

Corruption from a Cross-Cultural Perspective

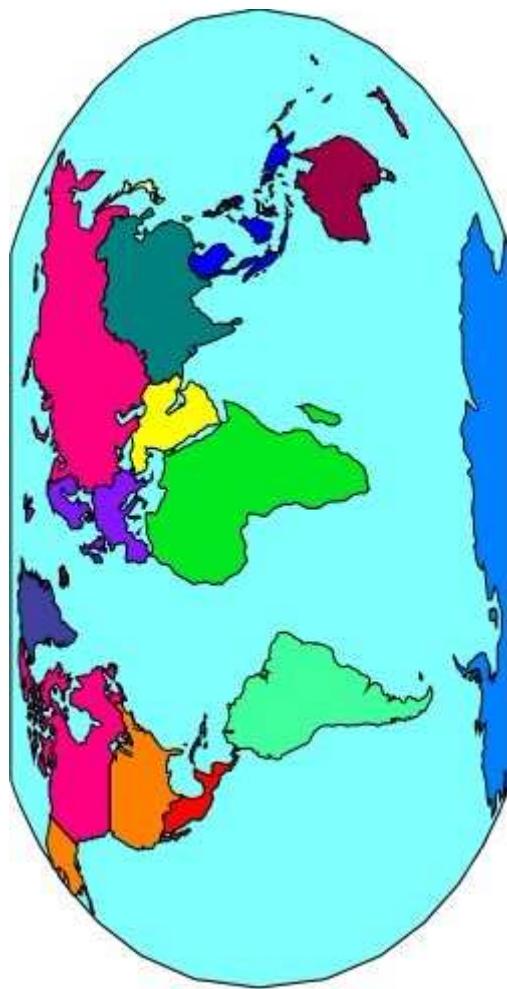
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March 2010



Caveats on culture...

- Every culture is different.
 - Any brief discussion vastly oversimplifies.



Caveats on culture... .

- I am not stereotyping individuals in a culture.
 - Every culture has the full range of personalities.
 - Cultures differ on how these personalities fit into a system.
 - Cultures are like ecosystems.



Caveats on culture... .

- I make no judgments about which culture is “better.”





Obligation to another culture

- Most cultures have norms for dealing with other cultures.
 - Even the West does, despite its universalism:
 - Avoid action that, if generally adopted, would **undermine** a cultural system it **presupposes**.



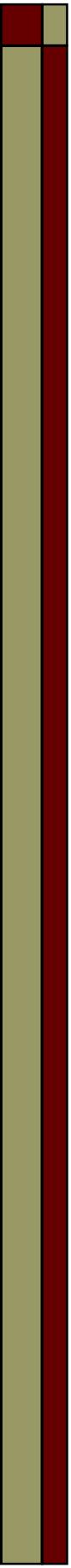
What is corruption?

- Corruption **corrupts**.



What is corruption?

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- It undermines the system.

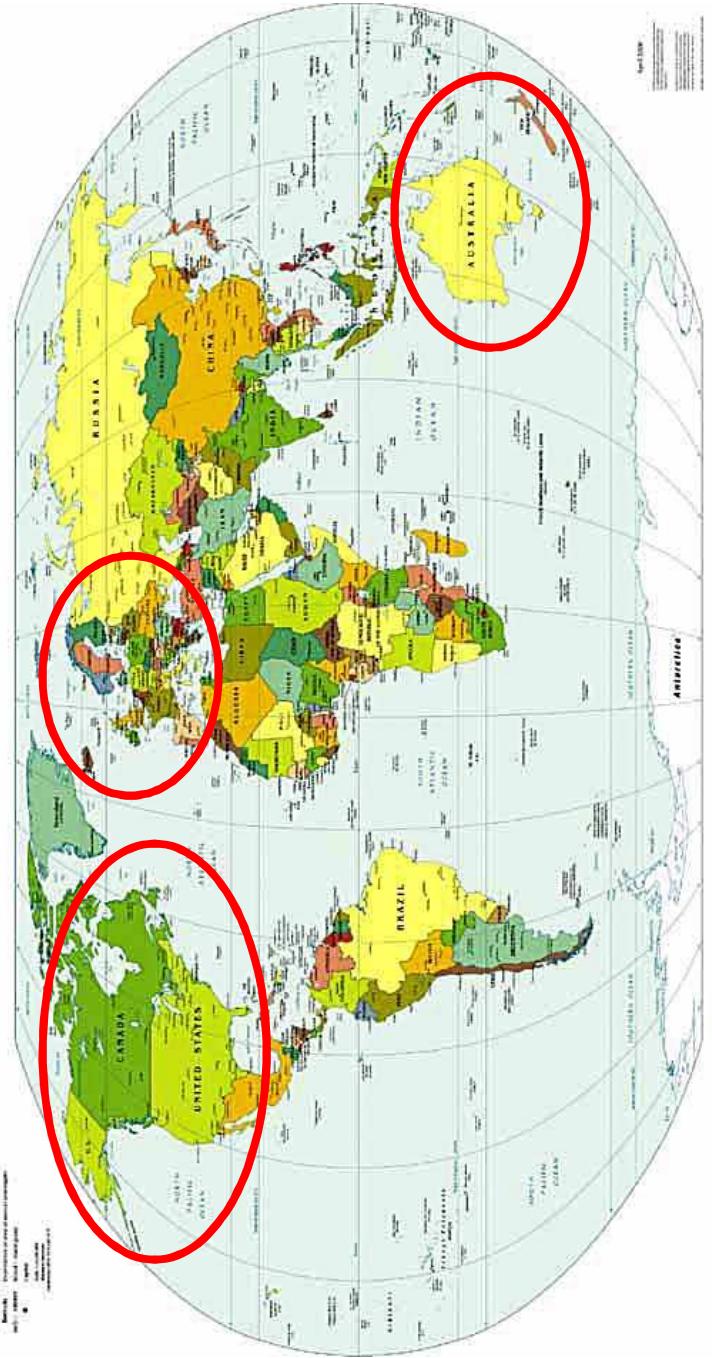


What is corruption?

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

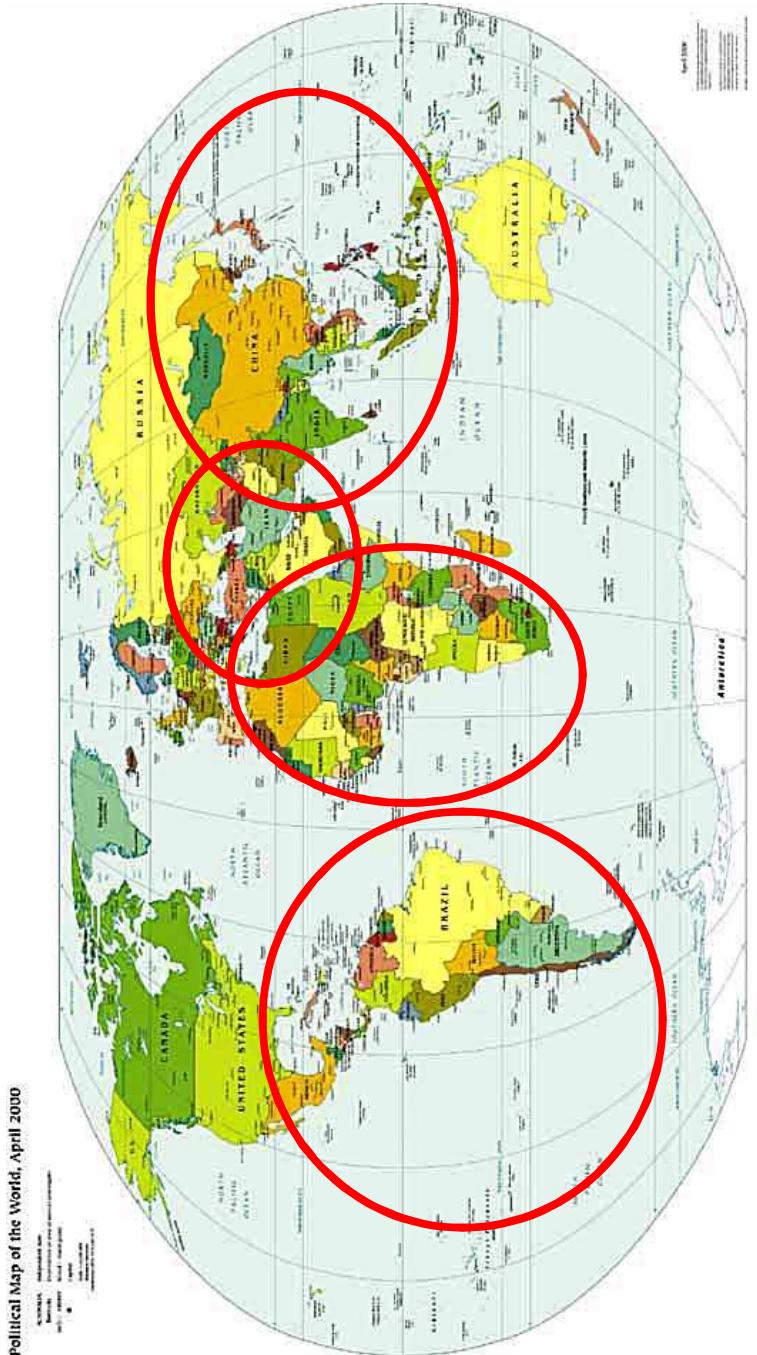
Cultural systems

- *Rule-based* = life is organized primarily by **rules**.
 - Australia, Europe, North America



Cultural systems

- *Relationship-based* = life is organized primarily around **personal relationships**.
- Africa, Asia, Middle East, South America



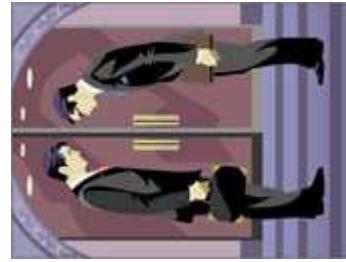
Corruption as culturally defined

- 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)



Corruption as culturally defined

- In much of Asia (for example), cronyism is foundation for trust.
 - There is **no conflict of interest**.
 - Company wants trusted suppliers.



Corruption as culturally defined

- What is *acceptable* here may be *corrupt* elsewhere
 - Here, lawsuits are routine.
 - Disputes are resolved by **appeal to the rules.**
 - Assume **individual responsibility.**

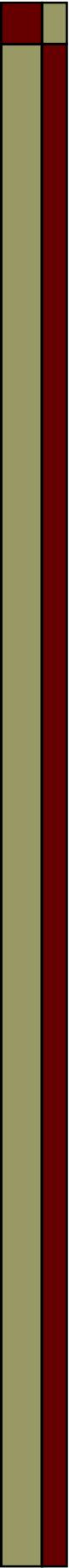




Corruption as culturally defined

- In Japan, lawsuits are corrupting.
 - They would **undermine rather than restore harmony.**
 - Yasumoto Takagi of Japan Airlines
 - Shohei Nazawa of Yamaichi Securities.
- Moving to another firm in mid-project.





Corruption as culturally defined

- 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 relationship-based countries, bribery is corrupt because it **undermines personal relationships.**
 - It is a short-cut around relationship building.

Kodak in Taiwan

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



Kodak in Taiwan

- U.S. manager was posted in Kodak's Taiwan branch.
 - He met with a team representing a potential Taiwanese supplier.
 - When the team left, he noticed that one of them left his briefcase.



Kodak in Taiwan

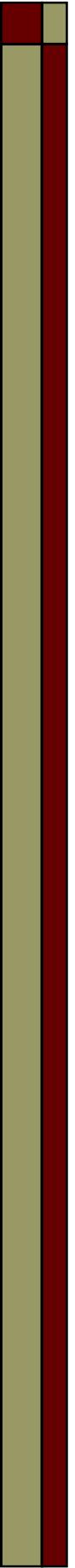


- While looking for the owner's name, he found the case to be full of cash.



Kodak in Taiwan

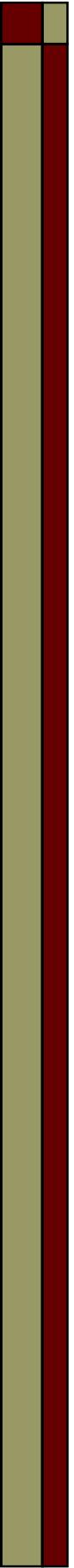
- At least they are **offering** a bribe instead of demanding one.
 - In some industries, you can't get your foot in the door without paying someone off.



Kodak in Taiwan

- At least they are **offering** a bribe instead of demanding one.
 - In some industries, you can't get your foot in the door without paying someone off.

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



Kodak in Taiwan

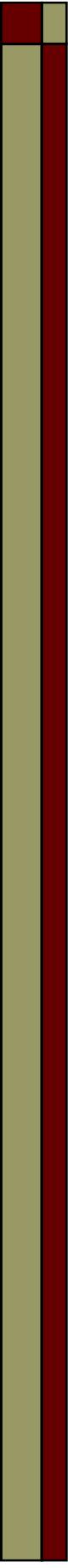
- Chinese/Taiwanese business is based largely on family and/or *guānxì* relationships.
 - *Guānxì* is Mandarin Chinese for “connection” or “relationship.”
 - *Guānxì* develops by doing mutual favors and building mutual obligations.
 - The favors are **not** quid pro quo. They cement the relationship.

关系

Kodak in 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.





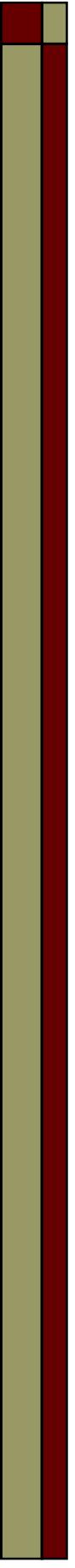
Kodak in Taiwan

- Bribery **short-cuts** the process of building *guānxì*.
 - Relationship-based systems tend to slide into bribery.
 - As rule-based systems can slide into cheating.
 - Bribery/kickbacks do not provide the stable, long-term relationships required by a complex civilization.

Kodak in Taiwan

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





Kodak in Taiwan

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

Kodak in Taiwan

- Cronyism ≠ bribery
 - **Responsible** cronyism is not corrupting.
 - Can be advantageous in Confucian culture.
 - Problematic in government
 - Chinese civil service exams.
Han Dynasty,
> 2000 years ago.



Efficiency vs. Stability

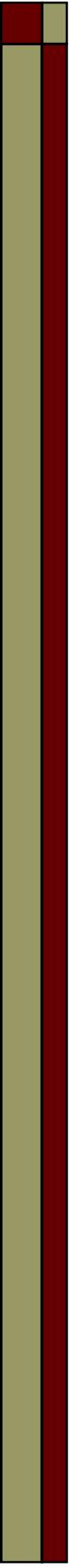
- Bribery is a natural **weakness** of relationship-based cultures.
 - It is a shortcut to relationship building.



Efficiency vs. Stability

- Cheating is a natural **weakness** of rule-based cultures.
 - More reliance on guilt and respect for rules than supervision.





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 functional political/legal environment
 - Vulnerable to unethical behavior – e.g., financial crisis

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)..





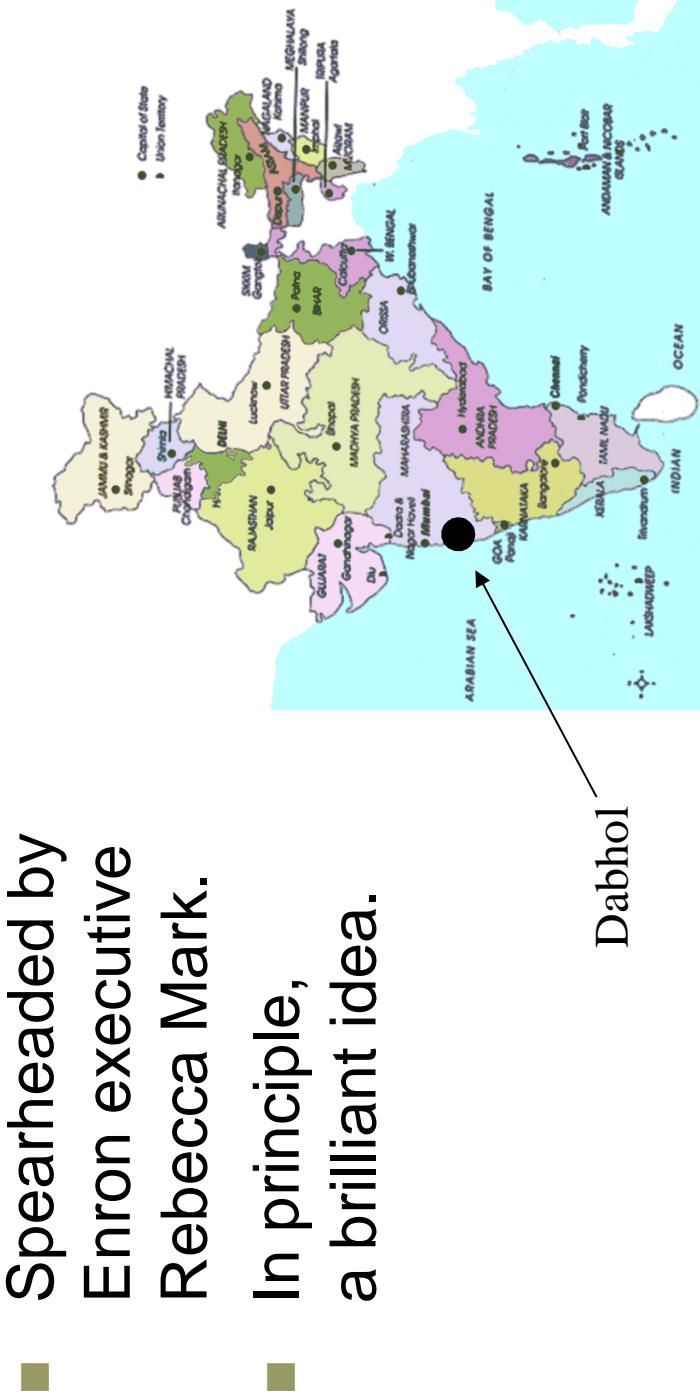
Enron in India

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



Enron in India

- Located at Dabhol in Maharashtra State (1992).
- Addressed growing Indian economy & unreliable electricity supply.



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.
 - Her flamboyant manner attracted media attention.





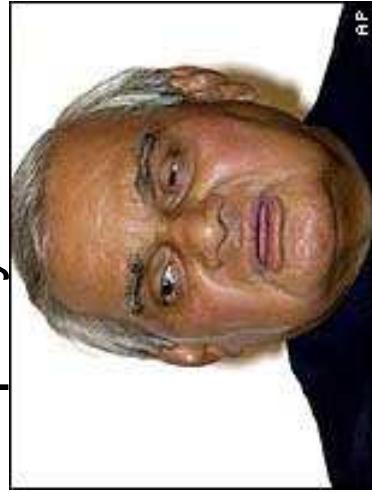
Enron in India

- 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 mosque at Ayodhya in 1992, with backing from A. B. Vajpayee and BJP. Riots result in 2000 deaths.
 - BJP comes to power in 1998, with Vajpayee as P.M.



Enron in India

- 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 Raghuvan Dhar reported Enron’s offer of \$1 million per year for him to keep quiet.
- Enron played into BJP’s hand.





Enron in India

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





Enron in India

- Indian government backed off from deal after BJP took power.
- Bush administration pressured India
 - Visits from Dick Cheney, Colin Powell.
 - Dropped the matter after 9/11, Enron troubles.



Enron in India

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



Enron in India

- Power plant sat mostly idle until 2009.
- Being brought online slowly by Indian government.

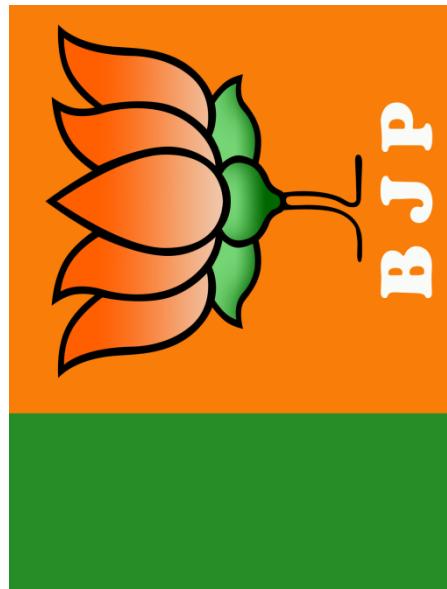




Enron in India

□ Lessons

- Bribery in the sense of influence peddling is corrupt.
 - Even if it is rather frequent.
 - “Facilitating payments” require a different analysis.
- Understand the political and cultural situation.





Enron in India

- How to get things done
 - Work through connections
 - Family, friends of family.
 - Contacts with high-ranking people.





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

- LKK

- Lee Man Tat is group chairman.
 - Appointed 4 sons to head company divisions.
 - Seeks professional managers who are “culturally attuned to the firm and to family as CEOs of its divisions”



LKK in China

LKK

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



"Luck, son, is when preparation meets nepotism."

Nortel in Canada

- Nortel Networks
 - Bill-and-hold transactions.
 - Customer takes delivery next quarter.
 - Nortel records revenue this quarter.
 - For purpose of **income smoothing**.



Nortel in Canada

- Nortel Networks
 - GAAP conditions for bill-and-hold
 - Legitimate business reason.
 - Customer requests it.
 - Nortel offered incentives to customers...
 - To request bill-and-hold in writing.
 - E.g., discounts.





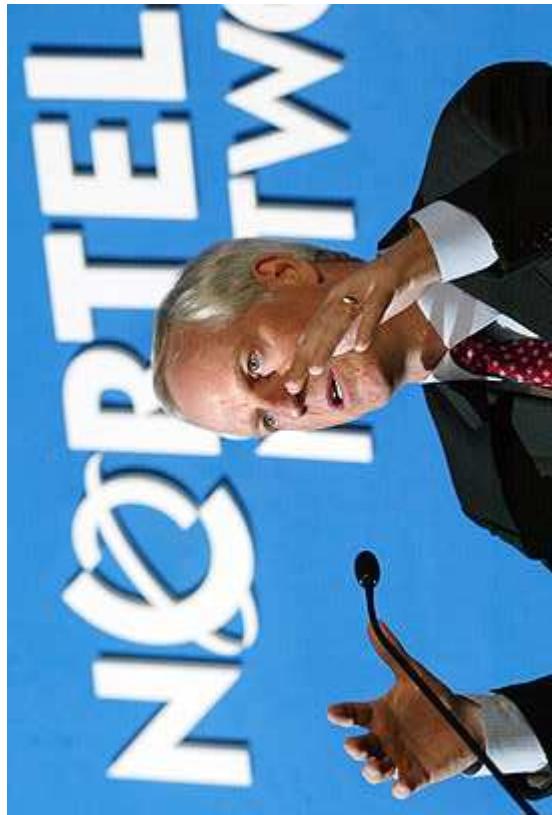
Nortel in Canada

- Accounting fraud
 - Lack of **transparency** is corrupting
 - Family-based business is culturally infeasible in much of the West
 - Families are too weak to withstand stress.
 - Must therefore do business with strangers.
 - Requires transparency.
 - This is the purpose of accounting.



Nortel in Canada

- A case of light supervision
 - Executives arrested June 2008, but...
 - Perhaps only because of egregious violations over years.
 - Nortel filed for bankruptcy in January 2009.



Frank Dunn, former Nortel CEO

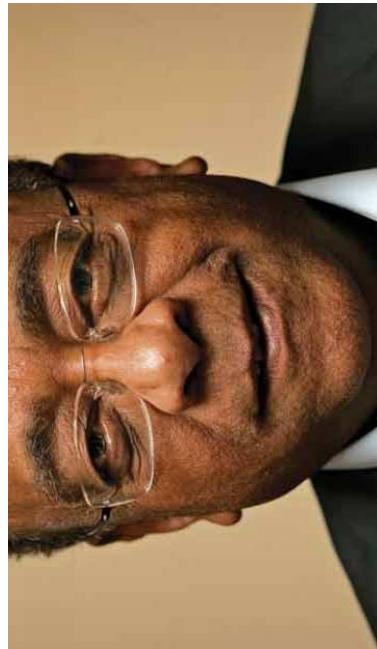


Celtel in West Africa

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



Terry Rhodes
Director





Celtel in West Africa

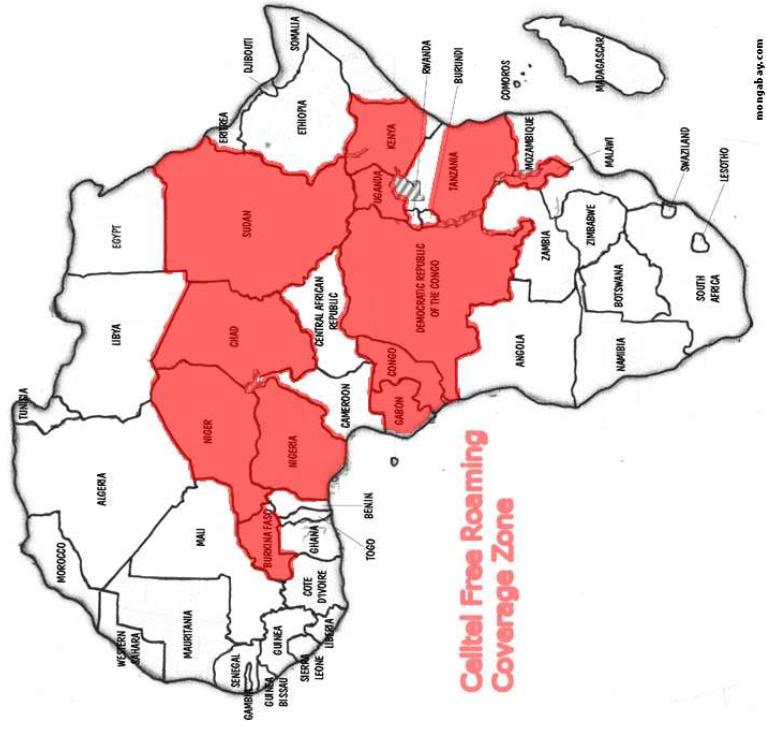
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 - Purchased \$750K operating license, approval bogged down.



Celtel in West 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 West Africa

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





Celtel in West Africa

-
- Bribery represents corruption of village leadership customs.
 - Rational redistribution of wealth through leader's patronage.
 - Undermined by migration of men from villages.



Scenario: Middle East

- MBA student in Turkey.
 - Payment demanded at passport control.
 - Not actually corrupting.
 - Other bribes may be corrupting.





Scenario: Middle East

- *Wasta* in the Middle East
 - Authority of *sheikhs*.
 - *Wasta* as access to influential people.
 - Good *wasta* and bad *wasta*



Scenario: Korea

- Permit for U.S. accounting firm.
 - Consultant offers to deliver a “gift.”



Scenario: Korea

- Permit for U.S. accounting firm.
 - Consultant offers to deliver a “gift.”
- Cultural role of gifts.
 - Token of gratitude.
 - Wedding or condolence.





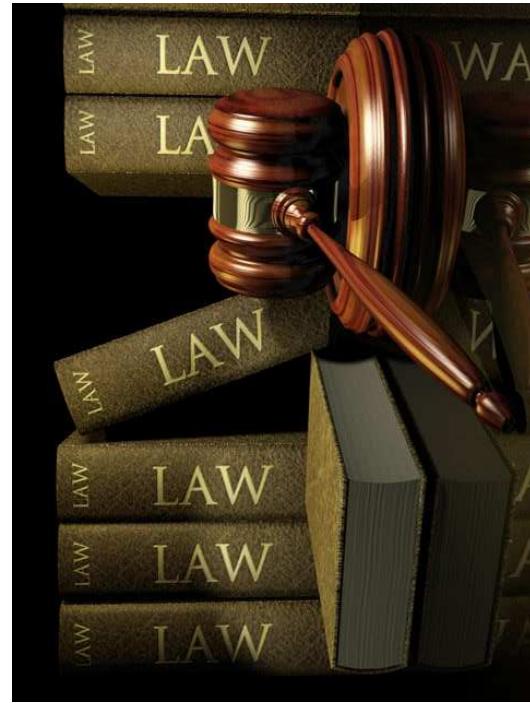
Scenario: Korea

- Regulation and *chaebol*.
 - Gifts as cementing a relationship between business and regulator.



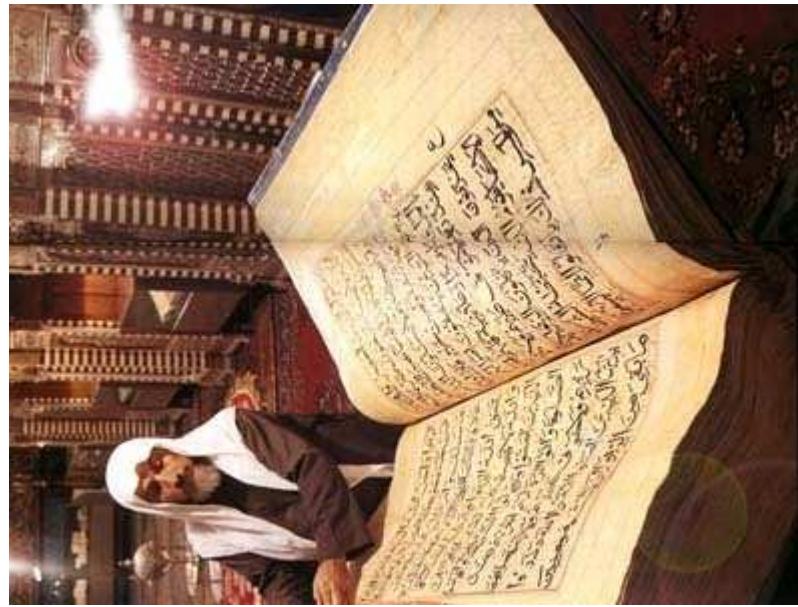
Ethics and personhood

- Western cultures
 - Humans are rational, autonomous individuals.
 - No individual can have inherent authority.
 - Focus on justice, equality
 - Rules must have authority because they are reasonable.
 - Universality of reason.



Ethics and personhood

- Middle Eastern cultures
 - Monotheism.
 - World is secular, which gives permission to manipulate nature.
 - One God implies that God's law must be universal.
 - Relationship-based, but well developed legal tradition.



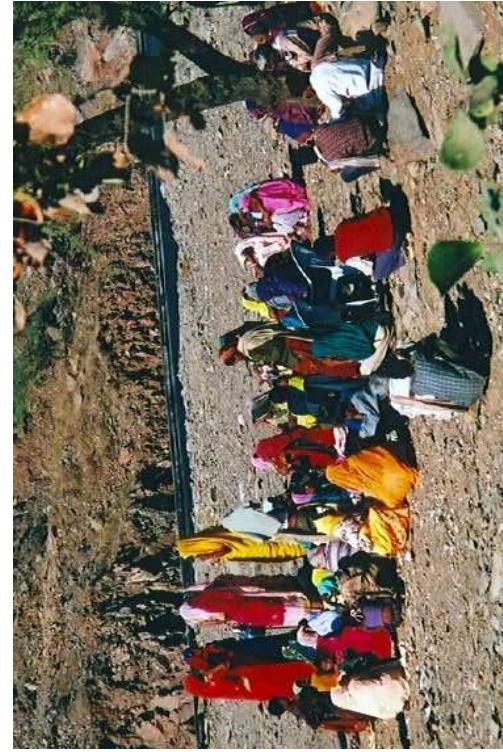
Ethics and personhood

- Confucian cultures
 - Personhood is defined by relatedness to extended family.
 - Personal authority and saving face.
 - Non-family relations based on *guānxì*.
 - Duty to family and friends.
 - Stable, nontransparent system.
 - Justice secondary.



Ethics and personhood

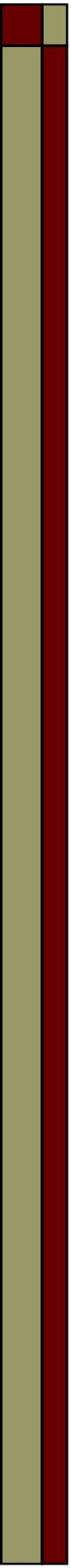
- Many African cultures
 - Unit of human existence is the community.
 - Individual welfare inseparable from communal welfare.
 - Redistribution of resources, perhaps by chief.
 - Seen as dysfunctional today, but may offer lessons in communal culture.



Ethics and personhood

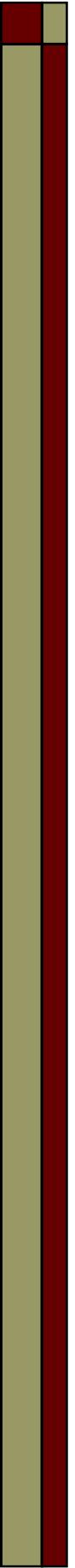
- Hindu culture
 - Humans are defined by connectedness.
 - Unity of *brahman/atman* is refined expression.
 - Ideal is imperfectly realized in networking.
 - Project:
strive toward ideal rather than attempt to Westernize.





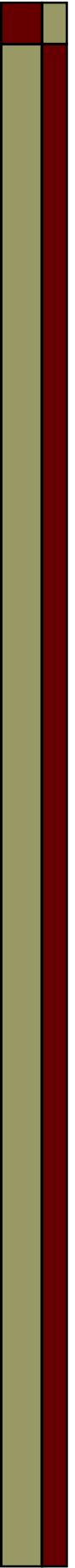
Corruption and culture

- Cultural diversity
 - Forced blending of cultures can lead to dysfunction and corruption.
 - Corruption can of course be indigenous as well.



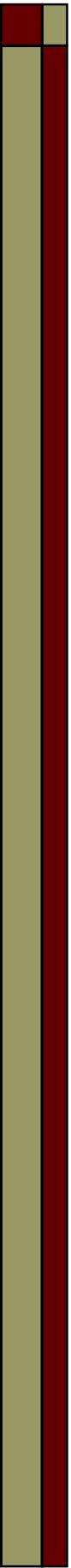
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 - Corruption can of course be indigenous as well.
 - But coexistence preserves resources for dealing with rapidly changing world.
 - Cultures have borrowed from each other for eons, without sacrificing their integrity.
 - Diversity per se is not a source of conflict.



Corruption and culture

- Cultural diversity
 - Like ecological diversity, it is good for the planet.

