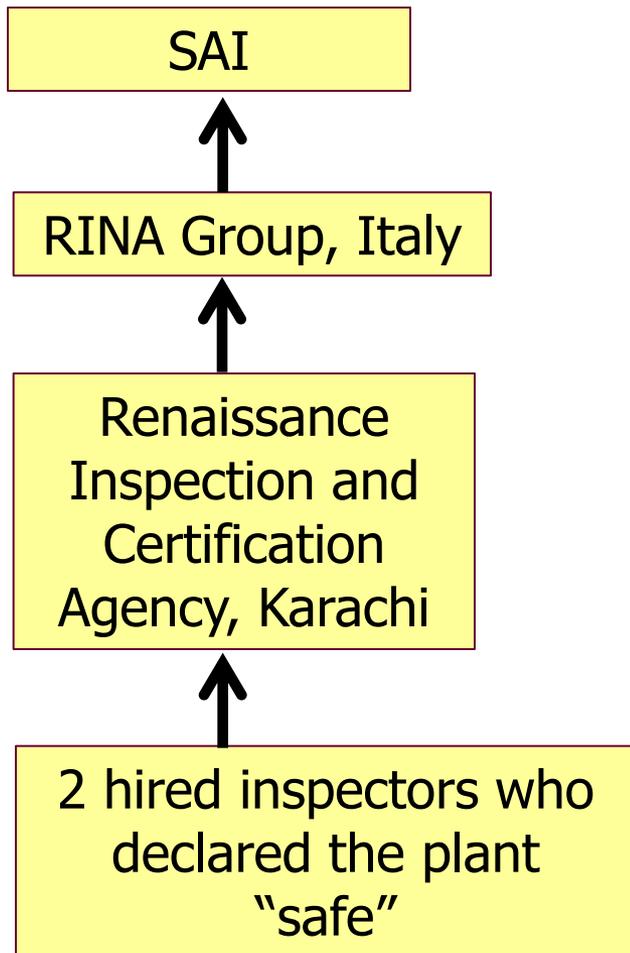


# *Apparel industry in south Asia*





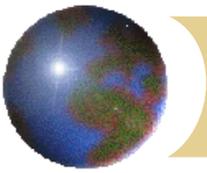
# *Apparel industry in south Asia*



Third-party endorsement doesn't always work.

Karachi plant received prestigious SAI (Social Accountability International) endorsement only a month before it burned.

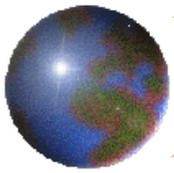
NGO endorsement is itself subject to supply chain problems.



# *Apparel industry in south Asia*

- ✦ Relationships can also convey information about personal reputation.
  - ✦ *This is key in relationship-based cultures.*
  - ✦ *Sohel Rana was a known corrupt political boss and drug dealer.*





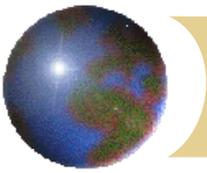
# *Apparel industry in south Asia*

- ✚ The West can also get its ethical house in order.
  - ✚ *Hold apparel firms responsible for working conditions in supplier factories.*
  - ✚ *Volunteer agreements are ineffective.*



“Seventy-five mainly European signatories guarantee to inspect clothing suppliers in Bangladesh... American firms are reportedly reluctant to join any industry accord that creates legally binding objectives.”

--*The Guardian*,  
8 July 2013.



# *Discussion*

✦ Questions? Comments?

