

# *Cross-cultural Business Ethics and Sustainability*

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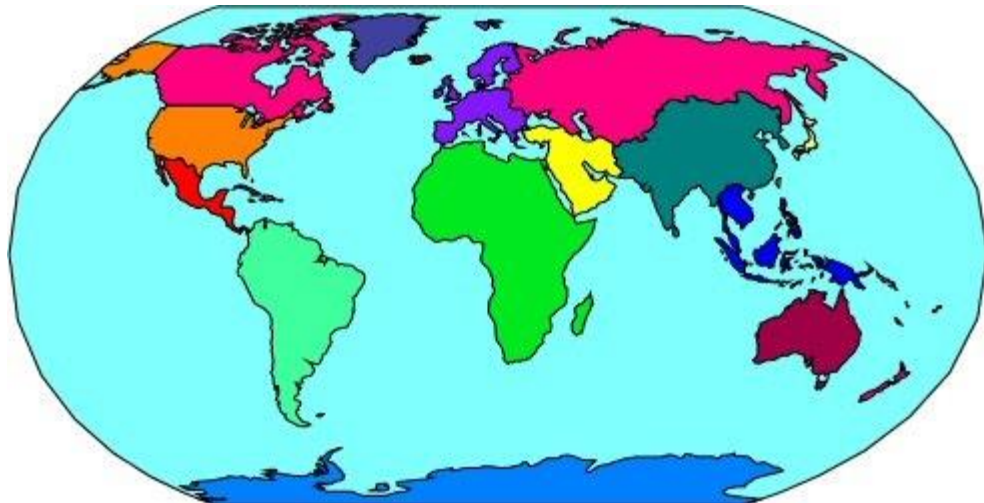
Abu Dhabi University

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# *Culture, Ethics and Sustainability*

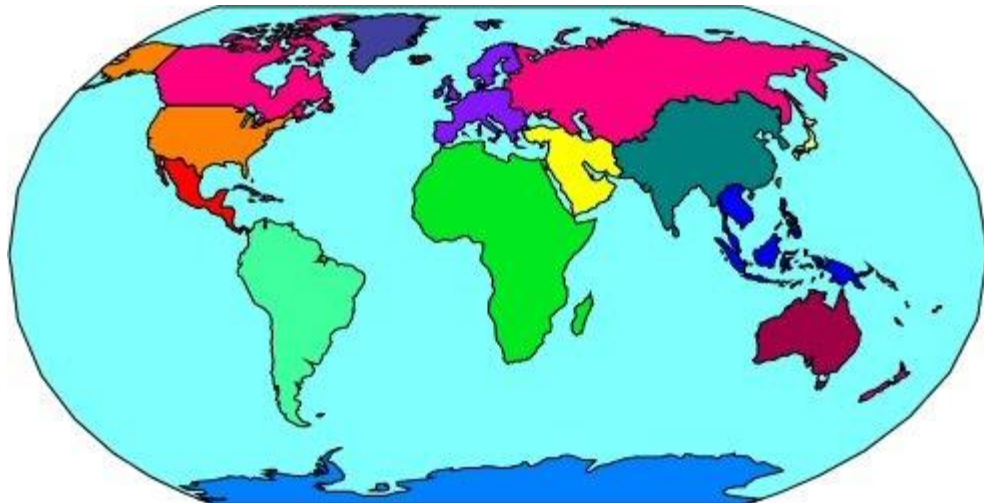
- ✚ Every culture has a **logic of its own**.
- ✚ Its unique way of getting things done.





# *Culture, Ethics and Sustainability*

- ⊕ A guiding ethical principle:
  - ▣ A practice is **ethical** in a culture only if it is **sustainable**.
  - ▣ **General adoption** of the practice is consistent with **long-term functioning** of the culture.





# *Culture, Ethics and Sustainability*

## ✿ Sustainability

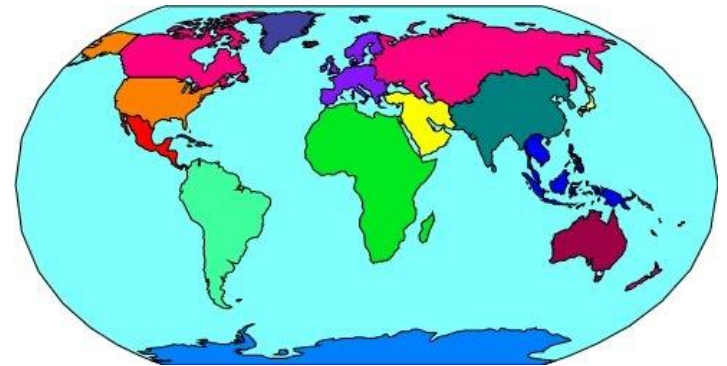
- ✻ What we normally regard as **sustainable practices** are **special cases** of this principle.
- ✻ Environmental, social, economic.

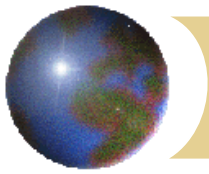




# Outline

- ✚ What is culture?
- ✚ How cultures differ
  - ❏ Rule-based vs relationship-based
  - ❏ Power distance
  - ❏ Shame vs guilt
  - ❏ High and low context
  - ❏ Polychronic/monochronic
  - ❏ Bribery vs cheating

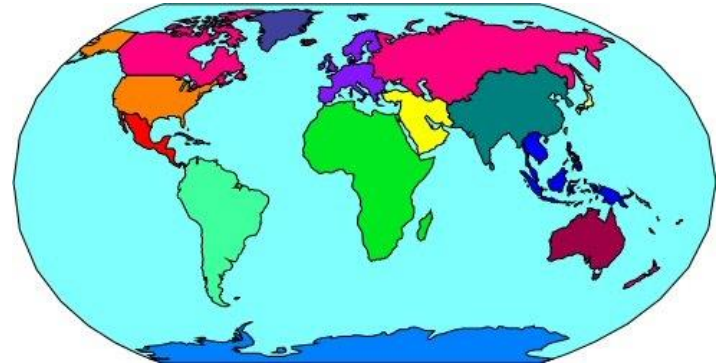


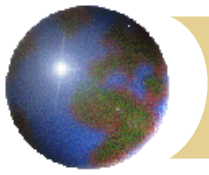


# Outline

## ✿ Corruption around the world

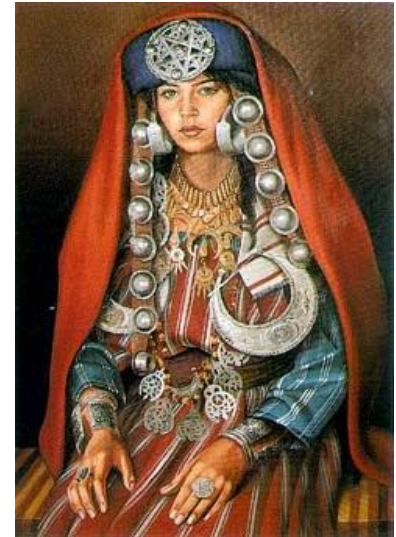
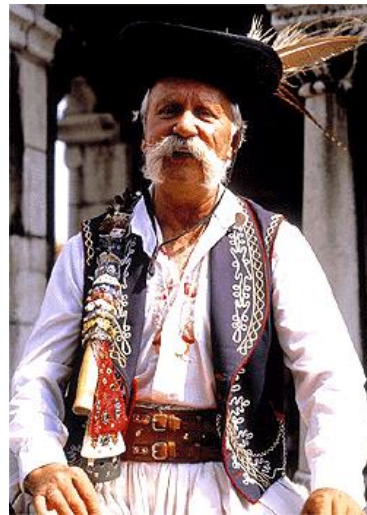
- ✦ What is corruption?
- ✦ Kodak in Taiwan
- ✦ Western financial crisis
- ✦ LKK in China
- ✦ Celtel in Africa





# *What culture is **not***

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

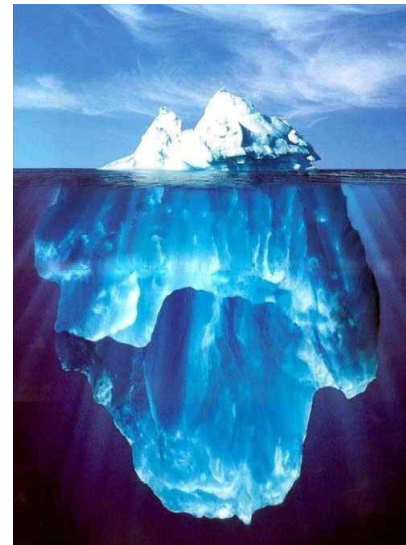




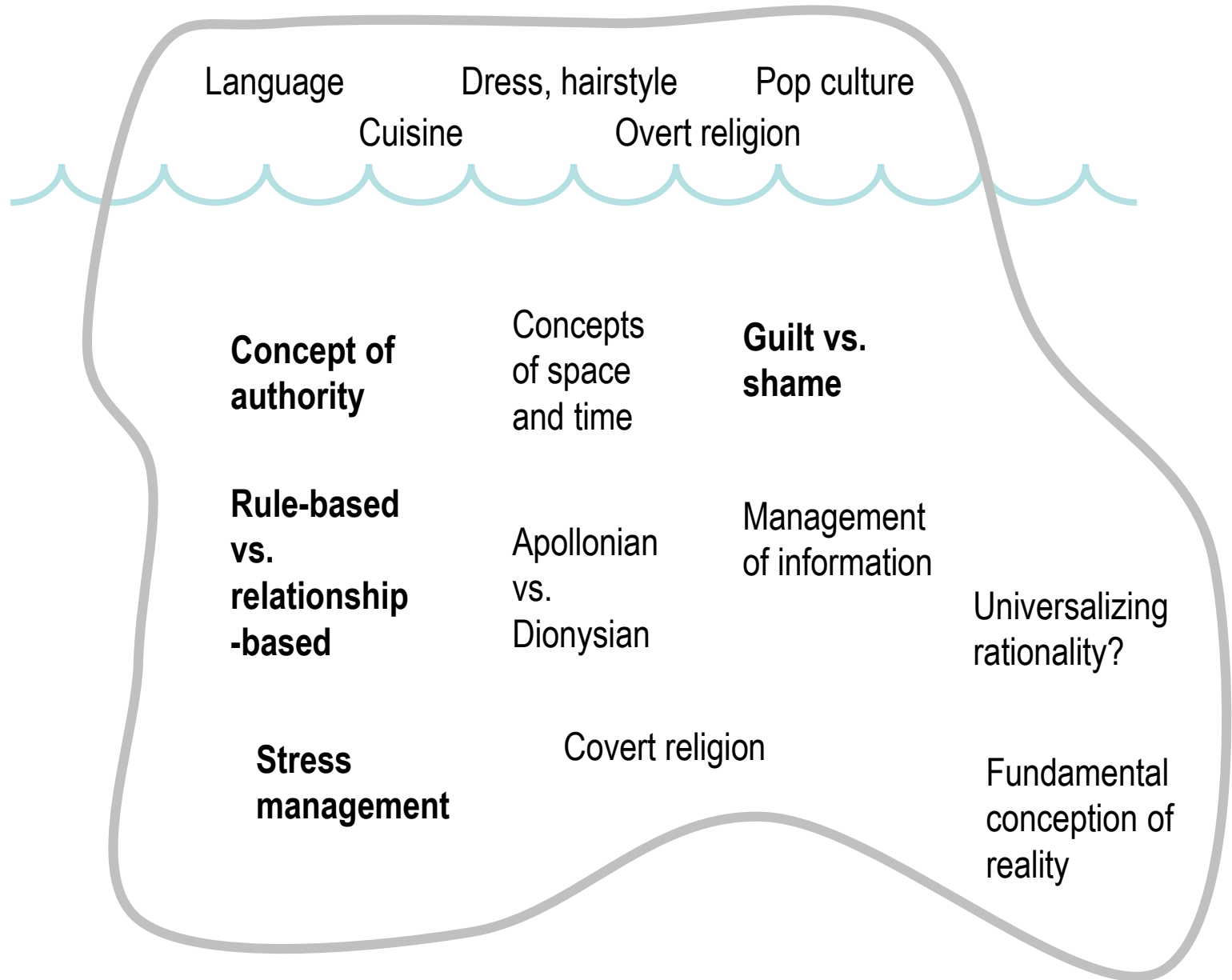
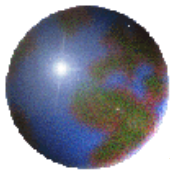


# *What culture is*

- ✿ Culture is about **how we think**.
- ✿ It determines our deepest assumptions, most of which we not even aware.
  - ✦ Like an iceberg, culture lies mostly beneath the surface.





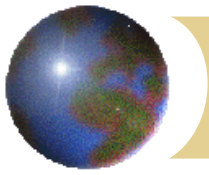




# *Culture vs. personality*

- ✚ Every culture contains the **full range** of human personalities.
  - ✚ Culture is about the framework into which these personalities fit, **not** about "national character."
  - ✚ However, different personalities succeed in different cultures.

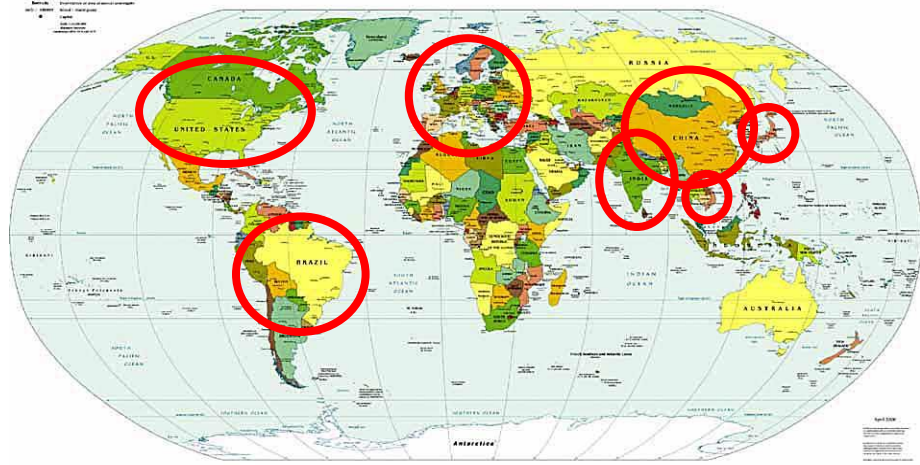


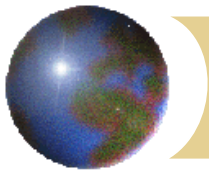


# *Cultural globalization?*

- ✚ World economy is now **multi-polar**.
  - ✚ Successful nations exploit their unique cultural traits.
  - ✚ Less pressure to Westernize.
  - ✚ Result: **Cultural deglobalization**.
  - ✚ Communication technology supports this trend.

Political Map of the World, April 2000

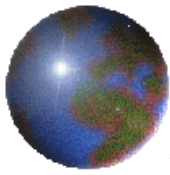




# *Caveats*

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

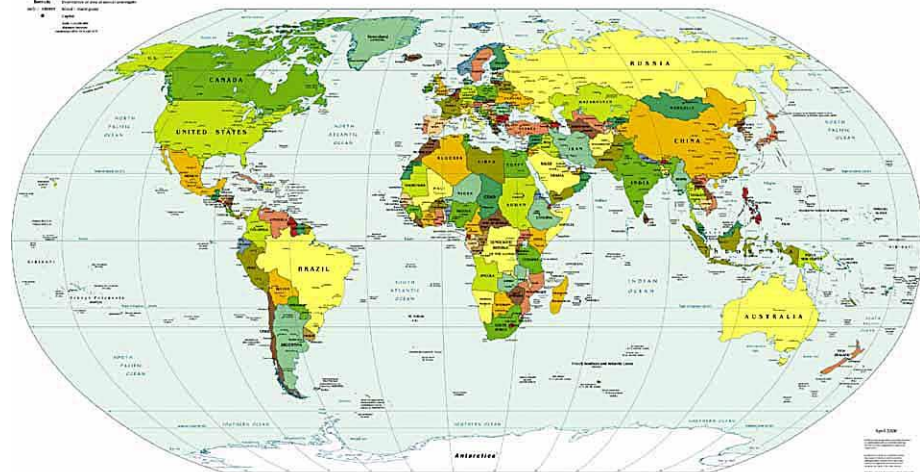




# *How cultures differ*

- ✚ Cultures are very different.
- ✚ But they can be classified roughly as:
  - ✚ **relationship-based**
  - ✚ **rule-based.**

Political Map of the World, April 2000

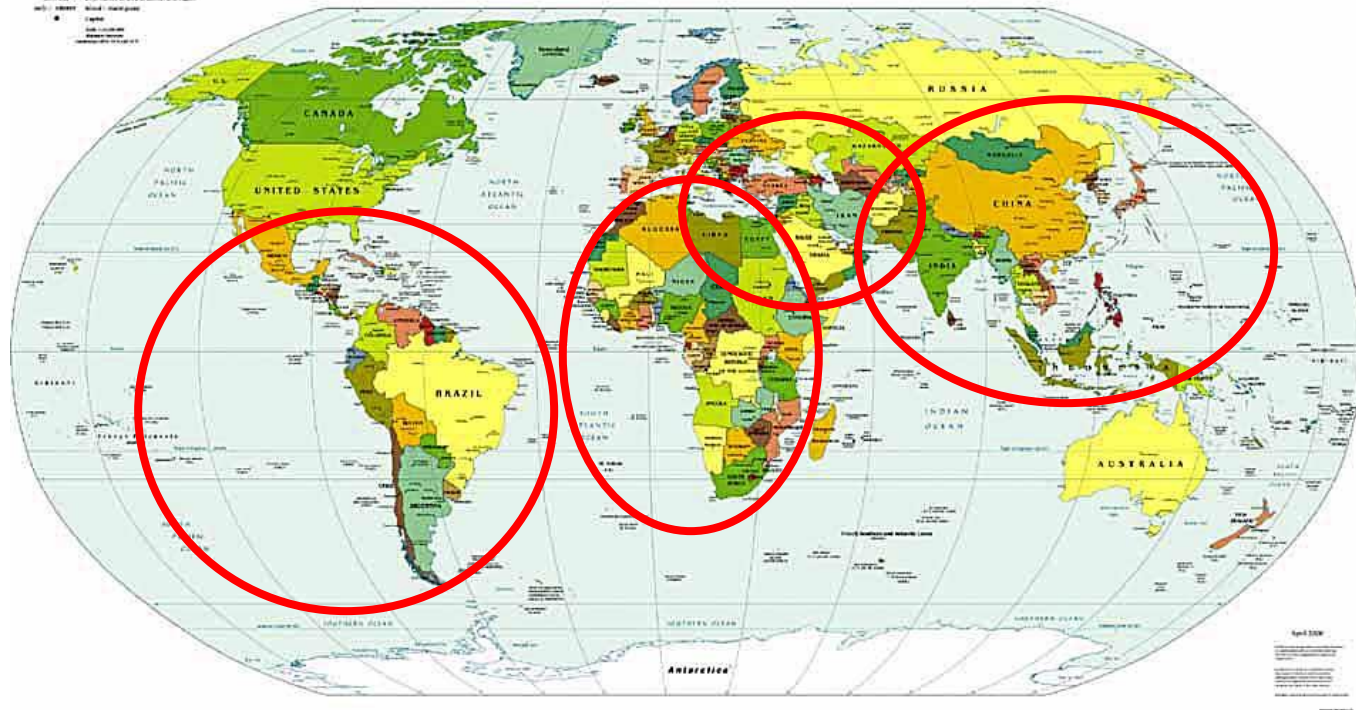






 Africa, Asia, Middle East, South America

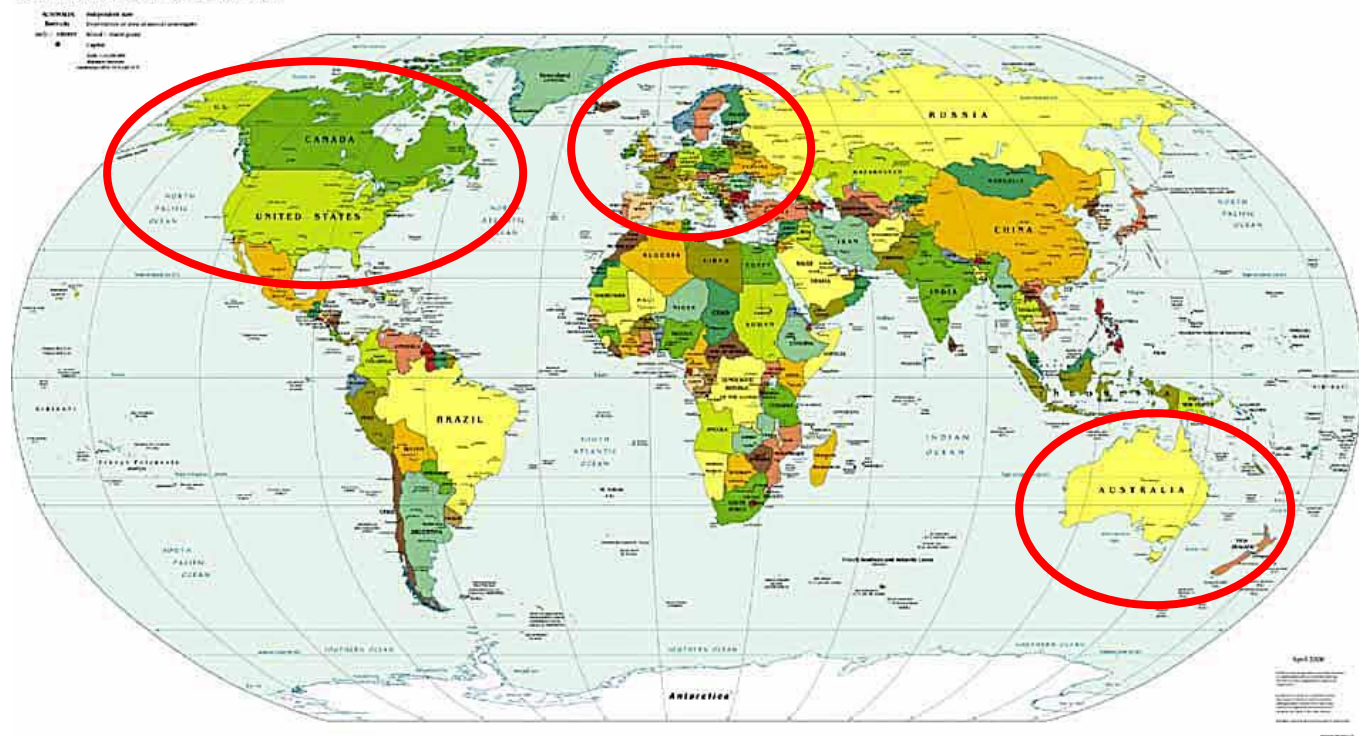
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**Author(s):** Department of Area Studies and Languages  
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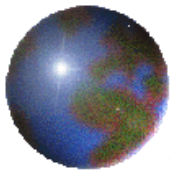






■ Australia, Europe, North America





## Deals

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

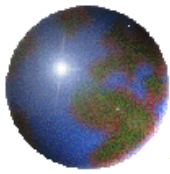


## Traffic behavior

- ❑ Negotiation vs. regulation.



Traffic in China

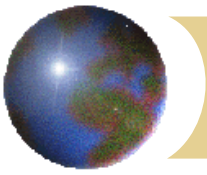


## 📍 Dealing with **stress**

- ▣ Family & friends vs. technology & engineering.



Filipino family



✿ No culture is purely rule-based or relationship-based.

✦ It wouldn't work.

- You can't build a brick house purely out of brick.
- Or a wood house purely out of wood.

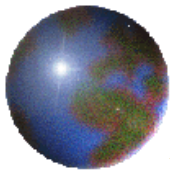
✦ Nonetheless, one system tends to dominate.





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

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



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

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

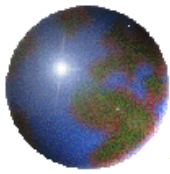




- ✚ Relationship-based countries tend to be **high** power distance.
  - ✚ Behavior is regulated by **people** with authority.
  - ✚ Rules are legitimated and enforced by authority figures.



Deng Xiaoping  
De facto leader of China  
1978-1992

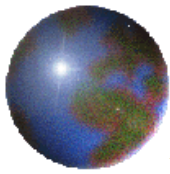


☙ Rule-based countries tend to be **low** power distance.

- ☙ People respect the **rules** more than superiors.
- ☙ Example: Sweden.



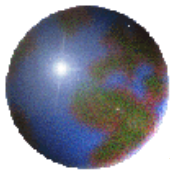
Karl XVI Gustaf  
Swedish King since 1973



## ⊕ High power distance:

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

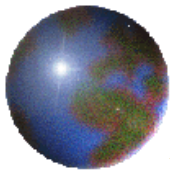




- ✿ High power distance:
- ✦ Good boss is **authoritarian** but **takes care** of subordinates.
  - ✦ Makes decisions on a case-by-case basis.
  - ✦ Possibly large differences in salary/skills.



Dalit (untouchable)  
India



## ✚ Low power distance:

- ✚ Children are allowed to contradict their parents.
- ✚ Two-way discussion in classroom.
- ✚ Discipline may be a problem; parents side with child rather than teacher.
- ✚ No corporal punishment.





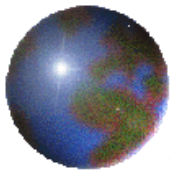


## ☼ Low power distance:

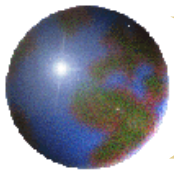
- ❑ Consultative management.
- ❑ Employees bring concerns and grievances to the boss.
- ❑ Good boss **inspires** workers and treats them **equally**.
- ❑ Go by the rules rather than case by case.
- ❑ Smaller salary differences; workers may resent executive perks.
  - Scandinavian offices.



Solidarity logo, Poland



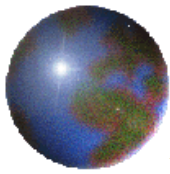
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# *Shame and guilt*

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





## ✿ **Relationship-based** cultures enforce behavior norms by **shame**.

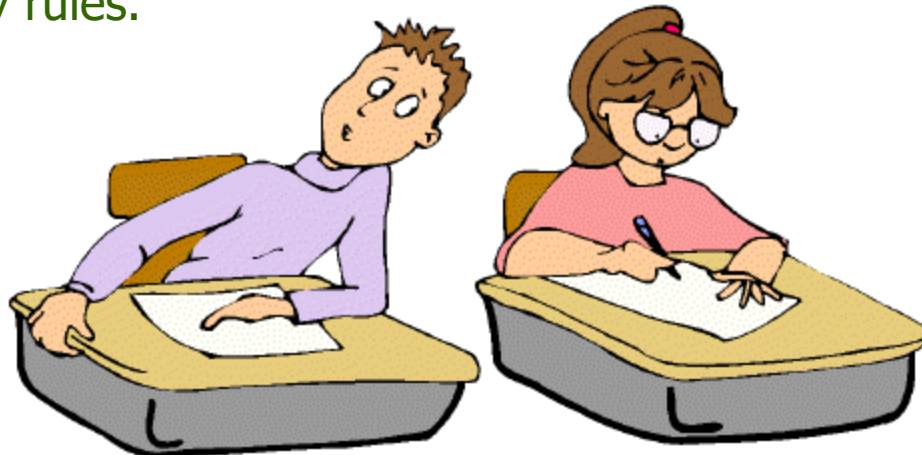
- ✦ Loss of face.
- ✦ Humiliation.
- ✦ Punishment on the spot.
- ✦ No guilt.
  - Shohei Nazawa and Yamaichi Securities
  - JAL Flight 123 (1985), Yusomoto Takagi apologized & compensated victims' families. Boeing apparently at fault.
  - Akio Toyoda in Congressional testimony.

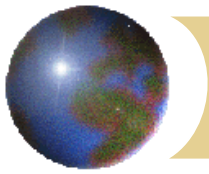




## ❖ Key point for shame-based cultures:

- ❖ People expect **direct and constant supervision**.
  - Department store clerk.
  - Guangzhou office.
- ❖ Failure to supervise **gives permission** to break the “rules.”
  - Exam cheating.
  - Company rules.





## ✚ Asian countries

### ✚ **Manage face** correctly.

- Don't cause employees to lose face by public embarrassment.
- Unless they have already lost face by incompetence or malfeasance.

## ✚ Middle Eastern countries

### ✚ Be authoritarian but **just**.

- Listen to employee petitions and take them seriously.

## ✚ Latin American countries

### ✚ Respect **honor**.

- Arabic origins of *machismo*.

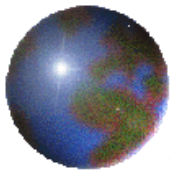




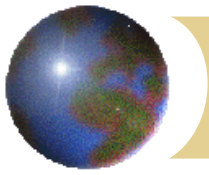
## ❖ **Guilt** is more important in **rule-based** cultures.

- ❖ Guilt encourages obedience to rules without supervision.
- ❖ But it may be a poor motivator and carry high psychological cost.
  - *Ein gutes Gewissen ist an sanftes Ruhekissen.*
- ❖ Guilt is reinforced by fear of punishment.





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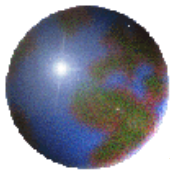
# *Context*

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



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

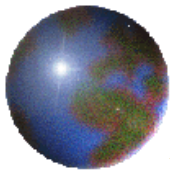




✿ In **high-context** cultures,

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





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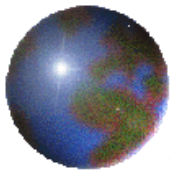
# *Time consciousness*

## ⊕ **Monochronic** cultures

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

## ⊕ **Polychronic** cultures

- ⊞ OK to do several things at once.



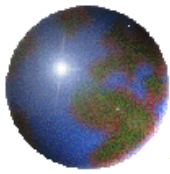
- Monochronic culture **structures and organizes** time

- Sense of control, security.
- Ironically, deals with stress.

- Time partitioned into **intervals**

- Each devoted to one task.
- Appointments and punctuality important.
- Orderly queues.





- ⊗ Monochronic time is a **measurable substance**

- ⊗ Can be spent, saved, wasted.
- ⊗ Time is money.
- ⊗ Deadlines important.
- ⊗ A handicap in cross-cultural negotiation.

- ⊗ Arrangements made in advance

- ⊗ Travel arrangements, e.g. in Scandinavia

- ⊗ Deadlines

- ⊗ People get nervous, speed up as deadline approaches.





- ⊕ Polychronic time is **elastic**.
  - ⊞ Punctuality unimportant.
  - ⊞ Important people keep others waiting, not vice-versa.
- ⊕ OK to deal with several people at once
  - ⊞ Your host may talk to others, take phone calls, etc.
  - ⊞ Clerk will serve several at once.
  - ⊞ Queue may be a mob.





## ✚ Activity

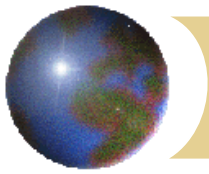
- ✚ Activity **makes** times rather than filling it.
- ✚ Idleness **stops** time.
- ✚ **Not** a sign of laziness.

## ✚ Arrangements made at last minute

- ✚ Travel arrangements, e.g. India

## ✚ Deadlines

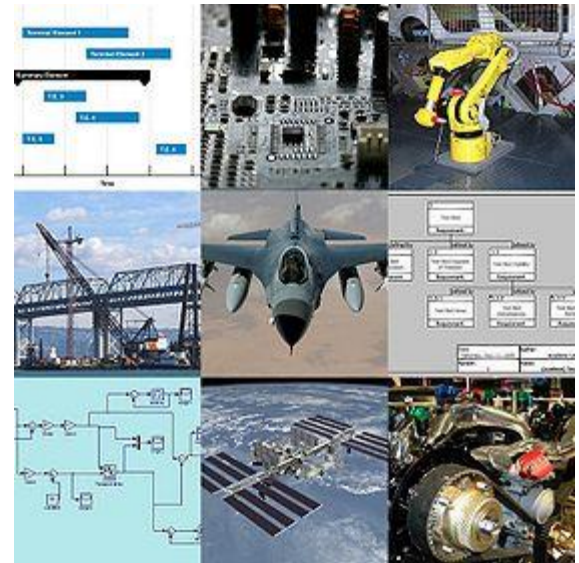
- ✚ Not inclined to speed up as deadline approaches.
- ✚ Relaxed about tight connections, etc.



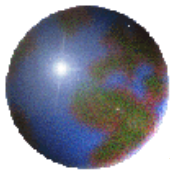
# *Stress management*

## ⊕ Rule-based/monochronic cultures

- ❑ People believe they have control over their lives.
- ❑ People are held personally responsible for their problems, even illness.
- ❑ Rely on technological fix.
- ❑ Control life by controlling the environment (engineering).



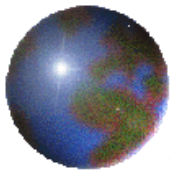




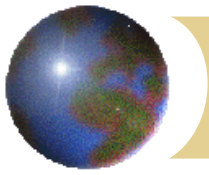
## ☉ Relationship-based/polychronic cultures

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





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# *Corruption*

- ✚ **Corruption** is behavior that undermines a business culture.
- ✚ By definition, corruption is **unsustainable**.
- ✚ So corrupting behavior is **different** across cultures.





# *Ethics across cultures*

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





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

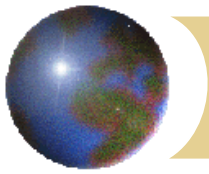
⊕ *Rule-based:* autonomous, rational **individuals**

- We are equal & so must respect rules rather than people.
- Hence rule-based, focused on rationality.
- Ethics based on **equality, fairness**.

⊕ *Relationship-based:* part of a **larger unit**.

- Extended family, community, ethnic group.
- Must respect people with authority.
- Ethics based on **care**.





# *Corruption around the world*

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



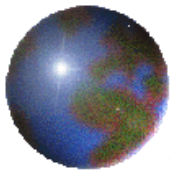




# *What is corruption?*

✚ Corruption **corrupts**.

WHAT  
IS  
CORRUPTION ?



# *What is corruption?*

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

WHAT  
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# *What is corruption?*

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

WHAT  
IS  
CORRUPTION ?



# *Corruption as culturally defined*

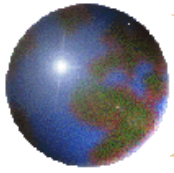
- ✚ What is *corrupt* in one system may be *acceptable* in another.
  - ✚ *For example: **cronyism** may be OK in a relationship-based culture.*
  - ✚ *But only in the right circumstances...*



## *Kodak in Taiwan*

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

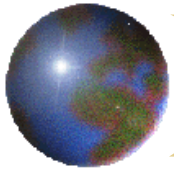




## *Kodak in Taiwan*

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





# *Kodak in Taiwan*



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





## *Kodak in Taiwan*

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



## *Kodak in Taiwan*

- ✿ At least they are offering a bribe instead of demanding one.
  - ✦ *In some industries, you can't get your foot in the door without paying someone off.*
- ✿ Kickbacks ("commissions") are common in Taiwan but corrupting nonetheless.
  - ✦ *Why are they corrupting?*



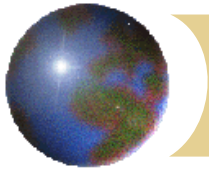
# *Kodak in Taiwan*

☉ Chinese/Taiwanese business is often based on *guānxì*.

- ☒ *Relationship of mutual obligation and mutual trust.*
- ☒ *Legal enforcement is unnecessary.*
- ☒ *Requires cultivation over a long period.*
- ☒ *There need not be a conflict of interest.*
  - It is in the company's interest for you to deal with trusted friends.

关系

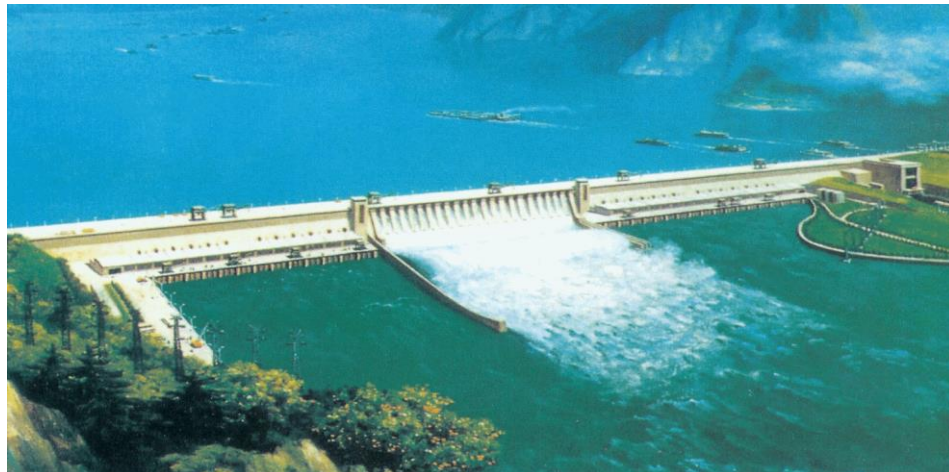




# *Kodak in Taiwan*

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

Three Gorges Dam,  
Yangtze River



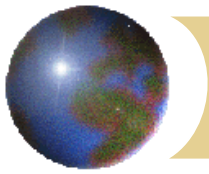


# *Kodak in Taiwan*

✿ One should not exacerbate this weakness in the system.

✿ *One should not go along with bribery simply to "do as the Romans do."*



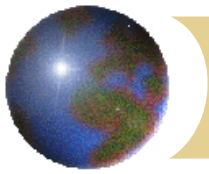


# *Kodak in Taiwan*

## ✚ Lesson:

- ✚ *Cronyism is not the same as bribery.*
  - As rule-based systems can slide into cheating.
- ✚ *Responsible cronyism is sustainable and noncorrupting in a relationship-based culture*
  - Responsible = deal with friends because you trust them to deliver, not just because they are friends.





# *Kodak in Taiwan*

- ❖ However, cronyism is problematic in government.
  - Chinese civil service exams, introduced by Han Dynasty >2000 years ago.



Ming  
Dynasty  
exam  
booths  
1873



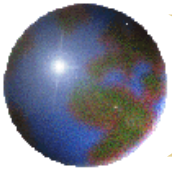


# *Kodak in Taiwan*

## ✚ 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.



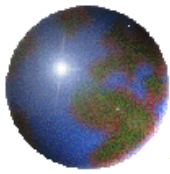


# *Efficiency vs. Stability*

✿ Bribery is a natural weakness of relationship-based cultures.

✿ *It is a shortcut to relationship building.*

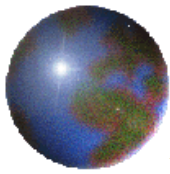




# *Efficiency vs. Stability*

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



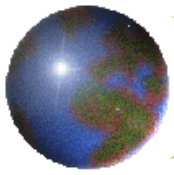


# *Financial Crisis of 2008*

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

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

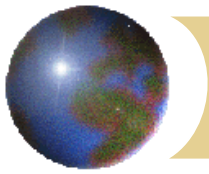




# *Financial Crisis of 2008*

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



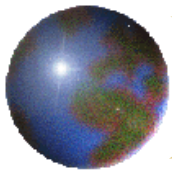


# *Financial Crisis of 2008*

- ✚ Ratings agencies gave CDOs triple-A ratings.
  - ✚ *Banks pay agencies for ratings, resulting in conflict of interest.*
  - ✚ *Banks sold AAA-rated CDOs to unsuspecting funds worldwide.*







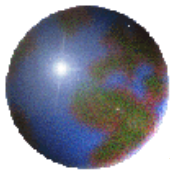
# *Financial Crisis of 2008*

✚ Credit default swaps gave the illusion of security.

- ✚ *\$62 trillion outstanding.*
- ✚ *Form of insurance, but not regulated as such.*
- ✚ *Sold without regard to adequate capital reserves.*



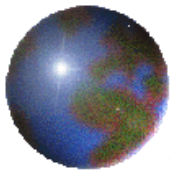




# *Financial Crisis of 2008*

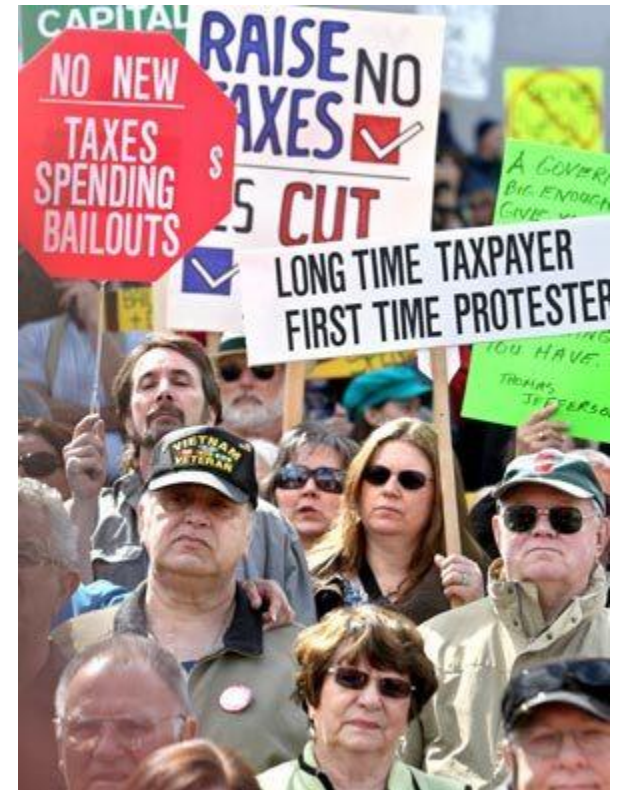
- ✿ CDOs became “poison” in 2008.
  - ✦ *Credit froze worldwide because assets could not be valued.*
  - ✦ *Highly-leveraged banks collapsed, or threatened collapse.*
  - ✦ *Massive bailout by taxpayers and U.S. Federal Reserve Bank.*

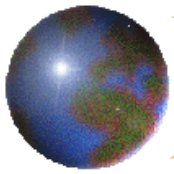




# *Financial Crisis of 2008*

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



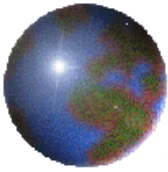


# *Financial Crisis of 2008*

## ✚ Western-style corruption.

- ✚ *Mortgages without due diligence.*
- ✚ *Over-leveraged banks in search of short-term profit.*
- ✚ *Improper ratings.*
- ✚ *Unsecured credit default swaps.*
- ✚ *The US in particular tends to have a short-term perspective.*





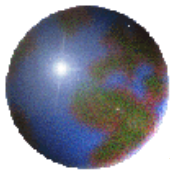
# *Bribery vs. Extortion*

## ✚ Common legal distinction:

- ✚ *A **bribe** is a payment intended to influence a decision.*
- ✚ *An **extortion** payment is required to obtain something to which you are already entitled (in a timely manner).*
- ✚ *A **facilitating payment** is a small, routine extortion payment*

## ✚ Relevant law

- ✚ *U.K. Bribery Act (2010)*
- ✚ *U.S. Foreign Corrupt Practices Act*



# *Bribery vs. Extortion*

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







# Nepotism

✿ Nepotism may or may not be corrupting.

✿ *Often questionable in rule-based cultures.*

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



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



# Nepotism

✚ Nepotism may or may not be corrupting.

✚ *Often questionable in rule-based cultures.*

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

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



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



# *LKK in China*

✿ LKK (Lee Kum Kee) food and health products.

✦ *Founded in rural Guangdong province in 1888.*

- By 2005, 3900 workers.
- Markets in 80 countries.







# *LKK in China*

✿ Remains a family-run business.

✿ *Lee Man Tat is group chairman.*

- Appointed 4 sons to head company divisions after they studied in USA.
- He was well aware of their talents/weakness and placed them accordingly.
- Authority of father/uncle/grandfather in a Confucian culture can be an advantage for nepotism.





# *LKK in China*

## ✚ Lesson:

- ✚ *Responsible nepotism need not be corrupting in a Confucian context.*
  - Responsible = hire relatives based on their loyalty to family and known talents, not simply because they are relatives
- ✚ *Confucian cultures naturally have a long-term perspective.*





# *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.*

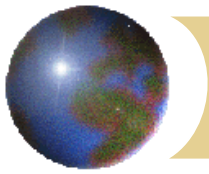




# Celtel in Africa

- ❖ 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.*

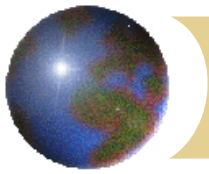




# *Celtel in Africa*

- ✿ 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.







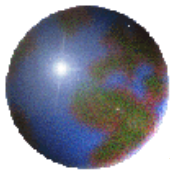
# *Celtel in Africa*

## ✚ Lesson:

- ✚ *Traditional African culture was sustainable for 1000s of years!*
  - Rational redistribution of wealth through leader's patronage allowed villages to survive.
  - Bribery results from corruption of village leadership customs during colonial era.







# *Discussion*

✚ Questions? Comments?

