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
Rule-based = life is organized primarily by rules.

Australia, Europe, North America
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.**
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.

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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**.
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Shame and guilt

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

**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.
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Context

- In **low-context cultures**, information and behavior norms are spelled out.
  - Typical of rule-based cultures.
  - The rules are spelled out.

- In **high-context cultures**, these are implicit in the cultural context.
  - Norms are transmitted by the people around you.
  - Particularly authority figures.
In **low-context** cultures,

- There are many **signs**, timetables, maps.
- **Contracts** are written, long, and detailed.
  - Fixed once signed.
  - Disputes resolved by lawsuits.
- **People** expect the rules to be in writing.
  - Company policy, e.g. vacation
- **People pay attention to written rules.**
  - Example: restroom sign.
In **high-context** cultures,

- People already know what to do.
- **Contracts** are vague, verbal, or nonexistent.
  - Except in “low uncertainty tolerance” cultures, e.g. Latin America.
  - Agreements evolve with the situation.
  - Legal system weak.
  - Disputes resolved by negotiation.
- People **don’t pay attention to written rules**.
  - Expect personal correction, e.g. no smoking
  - But good for high-tech information transfer.
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Corruption around the world

Focus on corruption.

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

Corruption corrupts.
What is corruption?

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

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

Financial Crisis of 2008
Enron in India

The Dabhol electric power plant.

- India’s largest-ever private foreign investment.
- Bechtel & General Electric also involved.
**Enron in India**

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

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

“This 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.
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.
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.
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


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

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

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

Fax had requested $50K bribes for meeting.

Was sent to Amsterdam office that morning.
Celtel in Africa

- Celtel gave up on this country.
- ...but found ways to avoid bribery elsewhere.
  - Helped finance schools in lieu of payments to politicians.
  - Organized event to publicize coming mobile phones.
    - Consumers pressured politicians to issue permit without further delay... or bribes.
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?
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
Liang was short of pigment and ordered it over the Web from people he didn’t know.
The supplier send lead-based pigment along with a forged certificate.
When Mattel discovered the problem, the Chinese government revoked Lee Der’s export license. Zhang committed suicide.
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

Chain broke at third link:

Culturally inappropriate trust of unknown party on the Web.
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

9th floor under construction
Floors from 5th to 8th built between 2008 and 2012 without any supporting walls

Six garments factories were housed on 3rd to 8th floors

Debris reveal poor construction material. These thin rods were used in the main pillars

The collapse also caused cave in of the neighbouring three-storey building. Unspecified number of people are still trapped

In 2006-07 a 4-storey building with supporting walls was built without permission

8:45 am Wednesday: with more than 2000 people inside, all floors collapsed

Tuesday afternoon: cracks noticed across building. People evacuate

filled-up pond made weak foundation area
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.
Apparel industry in south Asia

- Wal-Mart
- Success Apparel, NYC
  - Simco Bangladesh
  - Tuba Group
  - Tazreen Garment Factory, Bangladesh

Supply chain from factory that burned in September 2012, killing 117.

Cultural divide occurs here.

Tuba sent order to Tazreen rather than its own Wal-Mart compliant plant.

Contractual safety requirements didn’t cross the cultural divide.

Desire for worker safety can become part of relationships down the chain.
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?