A Cross-Cultural View of Corruption

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Outline

- What is corruption?
- Corruption as culturally defined
- *Scenario:* Taiwan
- Relationships vs. Rules
- Efficiency vs. stability
Outline

- Scenario: Korea
- Bribery around the world
- Scenario: China
- Scenario: Kenya
- Ethics and human nature
What Is Corruption?

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

Rule-based vs. Relationship-based
Corruption as culturally defined

- What is **corrupt** here may be **acceptable** elsewhere.
- ...even **obligatory**
- What is **acceptable** here may be **corrupt** elsewhere.
- What is corrupt here **and** elsewhere may be corrupt **for different reasons**.
What is corrupt here may be acceptable elsewhere

For example: purchasing agent

Agent may award contract based on quality of the bids or based on personal connections.

Here, cronyism is corrupting.

Due to conflict of interest (company vs. agent)
What is corrupt here may be acceptable elsewhere

- In much of Asia (for example), cronyism is foundation for trust.
  - There is no conflict of interest.
  - Company wants trusted suppliers.
What is acceptable here may be corrupt elsewhere

Here, lawsuits are routine.
- Disputes are resolved by appeal to the rules.
- Assume individual responsibility.

In Japan, lawsuits are corrupting.
- They would undermine rather than restore harmony.
- Consider: airline crash; Shohei Nazawa of Yamaichi Securities.
What is corrupt here and elsewhere may be corrupt for different reasons

- Here, bribery is corrupt because it undermines the rules.
  - There must be a general expectation that people will obey the rules.

- In Confucian countries, bribery is corrupt because it undermines personal relationships.
  - It is a short-cut around relationship building.
Scenario: Taiwan

You are a manager in your company’s Taiwan branch.

- You meet with a team representing a potential Taiwanese supplier.

- When the team leaves, you notice that one of them left his briefcase.

- While looking for the owner’s name, you find the case to be full of cash.
Scenario: 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 routine in Taiwan but corrupting nonetheless.
  ❖ Much like **litigiousness** in the USA.
  ❖ Why are they corrupting?
Scenario: Taiwan

Chinese/Taiwanese business is based largely on family and/or guānxì relationships.

- Guānxì is Mandarin Chinese for "connection" or "relationship."
- Guānxì develops by doing mutual favors and building mutual obligations.
- The favors are not quid pro quo. They cement the relationship.
Scenario: Taiwan

Guānxì provides a basis for long-term trust relationships.

- It is uncivilized to renege on guānxì.
- Given a proper relationship, one’s word is his bond.
- Legal enforcement is irrelevant.
Scenario: Taiwan

Bribery short-cuts the process of building guānxì.

- Relationship-based systems tend to slide into bribery.
  - As rule-based systems can slide into litigiousness.

- Bribery/kickbacks do not provide the stable, long-term relationships required by a complex civilization.
Scenario: 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.”

Bribery is corrupting in the West, but for a different reason.
- It undermines the assumption that people are playing by the rules.
Scenario: Taiwan

What to do about the briefcase?

Send a trusted subordinate to return the briefcase to the owner.

Send a vaguely worded message to the owner’s boss, stating that you are returning lost property.

- The owner clearly got the cash from his boss.
- You don’t want him to keep it, leaving his boss with the impression you accepted the money.
Relationships vs Rules

- Cultures may be rule based or relationship based.
- Rule based = conduct regulated by internalized obedience to rules (guilt).
- Relationship based = conduct regulated by direct supervision by authority figures with whom one already has a relationship (shame, loss of face).
Rule-based investment

Investment decisions are made on the basis of public information.
- Provided by accountants who follow GAAP.
- Based on transparency.

Improper accounting corrupts.
- Undermines trust in the system.
**Relationship-based investment**

- Investment is through **people** you trust, rather than a **system** you trust.
  - It can be an insult to ask to see the financials.
    - It means you don’t trust your business partner.
- **Investment is often family-based.**
  - “Asian” financial crisis.
Rule-based negotiation

Negotiation is a **poker game**.
- You can bluff, etc., but within the rules.
- It doesn’t matter much who the people are.
  - Aside from their skill at playing the game.
  - Or whether they are known cheaters.

Appeals to logic and fairness/efficiency principles.
- See *Getting to Yes.*
Rule-based negotiation

- You can negotiate with strangers and have a deal by lunchtime.
- The aim of negotiation is a **contract**.
  - The contract is enforced by a legal system.
Relationship-based negotiation

There is no framework of rules.

The other party is friend or foe.

- If a friend, there is no formal negotiation.
- If a foe, negotiation is war, with no Geneva convention.

There is no neutral ground.
Relationship-based negotiation

“Friend” has different meanings in different cultures:
- Mexico – emotional bond
- China – guānxi
- Japan – old college buddy
- Indonesia – political crony (perhaps)
- India – extended family member (perhaps)
Relationship-based negotiation

- Negotiation with a friend.
  - A “friend” is someone with whom you have a personal trust relationship.
  - There may be no need for across-the-table negotiation.
    - In Confucian cultures, the very idea of negotiation is problematic because it disrupts harmony.
  - The relationship develops if there are mutually beneficial business possibilities; it may fade otherwise.
Relationship-based negotiation

- There may be no discrete “deal.”
  - Or if there is, it is constantly subject to revision as circumstances change.

- Enforcement is based on the flesh-and-blood relationship.

- Both parties invest in the relationship, in one way or another.
  - Emotional investment (Mexico).
  - Exchange of favors (China).
  - Honor, old boy connection (Japan).
  - Side payments (Korean government officials).
Efficiency vs. stability

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

But it is **unstable**.
- Relies on structured and predictable political/legal environment.
  - Western-style business collapsed in Eastern Europe.
  - Impossible in much of Latin America.
- Vulnerable to accounting scandals.
Efficiency vs. stability

- Relationship-based business is slow but can be very stable.
  - Built great civilizations.
  - Survived 1000s of years of political upheaval in China (oldest living civilization).
**Scenario: Korea**

- Your accounting firm wishes to set up operations in Korea.
  - You need a number of permits from the government, but one of them never comes through.
Scenario: Korea

- A local consultant, who has worked satisfactorily for you before, offers to take care of this problem.
- When you ask how, he confides that he will hand his government contact a white envelope – with money inside.
- His consulting fee will include an unitemized allowance for the payment.
Scenario: Korea

Related scenario:

- Your applications for customs clearance never seem to get through the authorities at the airport.
- Your Korean counterpart offers to take care of this in a similar way.
Scenario: Korea

The ethical issue.

One can argue that the success of the Korean business system relies on “special relationships” between business and government officials.

- This is not a rule-based system.
- There must be some mechanism to encourage people to abide by the government’s economic regulations.
Scenario: Korea

- One expensive and onerous mechanism is police power.
- Another is to require business people to “invest” in their relationships with government officials.
  - The business person has an incentive to go along with the official’s wishes in order to preserve a costly relationship, thus allowing the government to enforce its will.
  - Government officials have an incentive to cooperate with business people, to get the money.
Scenario: Korea

- Since the practice can get out of hand, it is loss of face to be exposed in bribery.
- Analogous to illegal parking in the USA: a certain amount of it is necessary.
- Journalists sometimes take bribes from a government official in exchange for not exposing his receipt of bribes.

On this argument, paying the bribe (indirectly) is not a form of corruption.
**Scenario: Korea**

**Is it legal?**

- The U.S. Foreign Corrupt Practices Act forbids bribery of foreign government officials.
- The Act distinguishes bribery, extortion, and facilitating payments.
  - Only bribery is illegal under this Act.
Scenario: Korea

Is the Korean payment legal under U.S. law?

- Ask your lawyer.

Note that the host country may have anti-corruption laws.
Bribery Around the World

China/Taiwan.

- Bribery is common in some contexts.
- It is corrupting because it undermines more stable forms of relationship, such as guānxì.
- In mainland China, possible severe penalty (e.g., death) for bribing government officials.
  - Bribery erodes centralized government power.
Bribery around the world

South Korea.

- Bribery **routine** in some contexts.
- Sometimes functional, if kept within limits.
- Exposure brings **loss of face**.
- Should be handled by locals.
Bribery around the world

Japan.

- Scandals periodically come to light.
- Bribery is corrupting because it undermines group solidarity.
Bribery around the world

Singapore.

- Bribery is strictly forbidden and not practiced.
- **Rules** enforced by public acceptance of authoritarian government.
Bribery around the world

India.

- Bribery and skimming are fairly common, facilitating payments ubiquitous.
- **Facilitating payments** supplement inadequate salaries. Bureaucrats may view them as just.
- **Bribery** (influence peddling) widely seen as wrong.
Bribery around the world

- System can rely on networking and family connections and should not need bribery.
- Bribery corrupts quasi-Western public administration.
- Bribery should be avoided whenever possible.
Bribery around the world

Russia/Eastern Europe.

Bribery is common but an unmitigated evil. It is a symptom of system breakdown. Better to use corporate clout, connections, and pro bono activities; maintain a clean reputation.
Bribery around the world

Arab countries.
- Much local variation.
- **Kickbacks** are common, sometimes written into the contract.
- Hard to make ethical judgments, due to local conditions and mixing of cultures.
Bribery around the world

- Turkey.
  - Small bribes very common, in business and personal life.
    - People find them very irritating.
  - Bribes undermine quasi-Western administration.
    - For example, construction standards.
  - Companies should avoid bribery when possible.
  - Small personal bribes may be necessary.
    - Traffic ticket, getting children into a good school, clearing customs, etc.
Bribery around the world

Subsaharan Africa.

- Bribery is widespread and out of control.
- It severely damages the economy.
- It is a corruption of the **ancient patronage system** of accountability.
- Represents total system breakdown, due to historical encounter with the West.
- Companies should use any means available to avoid paying bribes.
Bribery around the world

- Latin America.
  - Bribery is common but not ubiquitous.
  - The system can rely on other kinds of relationships.
  - Bribery is widely regarded as immoral, even by those who do it.
  - Companies should rely on **personal connections** and avoid paying bribes.
    - They should make it known that they work only with locals who play it clean.
Scenario: China

You are in Shanghai to complete arrangements for a joint venture.

Your Chinese counterpart has proposed several persons for top executive positions.

They include his son-in-law, his brother, his nephew, etc.

Should you object?
Scenario: China

Nepotism can be a positive factor in Confucian cultures.

- In the West, the boss tends to go easy on relatives.
- In Confucian cultures, the boss (patriarch of the family) exercises greater authority over family members than others.
  - Also knows their strengths and weaknesses.
Scenario: China

More fundamentally, the family is the foundation of Confucian culture.

Children support parents/grandparents in old age, parents get jobs for children.
Scenario: Kenya

You run a book shop in Nairobi.

- Tomorrow is the deadline for a proposal you wish to submit for a government contract.
- You want to pitch in to help your employees make photocopies.
- Your employees resist your effort and insist that they can take care of it
  - In fact they will almost certainly miss the deadline.
Scenario: Kenya

Your sense of equality encourages you to try to convince the staff that you are “one of them.”

This is admired in USA, Australia, etc., but not in most of the world.
Scenario: Kenya

Attempts to promote equality violate the norms of an authoritarian culture.

- Subordinates lose respect for the boss.
  - In Africa, they also resent invasion of their turf.

- Authority is not earned by individual merit.
  - It is endowed by circumstances (family, appointment, mandate of heaven, etc.)
  - Your duty is to accept your role.
Scenario: Kenya

- However, leaders are traditionally held accountable to the group.
  - Collective bargaining and strikes are widespread.
  - One should negotiate seriously with union representatives.
Ethics and Human Nature

Cross-cultural ethics ultimately reflects different interpretations of human nature.

*Western view:* human beings are autonomous rational individuals.

Whence the central role of equality and rationality in ethics, emphasis on individual responsibility.
Ethics and human nature

Confucian view: human beings surrender much of their autonomy to parents, ancestors, the emperor, etc.

- We are creatures defined by relationships rather than autonomous rational beings.
- Whence the central role of authority, saving face, placing responsibility on the ruler rather than the individual.
- Confucian cultures: China, Taiwan, Japan, Korea, Vietnam; subcultures of Singapore, Indonesia, Malaysia, etc.
Ethics and human nature

- **African view (other cultures as well):** the basic unit of human existence is the **community**, not the individual.

- **Many traditional cultures:** there is no fundamental difference between human beings and other animals.

- **Hindu/Buddhist view:** human beings are not separate entities but manifestations of a **single consciousness** (*atman*).