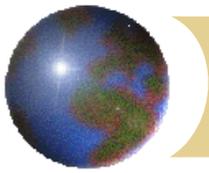


Intercultural Business Ethics

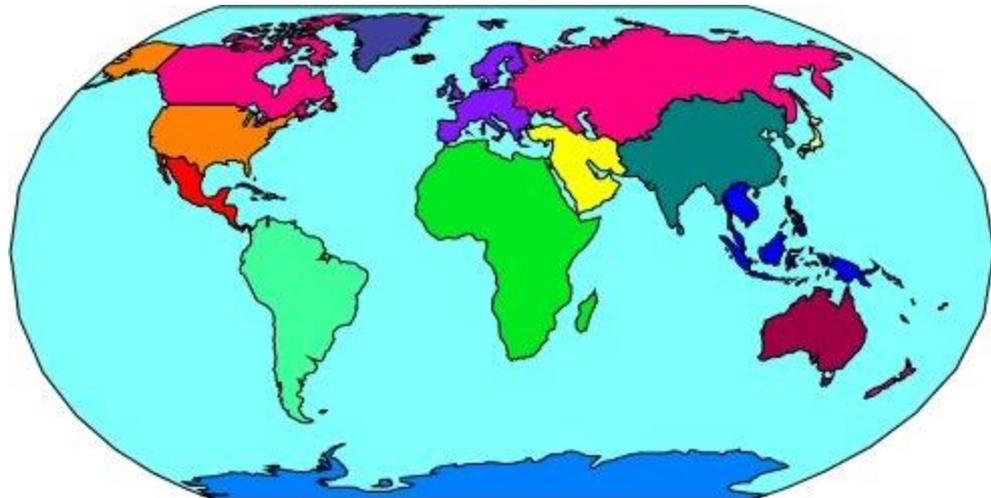
John Hooker
Carnegie Mellon University, USA

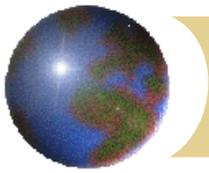
Ethics Week, Utah Valley University
September 2015



Culture and ethics

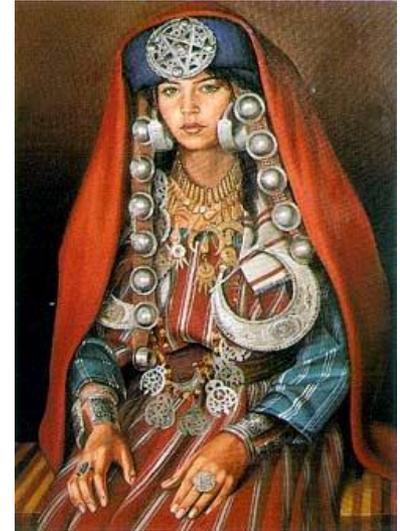
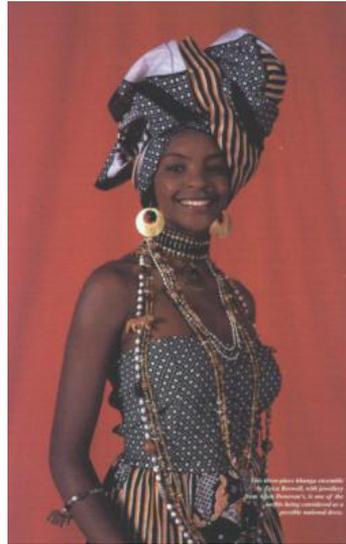
- ✦ Every culture has **ethical norms** that allow the culture to function.
- ✦ But cultures often operate **differently**.
- ✦ So they often have **different norms**.

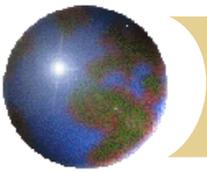




*What culture is **not***

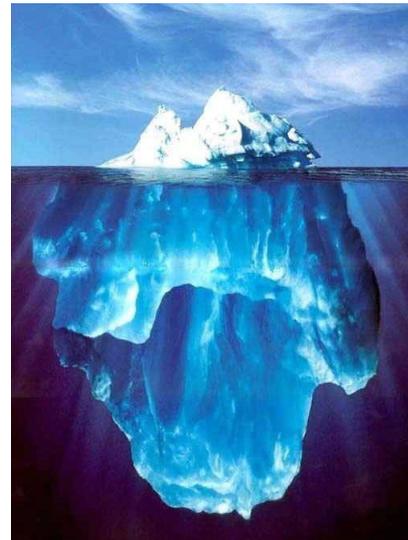
- ✪ Culture is **not** primarily about food, language, dress, customs, holidays.

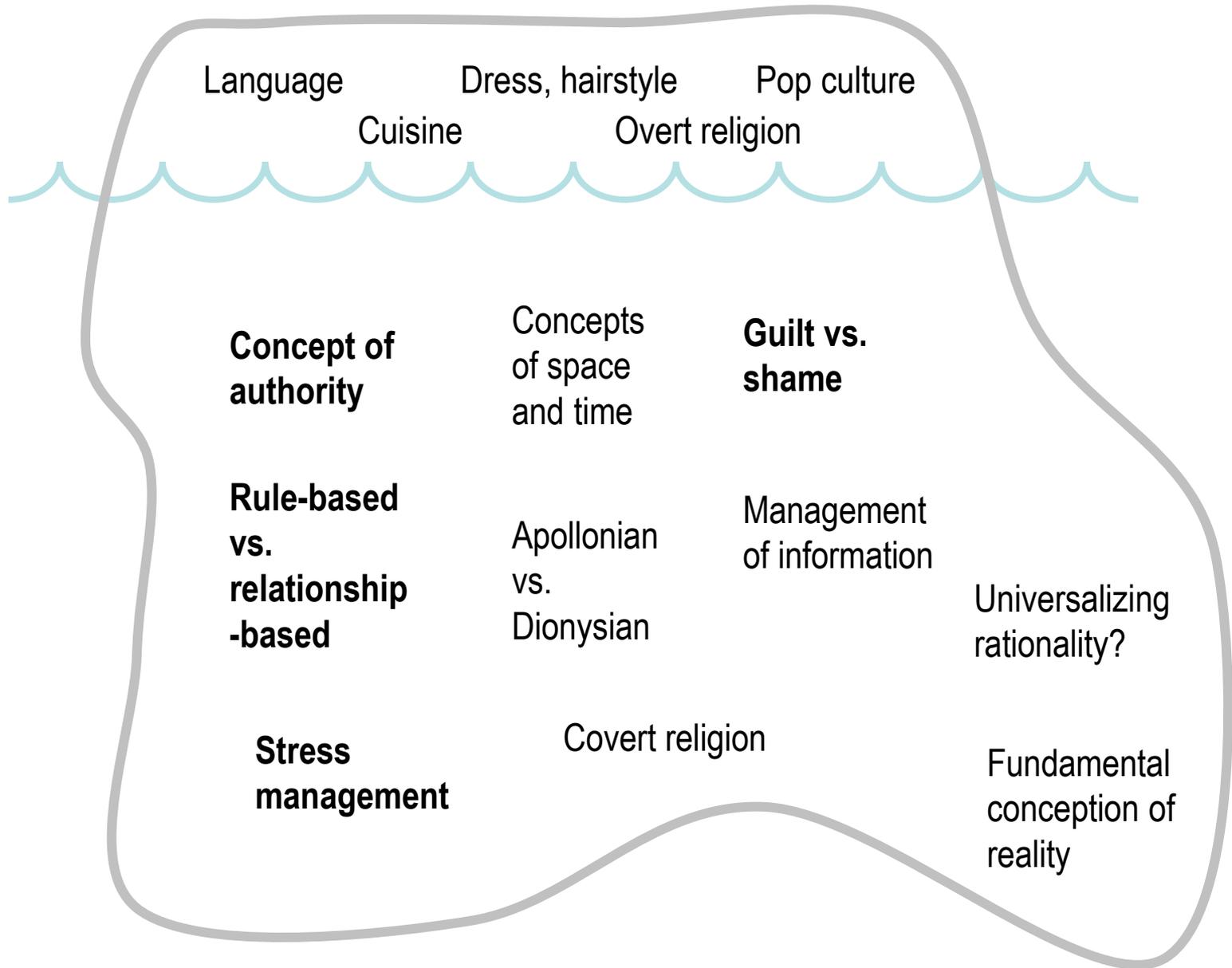
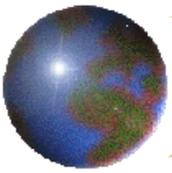


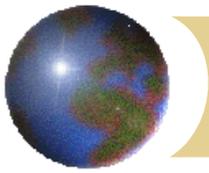


What culture is

- ✦ 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.

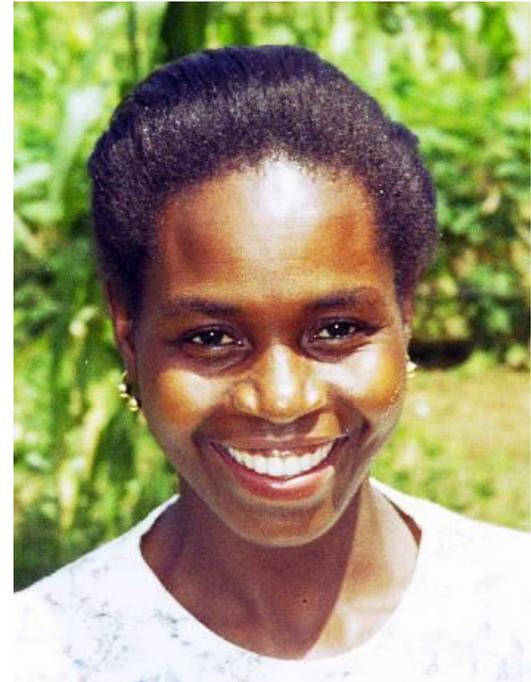


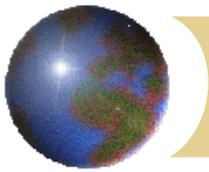




Culture vs. personality

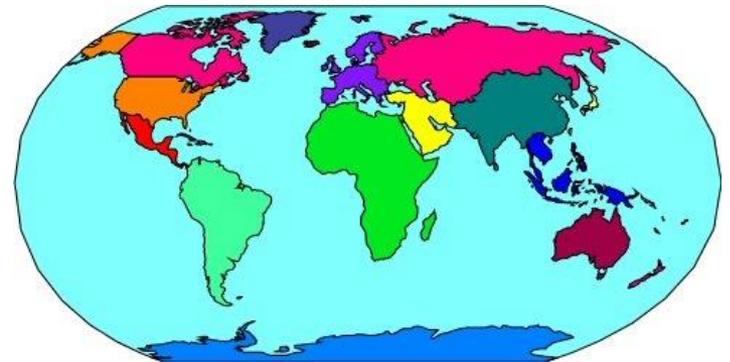
- ✦ Every culture contains the **full range** of human personalities.
 - ✦ Culture is about the framework into which these personalities fit.
 - ✦ However, different personalities succeed in different cultures.

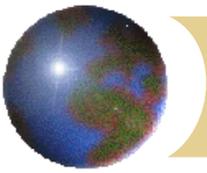




Outline

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

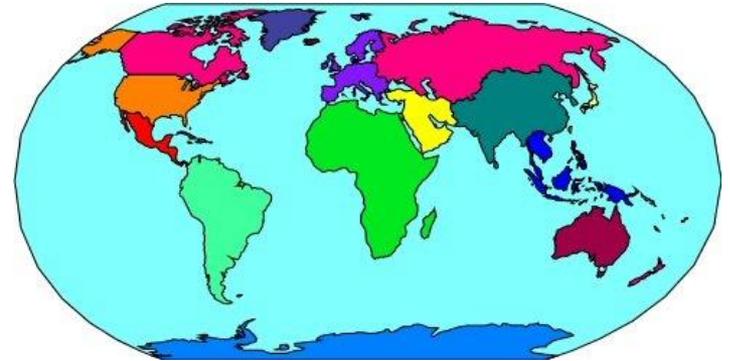




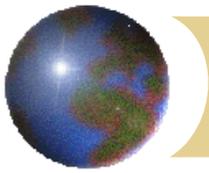
Outline

⊕ Part 2: Corruption around the world

- ❏ What is corruption?
- ❏ Kodak in Taiwan
- ❏ Financial crisis
- ❏ Enron in India
- ❏ LKK in China
- ❏ Leighton in Asia and Middle East
- ❏ Celtel



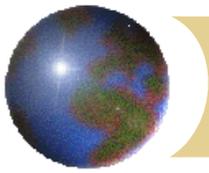
⊕ Part 3: Supply chain ethics



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.

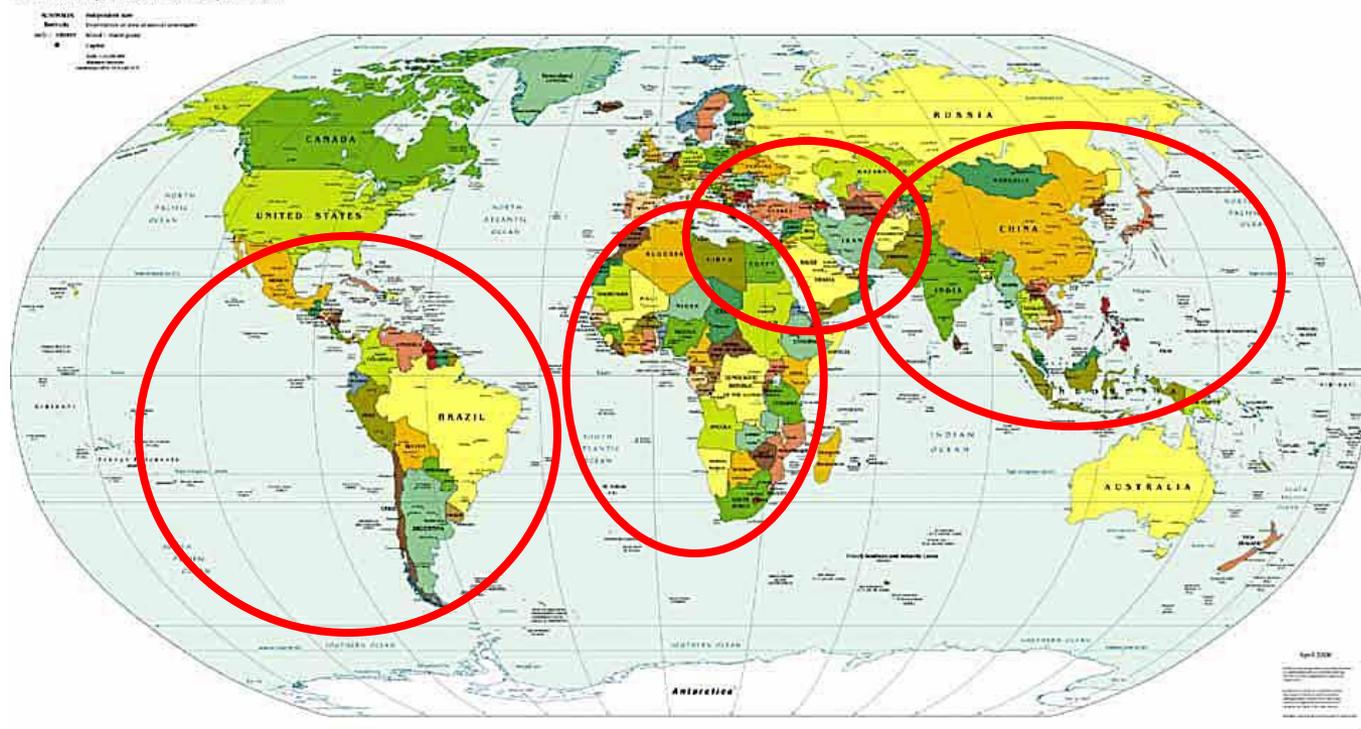


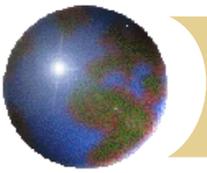


✦ *Relationship-based* = life is organized primarily around **personal relationships**.

✦ Africa, Asia, Middle East, South America

Political Map of the World, April 2000

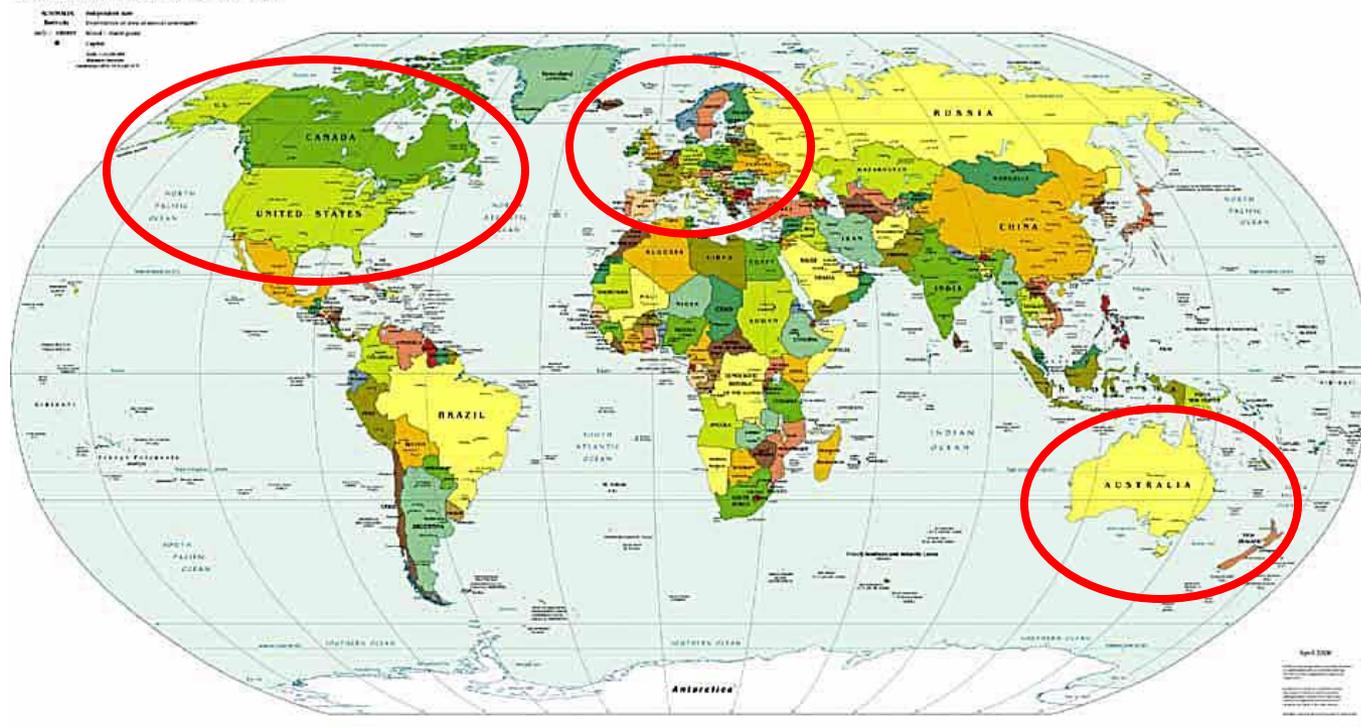


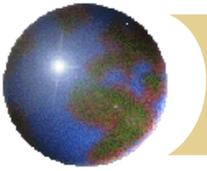


✚ *Rule-based* = life is organized primarily by **rules**.

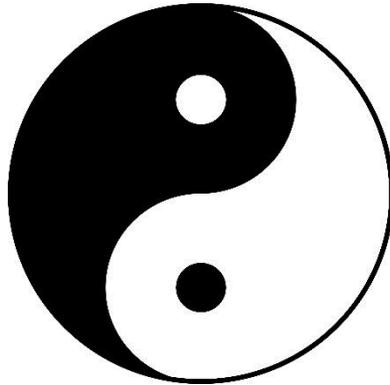
▣ Australia, Europe, North America

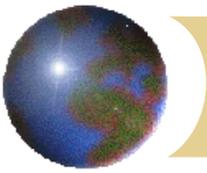
Political Map of the World, April 2000





- ✦ No culture is purely rule-based or relationship-based.
 - ▣ Nonetheless, one system tends to dominate.





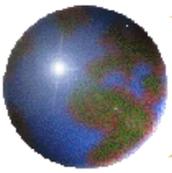
✦ Getting things done

- ✦ Personal connections *vs.* going by the book

✦ Business

- ✦ Deals & contracts *vs.* relationship-building.
- ✦ Trust the **person** *vs.* trust the **system**.



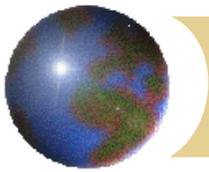


✚ Traffic

- ✚ **Negotiate** your way through it.
- ✚ Follow traffic **laws.**



Intersection in Varanasi, India

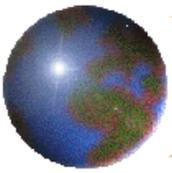


❖ Dealing with **stress**

- ❖ Family & friends *vs.*
Technology, engineering, social services



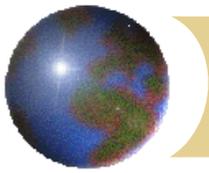
Filipino family



✦ Concept of **self**.

- ✦ I am part of a family, community (**collectivism**) *vs.*
I am an autonomous individual (**individualism**)



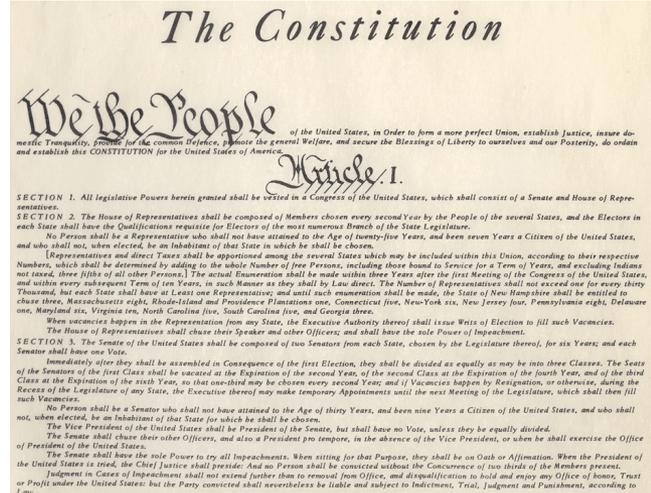


Concept of **authority**.

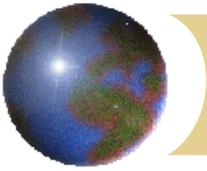
- Authority rests in the **person** vs. Authority derives from **rules**.



Custodian of the Two Holy Mosques
King Salman bin Abdulaziz al Saud



Supreme Law of the Land
U.S. Constitution



Implication for ethics

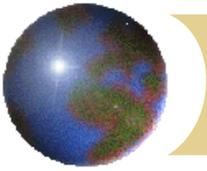
✚ **Source** of authority.

✚ **Collectivist** society:

- Someone must have authority.
- We **must respect** parents, grandparents, ancestors, boss, ruler
- Or society will break down.

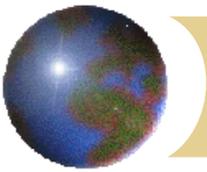
✚ **Individualist** society:

- No one has inherent authority.
- We **must respect** the **rules**.
- The rules must be inherently **logical** and reasonable, because only logic and reason are **universal**.



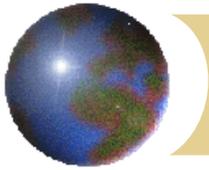
Implication for ethics

- ⊕ Relationship-based ethics
 - ⊞ **Care** and **respect**.
 - ⊞ Ethics flows from the necessity of maintaining relationships.
 - We must care for family, friends.
- ⊕ Rule-based ethics
 - ⊞ **Equality** and **fairness**
 - ⊞ Ethics is based on rules we can agree upon as reasonable.
 - We must reach **rational consensus**.

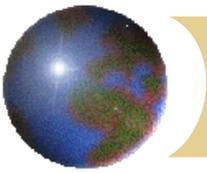


- Many cultural traits **correlate** with the rule-based, relationship-based distinction.

Relationship-based	Rule-based
High power distance	Low power distance
Shame-based	Guilt-based
High-context	Low-context
Corruption as bribery	Corruption as cheating



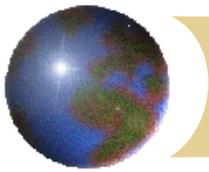
Relationship-based	Rule-based
High power distance	Low power distance
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Power distance

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



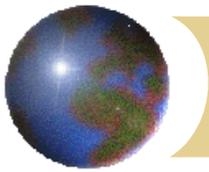


Relationship-based countries tend to be **high** power distance.

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



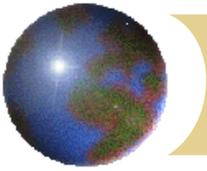
Deng Xiaoping
De facto leader of China
1978-1992



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



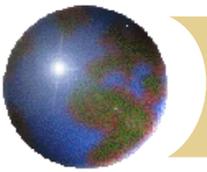
Karl XVI Gustaf
Swedish King since 1973



✦ High power distance:

- ✦ **Children** obey and respect parents, teachers.
- ✦ **Employees** are reluctant to challenge the boss or discuss problems.
 - Guangzhou executives
 - Filipino maids
- ✦ Good boss is **authoritarian** and **paternalistic**.

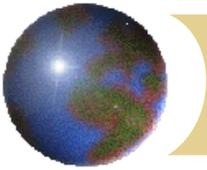




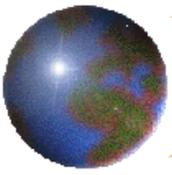
✦ Low power distance:

- ✦ **Children** are allowed to contradict their parents.
- ✦ Classroom discussion.
- ✦ **Employees** bring concerns and grievances to the boss.
- ✦ Good boss **inspires** workers and treats them **equally**.





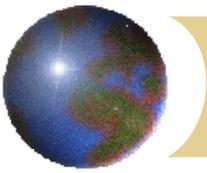
Relationship-based	Rule-based
High power distance	Low power distance
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Corruption as bribery	Corruption as cheating



Shame and guilt

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



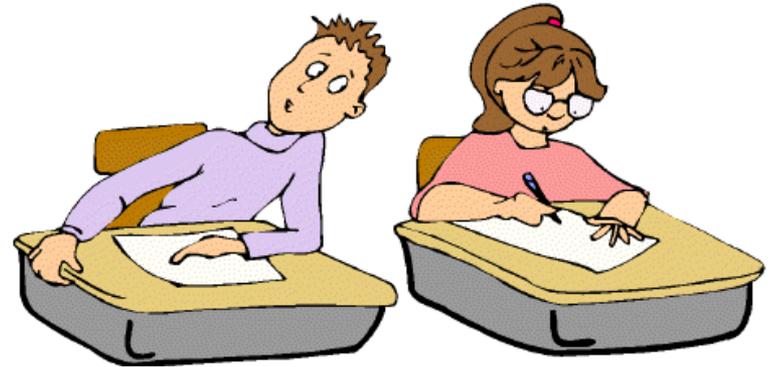


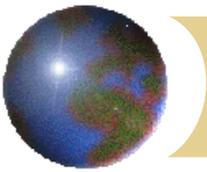
✦ **Relationship-based** cultures enforce behavior norms by **shame**.

- ✦ Loss of face.
- ✦ Humiliation.

✦ Close **supervision**

- ✦ A good boss provides **direct and constant supervision**.
 - Department store clerk.
- ✦ Failure to supervise **gives permission** to break the “rules.”
 - Copying homework.

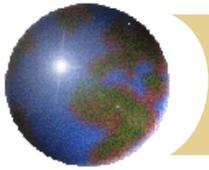




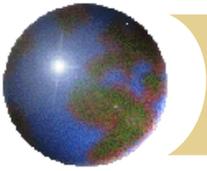
✦ **Guilt** is more important in **rule-based** cultures.

- ❏ Guilt encourages obedience to rules **without close 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.



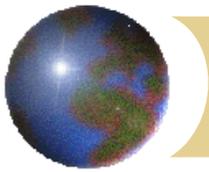


Relationship-based	Rule-based
High power distance	Low power distance
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Context

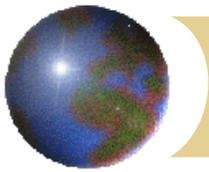
- ✦ In **low-context cultures**, information and behavior norms are spelled out.
 - ✦ Typical of rule-based cultures.
 - ✦ The rules are spelled out.
- ✦ In **high-context cultures**, these are implicit in the cultural context.
 - ✦ Norms are transmitted by the people around you.
 - ✦ Particularly authority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

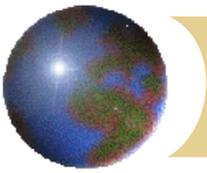




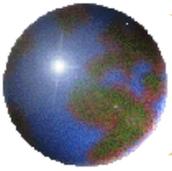
❖ In **high-context** cultures,

- ❖ 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.





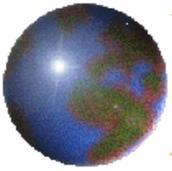
Relationship-based	Rule-based
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Corruption around the world

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

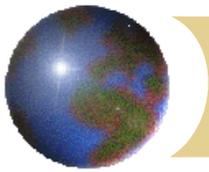




What is corruption?

- ✦ Corruption **corrupts**.

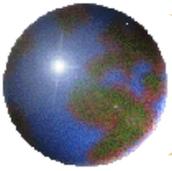
WHAT
IS
CORRUPTION ?



What is corruption?

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

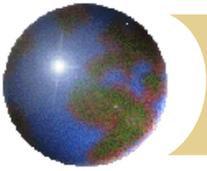
WHAT
IS
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What is corruption?

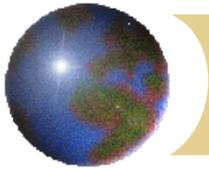
- ✦ Corruption **corrupts**.
- ✦ It undermines the system.
 - ✦ **Rule-based** and **relationship-based** systems are corrupted in different ways.

WHAT
IS
CORRUPTION ?



Corruption as culturally defined

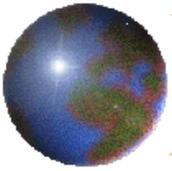
- ✚ What is *corrupt* in one system may be *acceptable* in another.
 - ✚ For example: **cronyism** may be OK in a relationship-based culture.
 - ✚ Cronyism = taking care of your friends first.
 - ✚ But **cronyism** must be distinguished from **bribery**...



Kodak in Taiwan

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

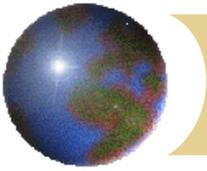




Kodak in Taiwan

- ❖ 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.

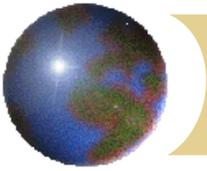




Kodak in Taiwan



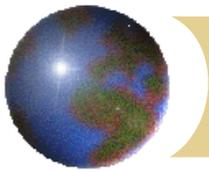
- ❖ While looking for the owner's name, he found the case to be full of **cash**.



Kodak in Taiwan

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





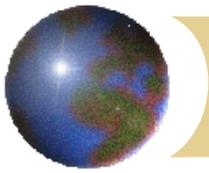
Kodak in Taiwan

☉ 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.
- ☒ **A legitimate form of cronyism.**

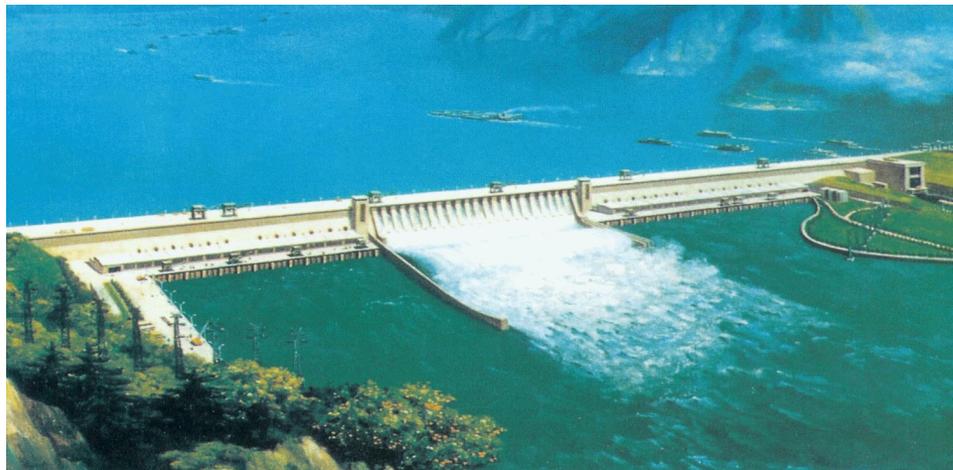
关系



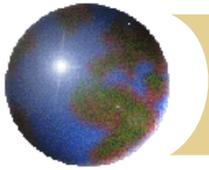


Kodak in Taiwan

- ✦ Bribery **short-cuts** the process of building *guānxì*.
 - ✦ Does not provide the stable, long-term relationships required by a complex civilization.



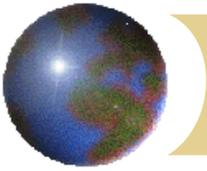
Three Gorges Dam,
Yangtze River



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

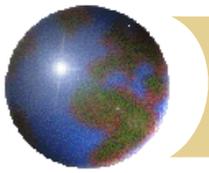
✚ Lesson:

✚ **Responsible** cronyism:

- Favor friends because you trust them to deliver.

✚ **Irresponsible** cronyism:

- Favor friends simply because they are friends.



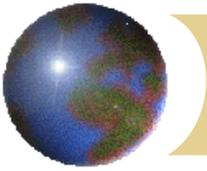
Kodak in Taiwan

✚ Lesson:

- ✚ **Responsible** cronyism:
 - Favor friends because you trust them to deliver.
- ✚ **Irresponsible** cronyism:
 - Favor friends simply because they are friends.
- ✚ However, cronyism is problematic in **government**.
 - Chinese civil service exams introduced by Han Dynasty >2000 years ago.



Ming Dynasty exam booths, 1873



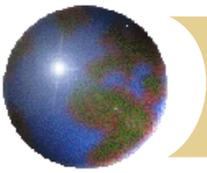
The Legal Picture

✦ 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

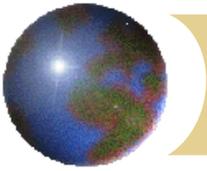
- ✦ *U.S. Foreign Corrupt Practices Act* – Prohibits **bribes** paid to foreign **government** officials.
- ✦ *U.K. Bribery Act (2010)*



The Legal Picture

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

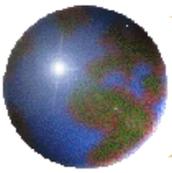




Efficiency vs. Stability

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

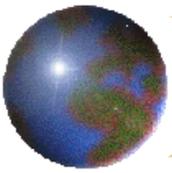




Efficiency vs. Stability

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



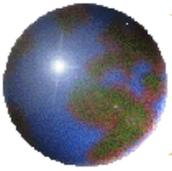


Financial Crisis of 2008

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

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

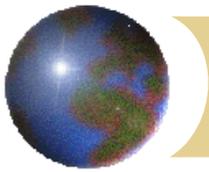




Financial Crisis of 2008

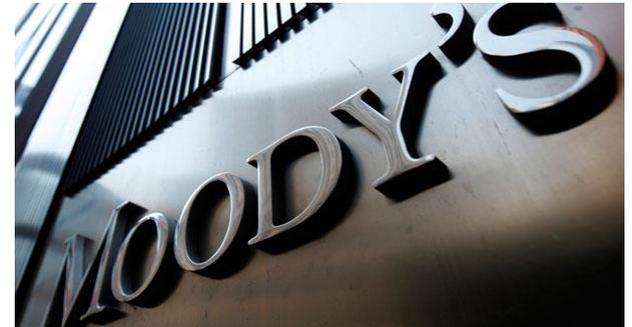
- ❖ Lenders sold mortgages to big banks.
 - ❖ To be repackaged as “Collateralized debt obligations” (CDOs)
 - ❖ Lenders became extremely lax on due diligence.
 - ❖ No one was watching.

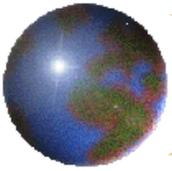




Financial Crisis of 2008

- ✦ 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.
 - ✦ Standard & Poor's finally indicted in January 2015.

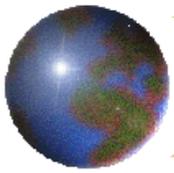




Financial Crisis of 2008

- ✦ 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.

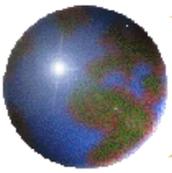




Financial Crisis of 2008

- ❖ 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.

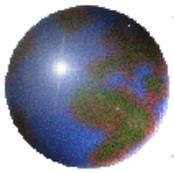




Financial Crisis of 2008

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

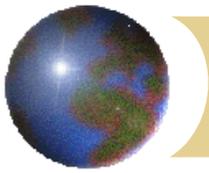




Financial Crisis of 2008

- ❖ **Western-style corruption** – Minimal supervision risks cheating and irresponsible behavior
 - ❖ Mortgages without due diligence.
 - ❖ Over-leveraged banks in search of short-term profit.
 - ❖ Improper ratings.
 - ❖ Unsecured credit default swaps.

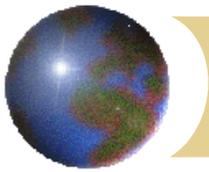




Enron in India

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

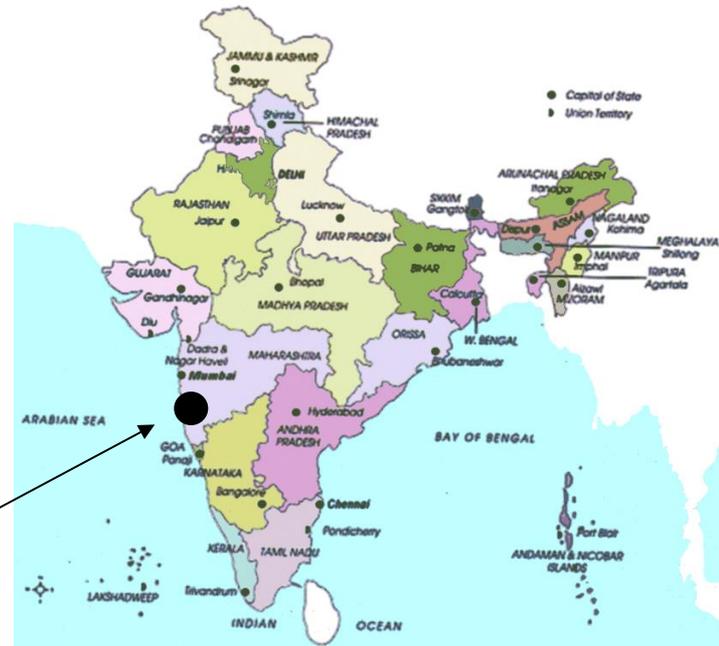


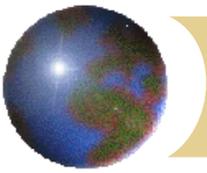


Enron in India

- ✿ 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

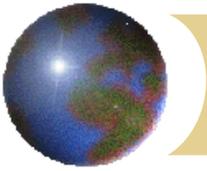




Enron in India

- ❖ 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.



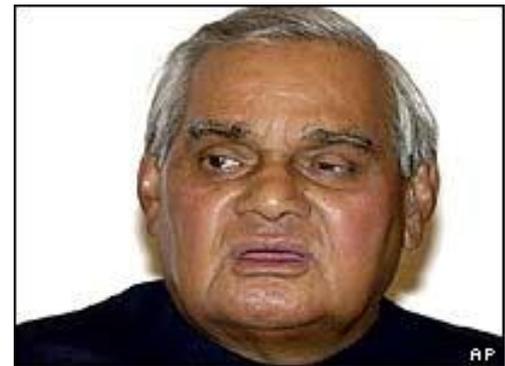


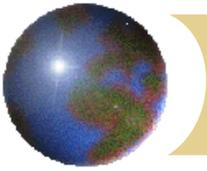
Enron in India

✚ Indian political situation.

✚ Congress Party was in political trouble.

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





Enron in India

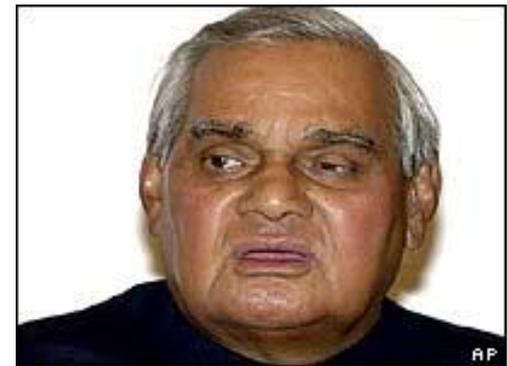
✚ Indian political situation.

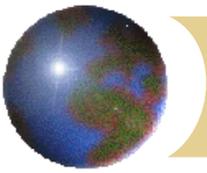
✚ Congress Party was in political trouble.

- 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.

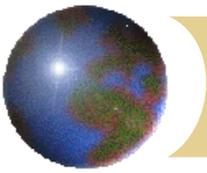




Enron in India

- ✦ 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.

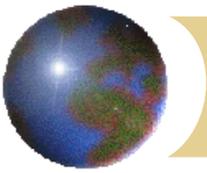




Enron in India

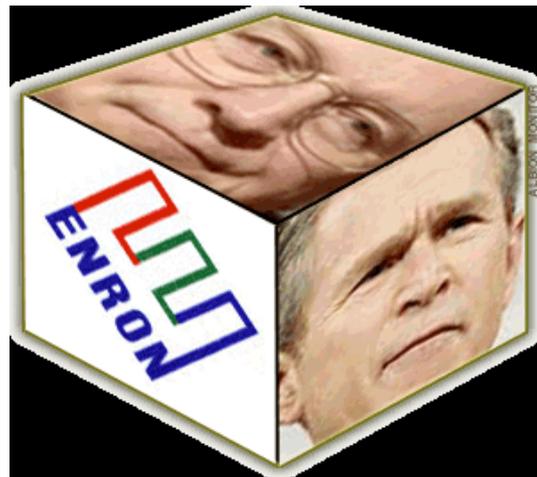
- ✚ Much public protest.
 - ✚ Amnesty International cited rough treatment of demonstrators.

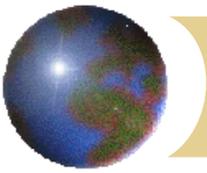




Enron in India

- ❖ 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.

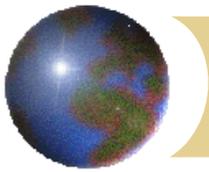




Enron in India

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



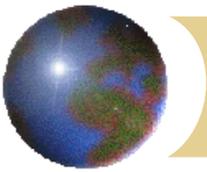


Enron in India

✚ The lesson:

- ✚ Work through connections in India's **relationship-based** culture.
 - Family, friends of family.
 - Contacts with high-ranking people.
- ✚ Bribery is corrupting.
 - Bribery of government officials is illegal.
- ✚ Bribes are different from facilitating payments
 - which are common, seen by bureaucrats as a necessary salary supplement.





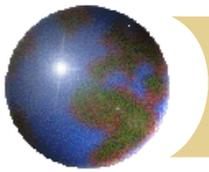
Nepotism

✚ Nepotism may or may not be corrupting.

- ✚ Nepotism = hiring or promoting your relatives.
- ✚ Often questionable in **rule-based** cultures.
 - May put an unqualified individual in the job
 - Viewed as unfair.
- ✚ May be functional in **relationship-based** cultures...



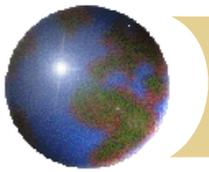
“Nepotism” is a polite way of saying
“you have no chance in hell of ever being promoted.”



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.





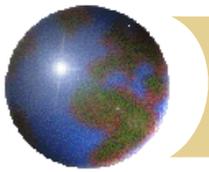
LKK in China

✦ 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

✚ Lesson

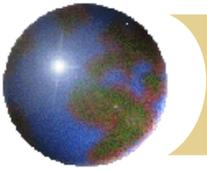
✚ **Responsible** nepotism:

- Hire relatives based on their loyalty to family and known talents

✚ **Irresponsible** nepotism:

- Hire relatives simply because they are relatives

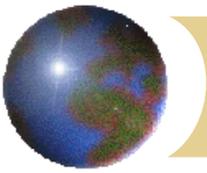




Wasta vs. Bribery

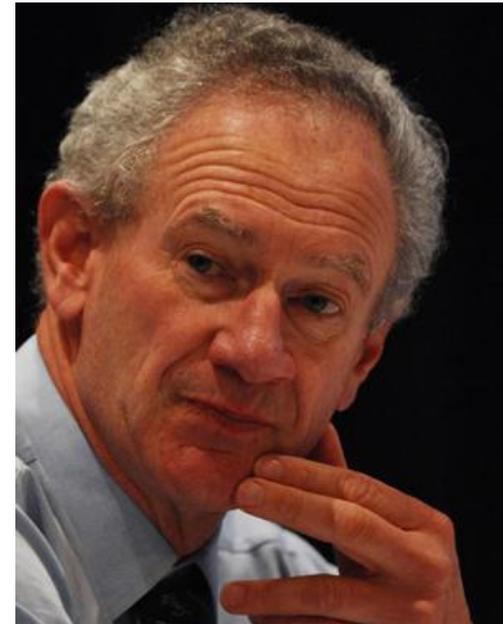
- ✦ The Middle Eastern practice of *wasta* can slip into bribery...
 - ✦ A story of 2 *wastas*...

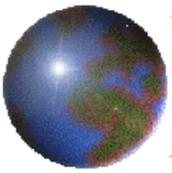




Leighton in Asia and Middle East

- ✚ 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.





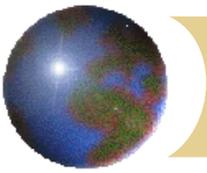
Leighton Timeline

✚ 2007

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

- To provide access to Gulf customers thru Riad **al Sadik** (left).
- So far, no problems.





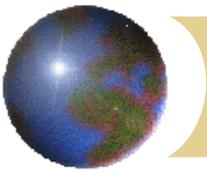
Leighton Timeline

✚ 2009

✚ Malaysian middleman Pakianathan **Srikumar** helps Leighton secure \$1 billion in projects.

- ...in Asia, Middle East, Iraq, India.
- He funneled **kickbacks** from Leighton to customers.
- Took a **10% cut** himself.
- According to a Leighton whistle-blower.





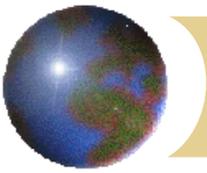
Leighton Timeline

✚ 2009

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

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



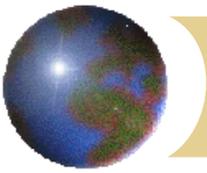


Leighton Timeline

✦ 2010

- ✦ Leighton International Managing Director David Savage forms new business venture while at Leighton.
 - **Srikumar** and **al Sadik** chip in \$2 million each and offer to find customers.
 - Venture starts up the day after Savage resigns from Leighton.





Leighton and Wasta

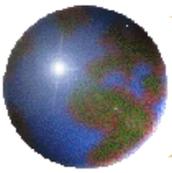
✦ *Wasta* is influence.

✦ 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.

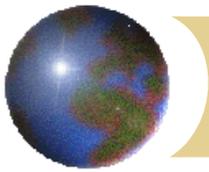




Leighton and Wasta

- ✦ *Wasta* need not be corrupt.
 - ▣ A *wasta* can screen requests judiciously for a sheik, important family, or government official.
 - Helps the sheik to exercise his power wisely.
- ✦ However, *wasta* can be corrupted...





Leighton and Wasta

✚ Lesson

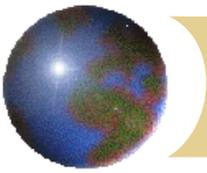
✚ **Responsible** *wasta*:

- Serves interests of a sheik
- Benefits from prestige and connections
- For example, **al-Sadik**.

✚ **Irresponsible** *wasta*:

- Serves his own interest
- Benefits from kickbacks
- For example, **Srikumar**.



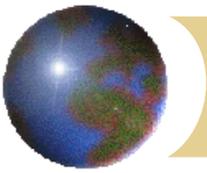


Celtel in Africa

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



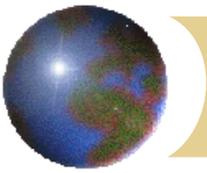
Terry Rhodes
Director



Celtel in Africa

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

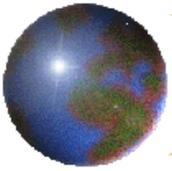




Celtel in Africa

- ❖ 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.

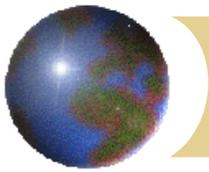




Celtel in Africa

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

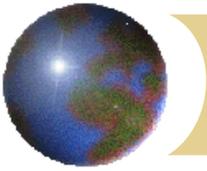




Celtel in Africa

- ✿ 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.



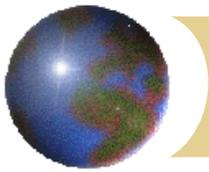


Celtel in Africa

✦ Lesson:

- ✦ In many **relationship-based** African cultures, bribery results from 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.

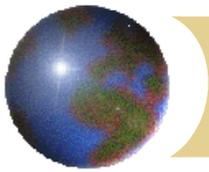




Supply Chain Ethics

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

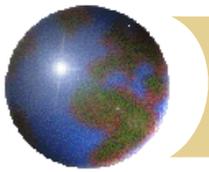




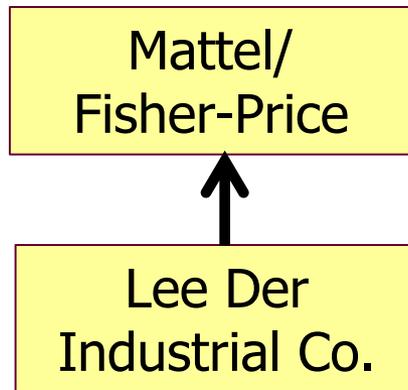
Mattel in China

- ❖ 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?



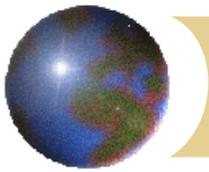


Mattel in China

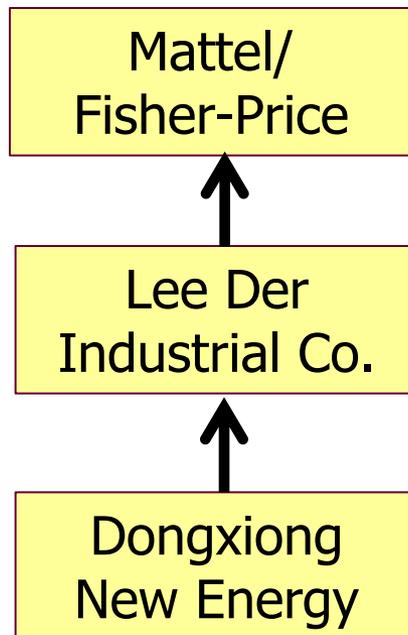


Fisher-Price sourced from Zhang Shuhong, manager of Lee Der Industrial Company. Zhang was totally dedicated to his job. He even lived in a small room at the factory.



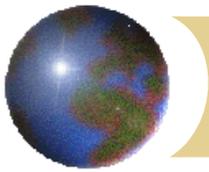


Mattel in China

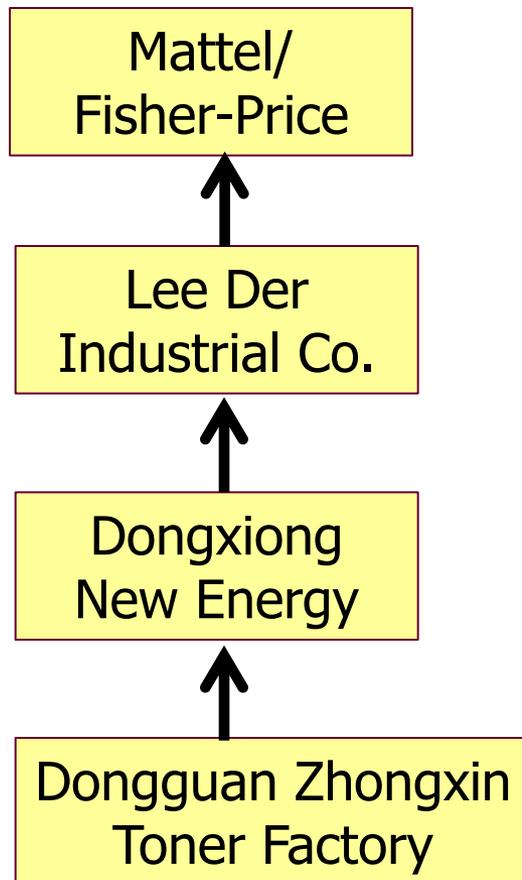


Zhang obtained paint from his trusted *guanxi* partner Liang Jiacheng at Dongxiong New Energy



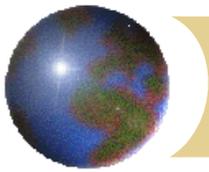


Mattel in China



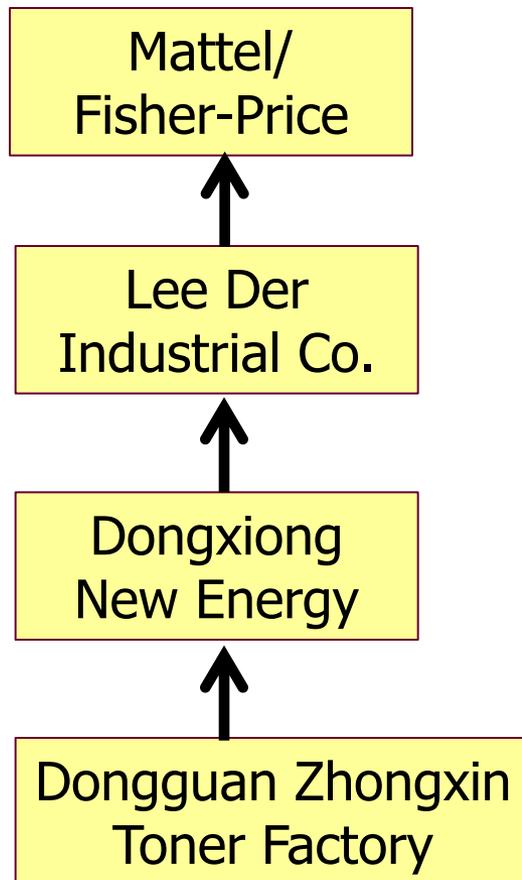
Liang was short of pigment and ordered it over the Web from people he didn't know.

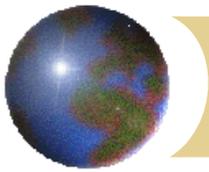




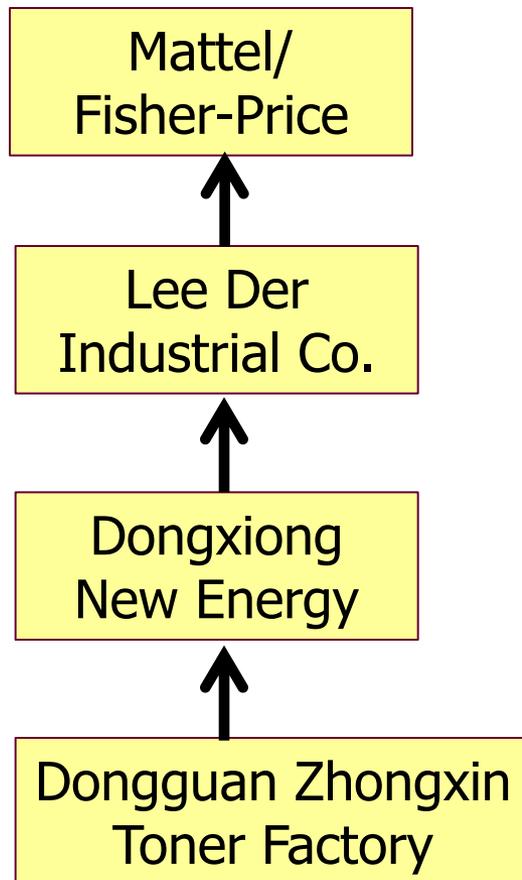
Mattel in China

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





Mattel in China



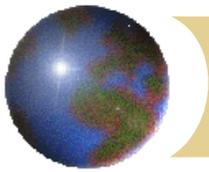
When Mattel discovered the problem, the Chinese government revoked Lee Der's export license. Zhang committed suicide.



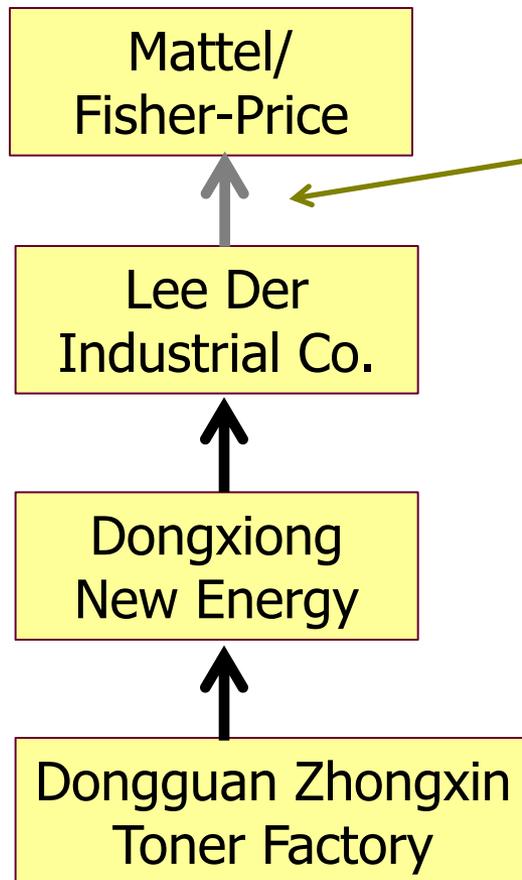
**Chinese Toy
Exec Commits
Suicide After
Recall**

China banned exports
from the company

Aug 13, 2007 7:59 AM CDT



Mattel in China

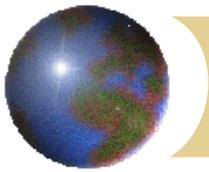


Weak link in the supply chain:

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/
Fisher-Price

Lee Der
Industrial Co.

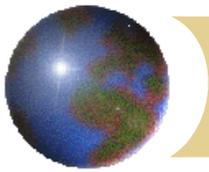
Dongxiong
New Energy

Dongguan Zhongxin
Toner Factory

Second link was OK:

Guanxi

Zhang's trust in Liang was culturally appropriate.



Mattel in China

Mattel/
Fisher-Price



Lee Der
Industrial Co.



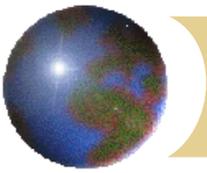
Dongxiong
New Energy



Dongguan Zhongxin
Toner Factory

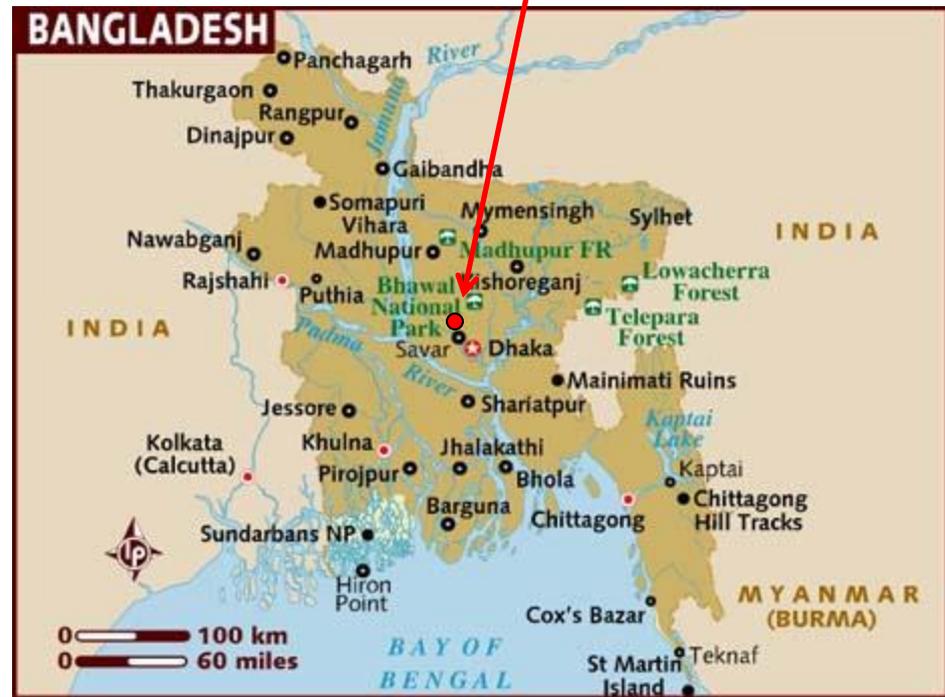
Chain broke at third link:

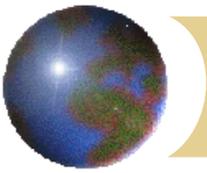
Culturally inappropriate trust of unknown party on the Web.



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.

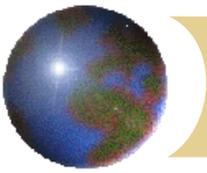




Apparel industry in south Asia

- ✿ 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.

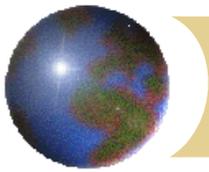




Apparel industry in south Asia

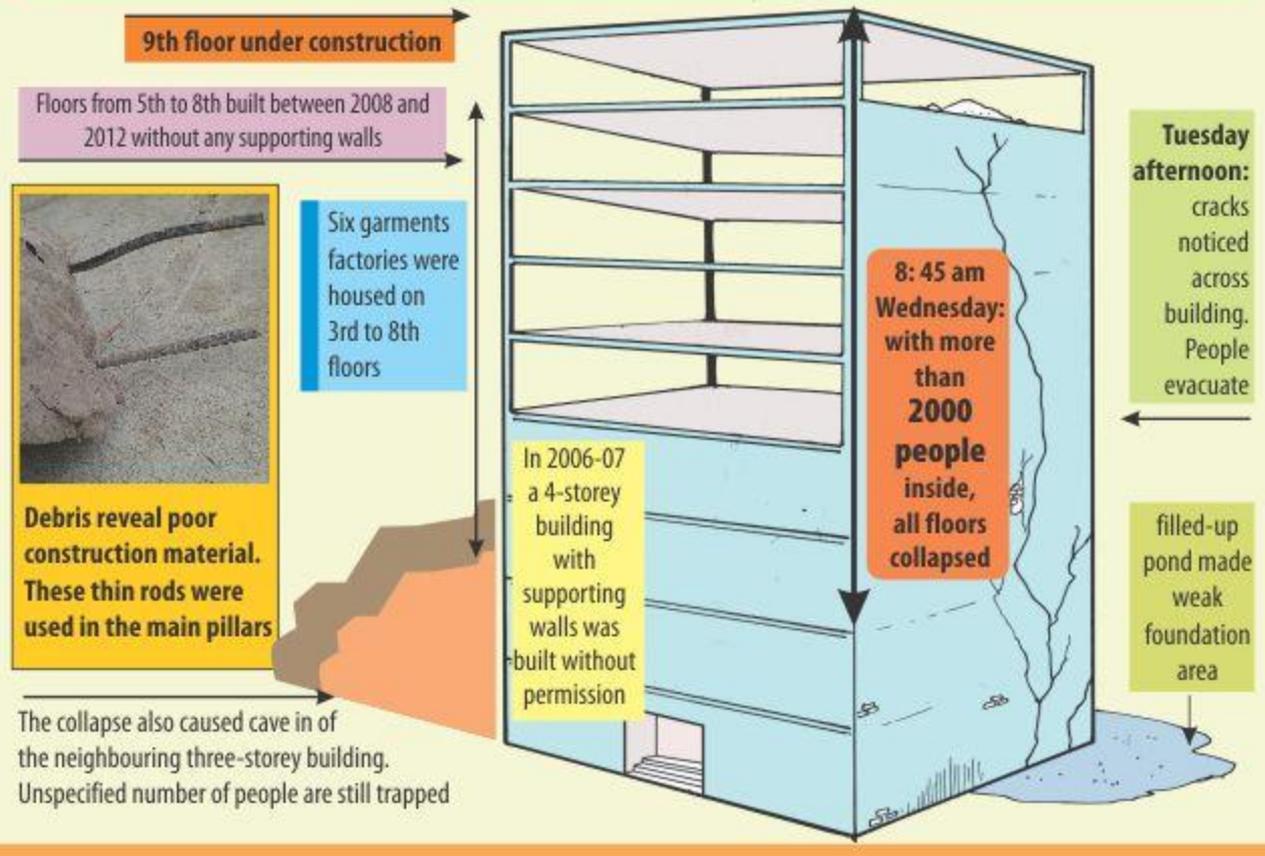
- ✿ At 8:45 am, the building collapsed.
 - ✿ 1129 workers killed, >2000 injured

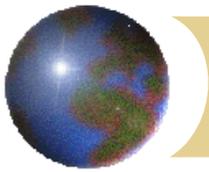




Apparel industry in south Asia

The House of Cards

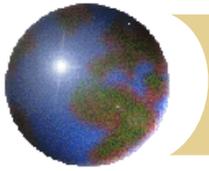




Apparel industry in south Asia

- ❖ 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



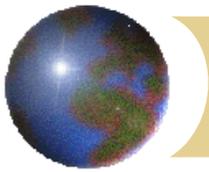


Apparel industry in south Asia

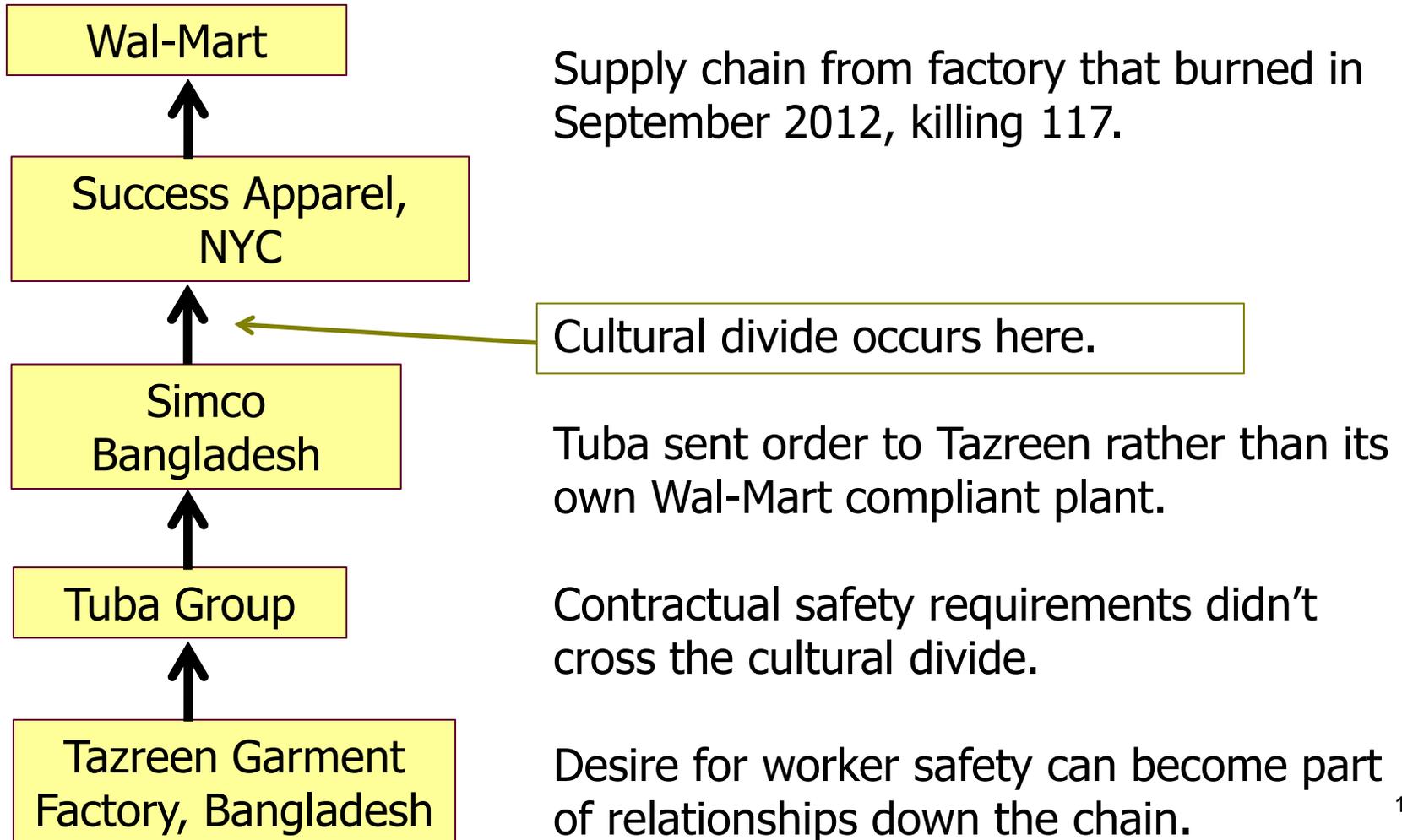
- ✦ Journalists found evidence in the rubble that Western firms were sourcing from these factories.
 - ✦ Most firms claimed they didn't know about it.

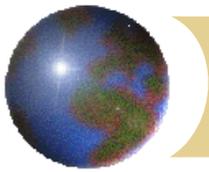


Calvin Klein

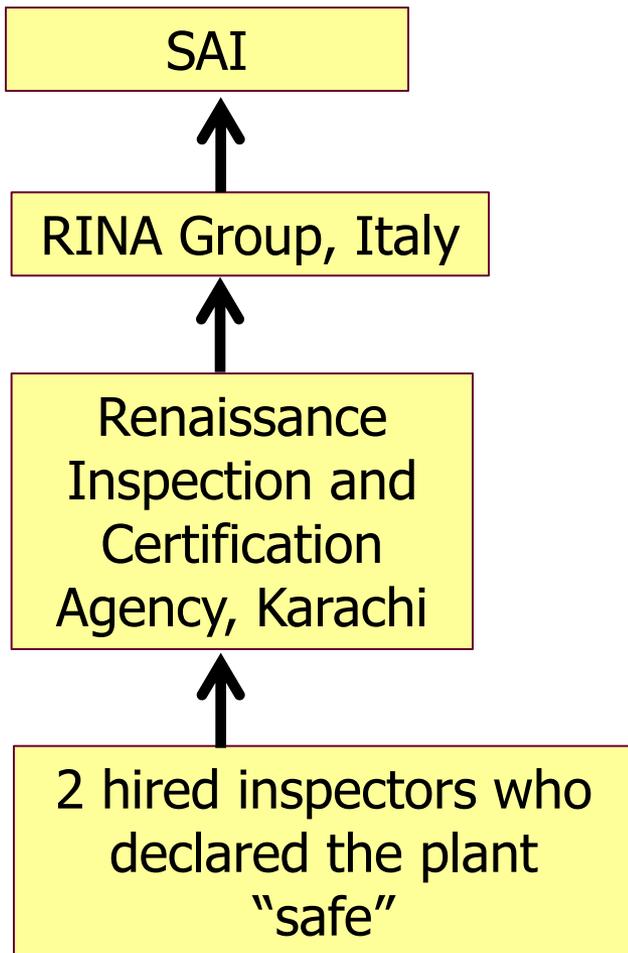


Apparel industry in south Asia





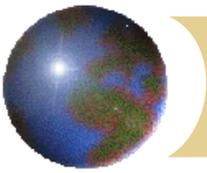
Apparel industry in south Asia



Third-party endorsement doesn't always work.

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

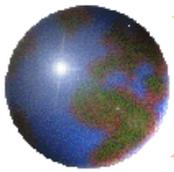
NGO endorsement is itself subject to supply chain problems.



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.





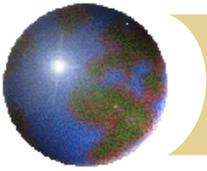
Apparel industry in south Asia

- ✚ 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?

