

Cross-cultural Business Ethics

John Hooker

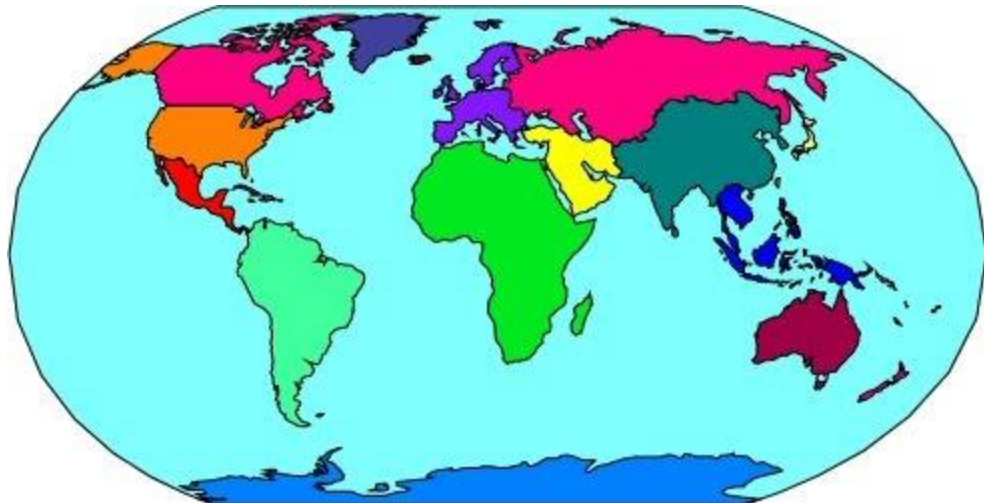
Carnegie Mellon University, USA

Engineers Australia Seminar, 7 May 2014



Culture and management

- ⊕ Every culture has a **logic of its own**.
- ⊕ Its unique way of getting things done.
- ⊕ Knowing this is the key to success.





*What culture is **not***

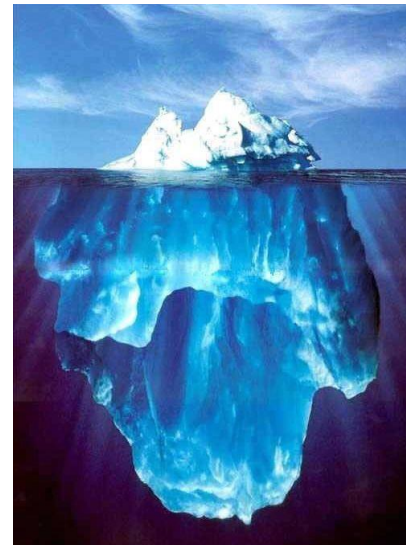
- ✿ Culture is **not** primarily about food, language, dress, customs, holidays.

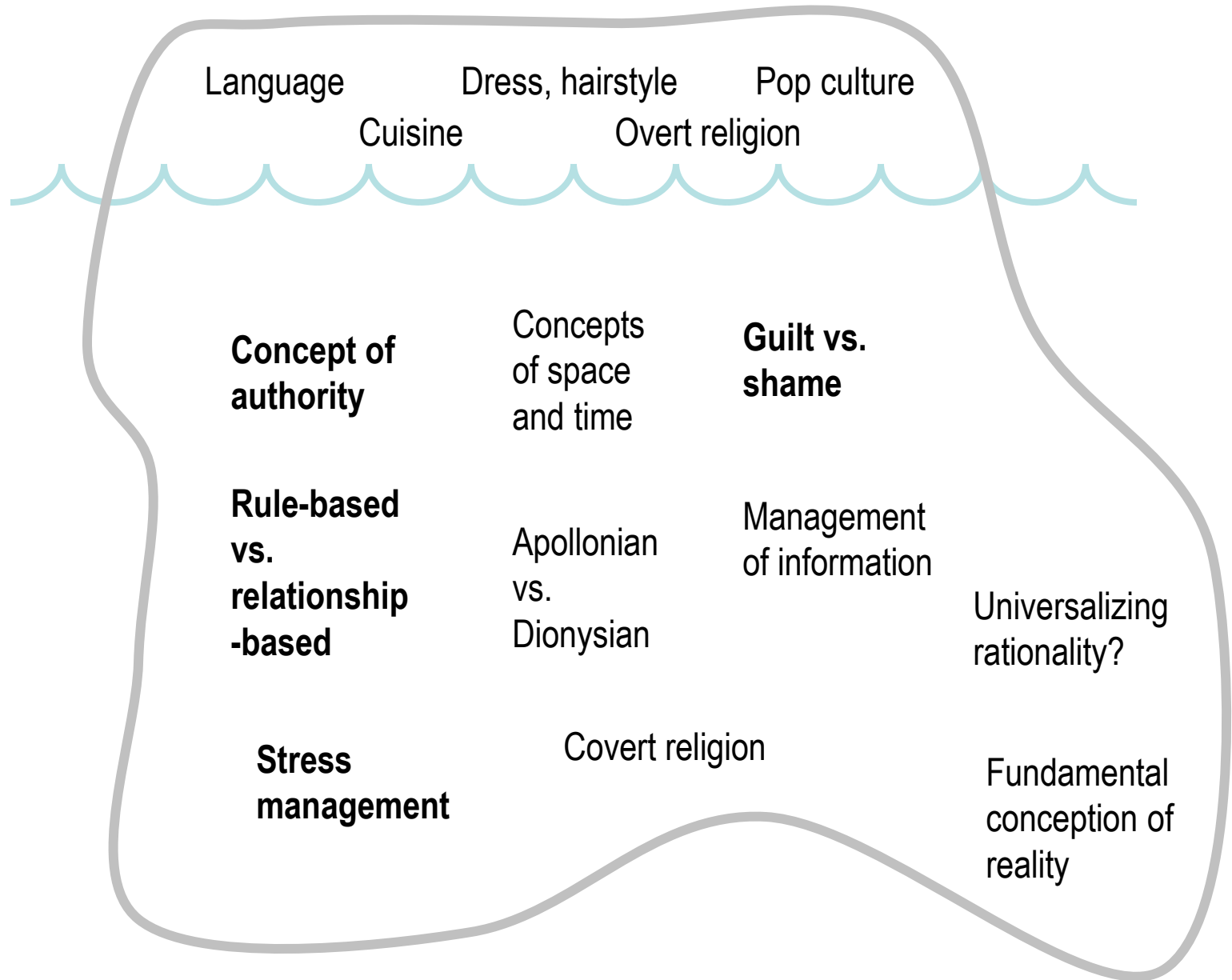
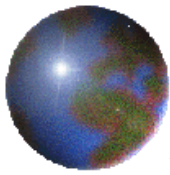




What culture is

- ✿ 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.

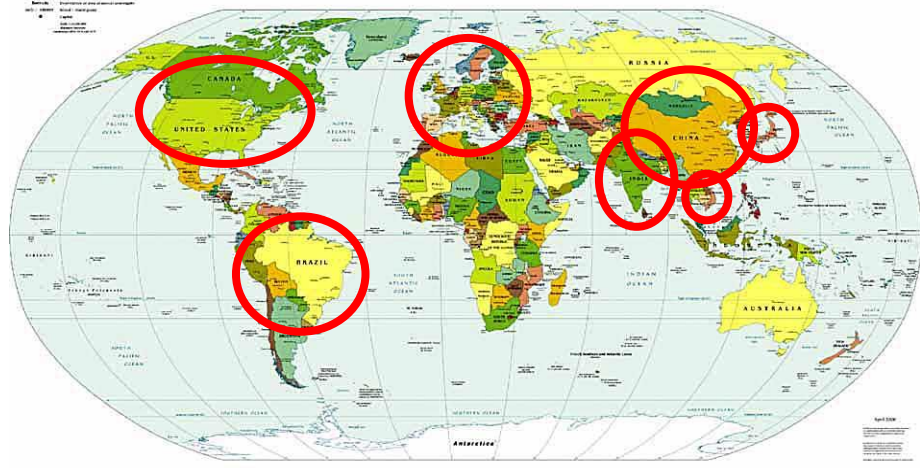




Cultural globalization?

- ✚ 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

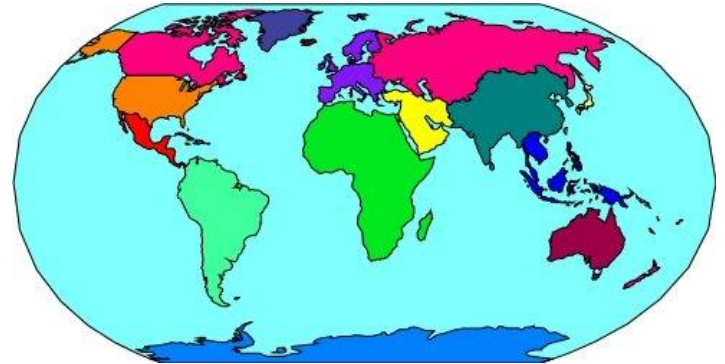
- ⊕ There are 5000+ cultures in the world.
 - ⊠ This talk must vastly oversimplify.
- ⊕ No judgments.
 - ⊠ I don't know which cultures are "better."
 - ⊠ Aim is to understand them.





Outline

- ❖ Part 1: How cultures differ
 - ❖ Rule-based vs relationship-based
 - ❖ Power distance
 - ❖ Shame vs guilt
 - ❖ High and low context
 - ❖ Polychronic/monochronic
 - ❖ Bribery vs cheating

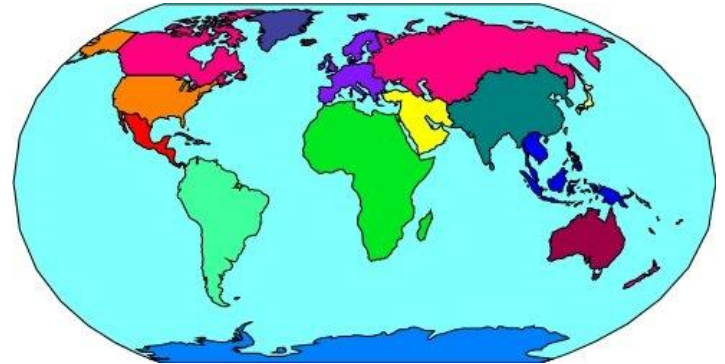




Outline

✿ Part 2: Corruption around the world

- ✦ What is corruption?
- ✦ Kodak in Taiwan
- ✦ Western financial crisis
- ✦ Passport control in Turkey
- ✦ Enron in India
- ✦ LKK in China
- ✦ Leighton in Asia and Middle East
- ✦ Celtel in Africa
- ✦ Supply chains: Mattel in China
- ✦ Supply chains: Apparel industry in south Asia

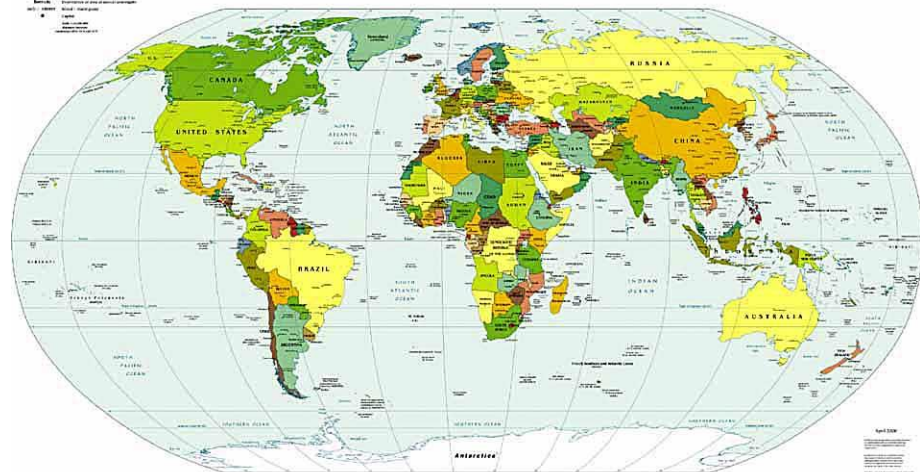


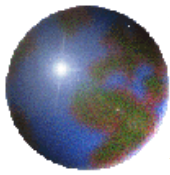


How cultures differ

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

Political Map of the World, April 2000

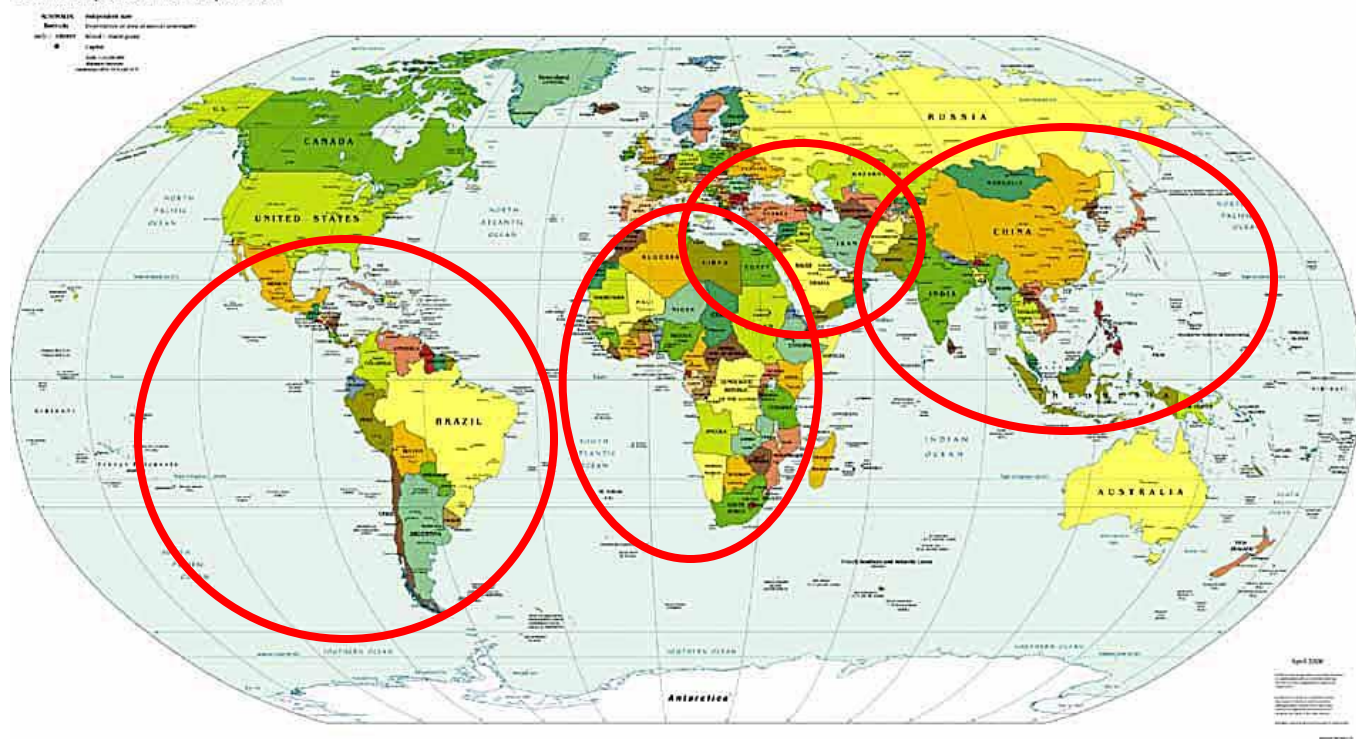


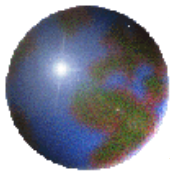


✚ *Relationship-based* = life is organized primarily around **personal relationships**.

✚ Africa, Asia, Middle East, South America

Political Map of the World, April 2000

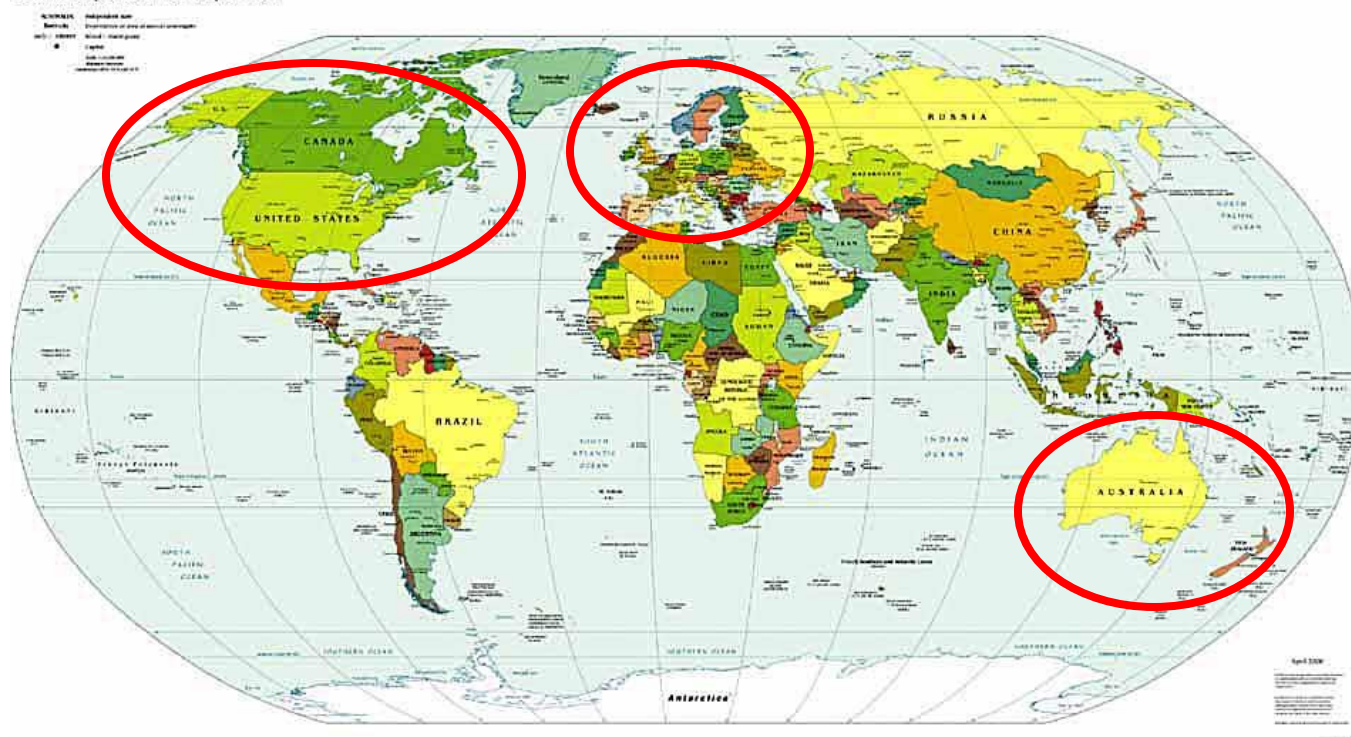


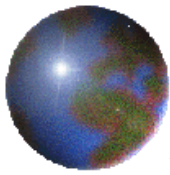


🌀 *Rule-based* = life is organized primarily by **rules**.

🌐 Australia, Europe, North America

Political Map of the World, April 2000





✚ Meetings

- ✚ Personal connections vs. strictly business

✚ Deals

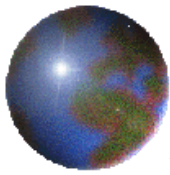
- ✚ Personal trust vs. contracts & law
- ✚ Trust the **person** vs. trust the **system**.

✚ Traffic behavior

- ✚ Negotiation vs. regulation.



Traffic in China

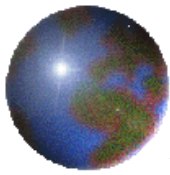


📍 Dealing with **stress**

- ▣ Family & friends vs. technology & engineering.



Filipino family

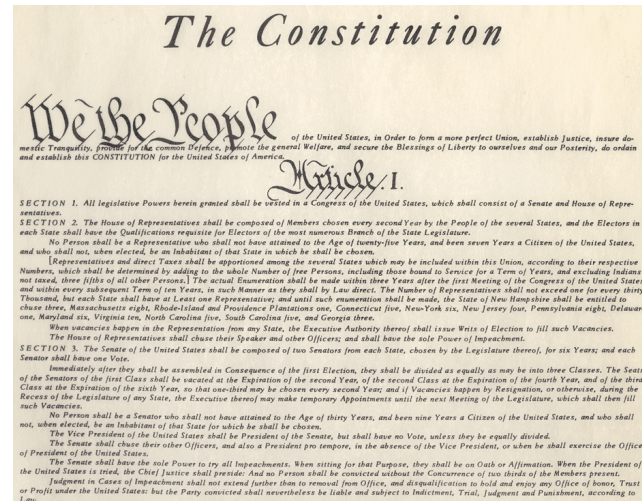


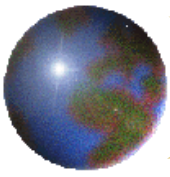
☪ Concept of authority.

- ☒ Relationship-based – authority rests in the **person**.
- ☒ Rule-based – authority derives from **rules**.



Custodian of the Two Holy Mosques
King Abdullah bin Abdul Aziz Al-Saud





✿ 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.

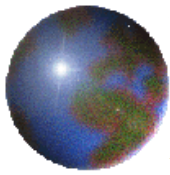
✦ Nonetheless, one system tends to dominate.





- 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



Relationship-based	Rule-based
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Power distance

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



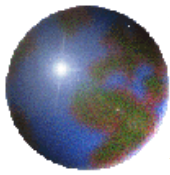


Relationship-based countries tend to be **high** power distance.

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



Deng Xiaoping
De facto leader of China
1978-1992

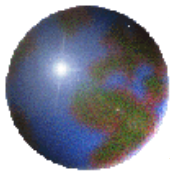


☪ Rule-based countries tend to be **low** power distance.

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



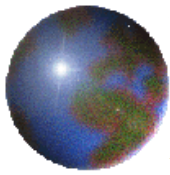
Karl XVI Gustaf
Swedish King since 1973



⊕ High power distance:

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

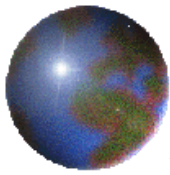




- ✿ High power distance:
- ✦ Good boss is **authoritarian** but **takes care** of subordinates.
 - ✦ Makes decisions on a case-by-case basis.
 - ✦ Possibly large differences in salary/skills.



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.



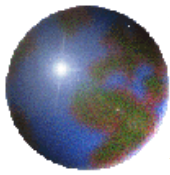


✚ Low power distance:

- ✚ 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.
- ✚ Labor unions.
- ✚ Smaller salary differences; workers may resent executive perks.
 - Scandinavian vs. U.S. offices.
 - Power distance higher in U.S. business



Solidarity logo, Poland



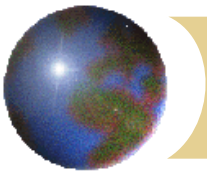
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Shame and guilt

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





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

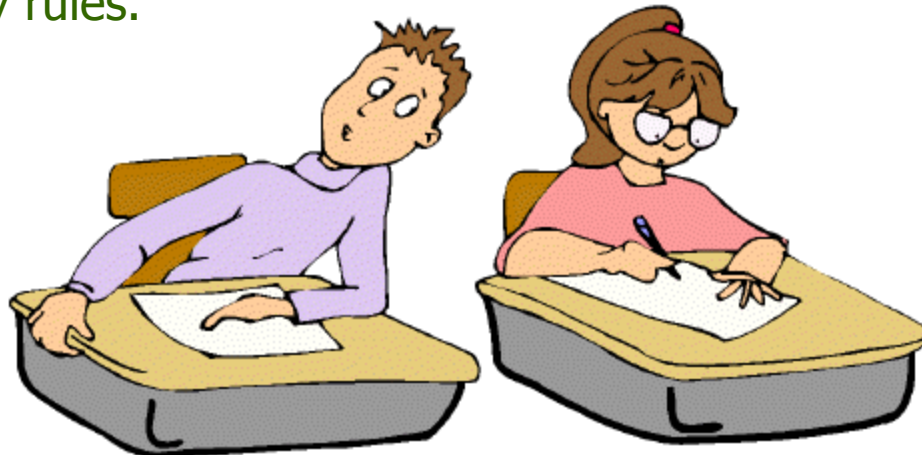
- ✦ Loss of face.
- ✦ Humiliation.
- ✦ Punishment on the spot.
- ✦ No guilt.
 - Shohei Nazawa and Yamaichi Securities
 - JAL Flight 123 (1985), Yusomoto Takagi apologized & compensated victims' families. Boeing apparently at fault.
 - Akio Toyoda in Congressional testimony.





❖ 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**.

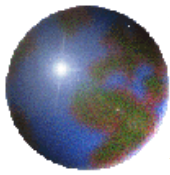
- Arabic origins of *machismo*.



❖ **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 ein sanftes Ruhekissen.*
- ❖ Guilt is reinforced by fear of punishment.



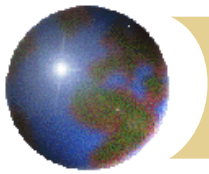


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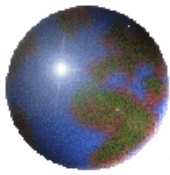
Context

- ✿ 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.

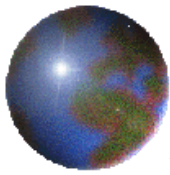




✚ In **high-context** cultures,

- ✚ 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.





Relationship-based	Rule-based
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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

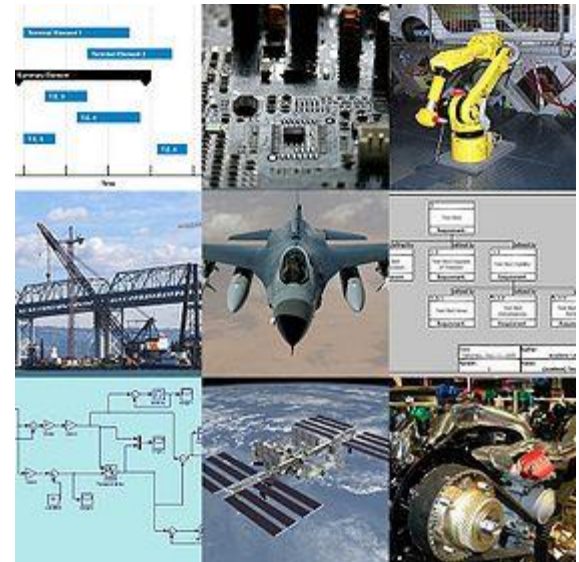
- ✚ Not inclined to speed up as deadline approaches.
- ✚ Relaxed about tight connections, etc.

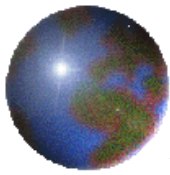


Stress management

⊕ Rule-based/monochronic cultures

- ❑ People believe they have control over their lives.
- ❑ When the going gets tough, the tough get going.
- ❑ Rely on technological fix.
- ❑ Control life by controlling the environment (engineering).

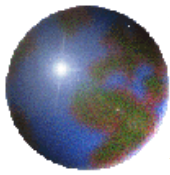




☉ Relationship-based/polychronic cultures

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





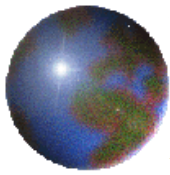
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Corruption

- ❖ **Corruption** is behavior that undermines a cultural system.
- ❖ So corrupting behavior is **different** across cultures.

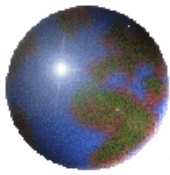




✿ In relationship-based cultures, **bribery** is common.

- ✦ Also kickbacks, facilitating payments.
- ✦ Short cut to relationship building.
- ✦ System is **slow** but **stable**.
 - e.g., Chinese economy
 - *Guānxì*.





- ✚ In rule-based cultures, **cheating** is common.
 - ✚ Income tax evasion, business scandals, plagiarism.
 - ✚ Relatively little supervision.
 - ✚ System is **efficient** but **unstable**.
 - Global financial freeze.





⊕ 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**.





Ethics across cultures

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

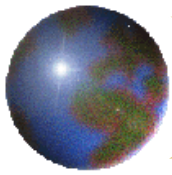




Corruption around the world

- ✚ 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.

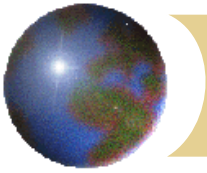
WHAT
IS
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What is corruption?

- ✚ 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.

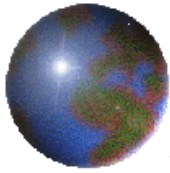




Kodak in Taiwan

- ✿ 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*

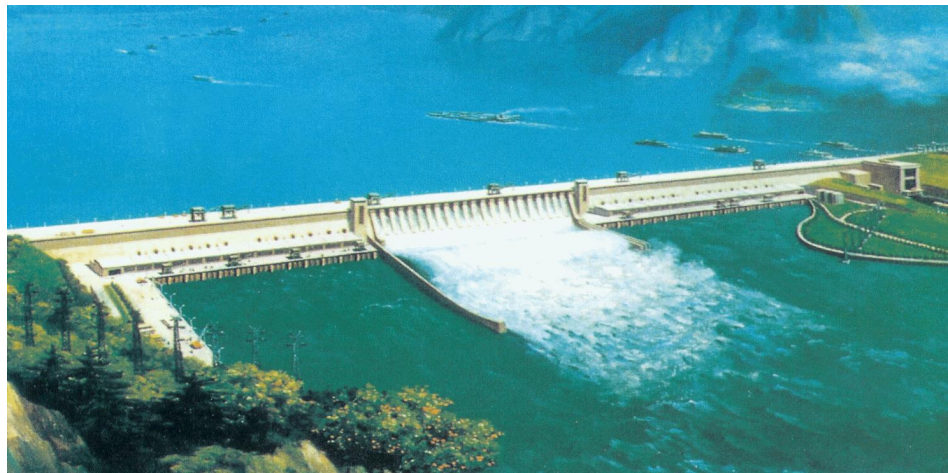
关系





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.

✚ *Bribery may sometimes be necessary, but one should not go along with it simply to "do as the Romans do."*

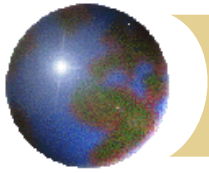




Kodak in Taiwan

- ✿ 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 \neq bribery

✚ ***Responsible*** *cronyism is not corrupting.*

- Can be advantageous in a Confucian culture.



Kodak in Taiwan

⊕ Cronyism ≠ bribery

❏ **Responsible** cronyism is not corrupting.

- Can be advantageous in a Confucian culture.

❏ Problematic in government.

- Chinese civil service exams, introduced by Han Dynasty >2000 years ago.



Ming
Dynasty
exam
booths
1873



Efficiency vs. Stability

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

✿ *It is a shortcut to relationship building.*

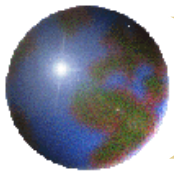




Efficiency vs. Stability

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



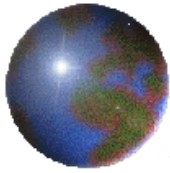


Financial Crisis of 2008

✿ **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.*

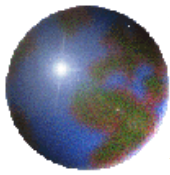




Financial Crisis of 2008

- ✚ 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.*



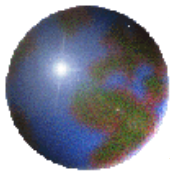


Financial Crisis of 2008

- ✚ 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

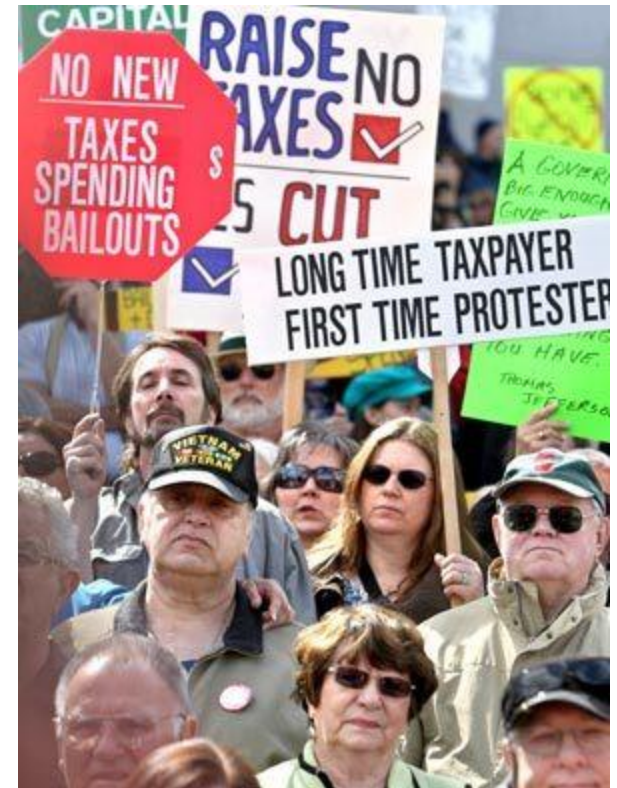
- ❖ CDOs became “poison” in 2008.
 - ❖ *Credit froze worldwide because assets could not be valued.*
 - ❖ *Highly-leveraged banks collapsed, or threatened collapse.*
 - ❖ *Massive bailout by taxpayers and U.S. Federal Reserve Bank.*

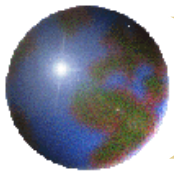




Financial Crisis of 2008

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

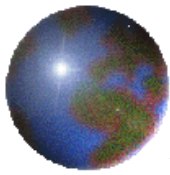




Financial Crisis of 2008

- ✚ Western-style corruption.
 - ✚ *Mortgages without due diligence.*
 - ✚ *Over-leveraged banks in search of short-term profit.*
 - ✚ *Improper ratings.*
 - ✚ *Unsecured credit default swaps.*





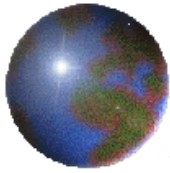
Bribery vs. Extortion

✚ 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

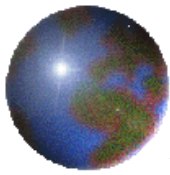
- ✚ *U.K. Bribery Act (2010)*
- ✚ *U.S. Foreign Corrupt Practices Act*
- ✚ *Australian Criminal Code (implements OECD Convention)*



Bribery vs. Extortion

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

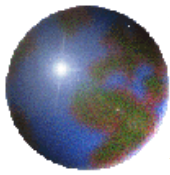




Passport Control in Turkey

- ✿ MBA student waited in queue at airport passport control.
 - ✦ *Officer took his passport but didn't return it.*

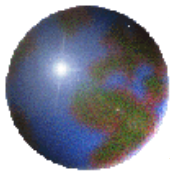




Passport Control in Turkey

- ✿ MBA student waited in queue at airport passport control.
 - ✦ *Officer took his passport but didn't return it.*
 - ✦ *"Is there a problem with my passport?"*

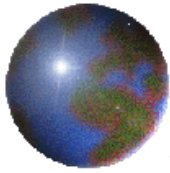




Passport Control in Turkey

- ✿ MBA student waited in queue at airport passport control.
 - ✦ *Officer took his passport but didn't return it.*
 - ✦ *"Is there a problem with my passport?"*
 - ✦ *"Nothing that \$50 won't fix."*





Passport Control in Turkey

- ✚ This is a facilitating payment.
 - ✚ *The student had a visa and was entitled to enter.*
 - ✚ *Inefficient, but perhaps not corrupting.*





Enron in India

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



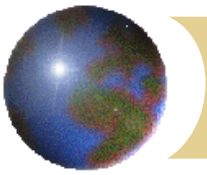


Enron in India

- ✿ *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.*



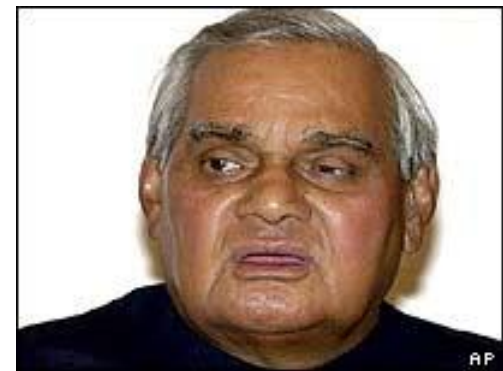


Enron in India

✚ Indian political situation.

✚ *Congress Party was in political trouble.*

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





Enron in India

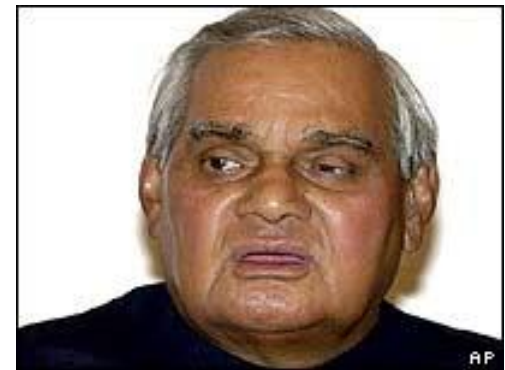
❖ Indian political situation.

❖ *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

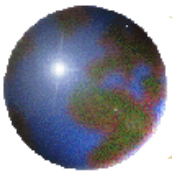
- ✚ Enron's apparent bribery became an issue in BJP campaign.

- ✚ *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

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





Enron in India

- ✚ Rebecca Mark passed over for Enron CEO.
 - ✚ *Ken Lay chose Jeffrey Skilling.*
 - ✚ *Skilling later convicted of felony charges related to Enron's collapse.*
 - ✚ *Sentenced to prison until 2028, later reduced to 2017.*





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

✿ How to get things done.

- ✿ *Work through connections.*
 - Family, friends of family.
 - Contacts with high-ranking people.
- ✿ *Bribery is corrupting.*
- ✿ *Bribery of government officials is illegal in India.*





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

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





Avoiding Bribery

✚ Avoiding bribery can be a challenge.

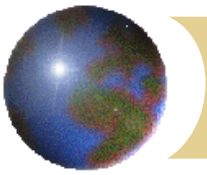
✚ *When legitimate cronyism and "wasta" slip into bribery.*

- Parts of Asia, Middle East.

✚ *When historical circumstances have disrupted the culture.*

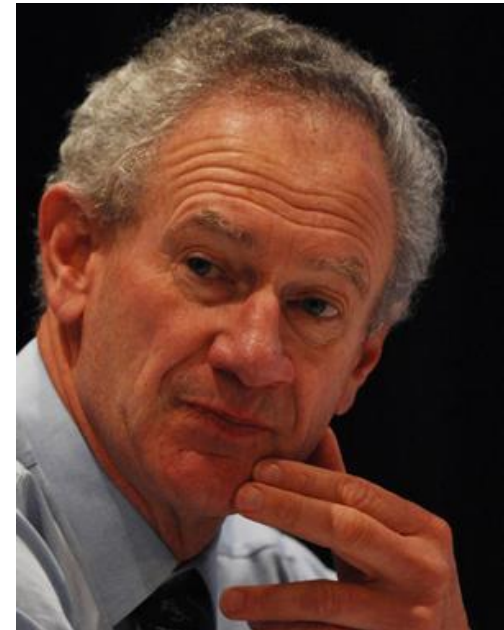
- War (Iraq, Afghanistan).
- Conquest by a foreign power (former Soviet Bloc countries).
- Exploitative colonialism (some African countries.)





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.





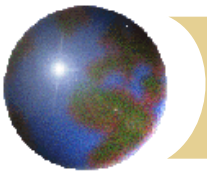
Leighton Timeline

2007

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

- To provide access to Gulf customers thru Riad al Sadik (left), Chairman of joint venture Habtoor Leighton Group.
- Got \$515 contract to build Habtoor Palace Hotel.
- So far, no problems.





Leighton Timeline

2008

■ *A senior Leighton project manager allegedly releases competitor bids to a subcontractor.*

- To build a pipelaying barge, the *Eclipse*.
- According to a company whistle-blower.





Leighton Timeline

2009

- ❏ *The same project manager allegedly used Leighton funds to buy \$500,000 worth of steel for Indian company Adani Group.*
 - To build another barge.
 - According to the same whistle-blower.

adani™





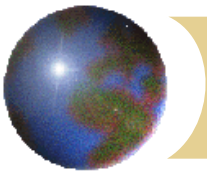
Leighton Timeline

2009

❏ *The manager says he became involved due to urging of Malaysian middleman Pakianathan Srikumar.*

- Srikumar helped secure \$1 billion in projects for Leighton in Asia, Middle East, Iraq, India.
- Received 10% kickback on some projects, some of which was passed to Leighton executives.
- According to internal Leighton documents.

No
Photo
Available



Leighton Timeline

✚ 2009

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

- To get \$750 million oil pipeline contract in Iraq.
- 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 reportedly forms new business venture while at Leighton.*

- Srikumar and al Sadik join his "Project T," chip in \$2 million each and offer to find customers.
- Project T formally established as Stonehouse Construction the day after Savage resigns from Leighton, with Savage as Director.





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.*
 - ✚ *Ideally, a wasta screens requests judiciously for a sheik, important family, or government official.*
 - *Helps the sheik to exercise his power wisely.*
- ✚ *However, wasta can be corrupted.*
 - ✚ *Especially if the wasta receives money from the client.*
 - *Conflict of interest.*





Leighton and Wasta

✚ *Wasta* is a necessity in the Middle East.

- ✚ *More effective than bribery.*
- ✚ *Very helpful in Asia, Africa, etc.*

✚ *Legitimate wastas don't take bribes or kickbacks.*

- ✚ *They are compensated in other ways.*
 - *Increased prestige*
 - *Gratitude from authority figures they serve*
 - *Expectation that the favor will be returned someday.*





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.*

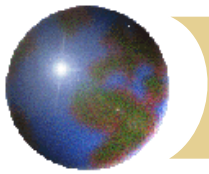




Celtel in Africa

- ✿ 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

- ✚ Bribery represents 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.*





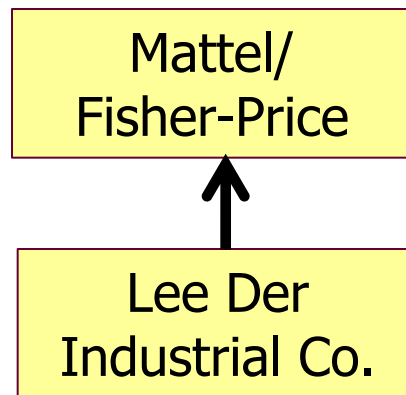
Mattel in China

- ✿ 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

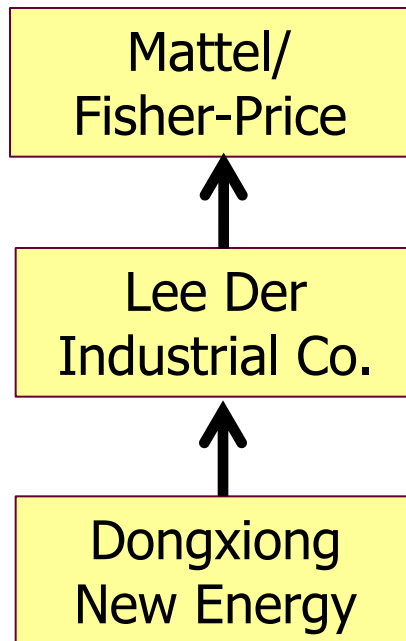


Fisher-Price sourced from Zhang Shuhong, manager of Lee Der Industrial Company. Zhang was totally dedicated to his job. He even lived in a small room at the factory.





Mattel in China

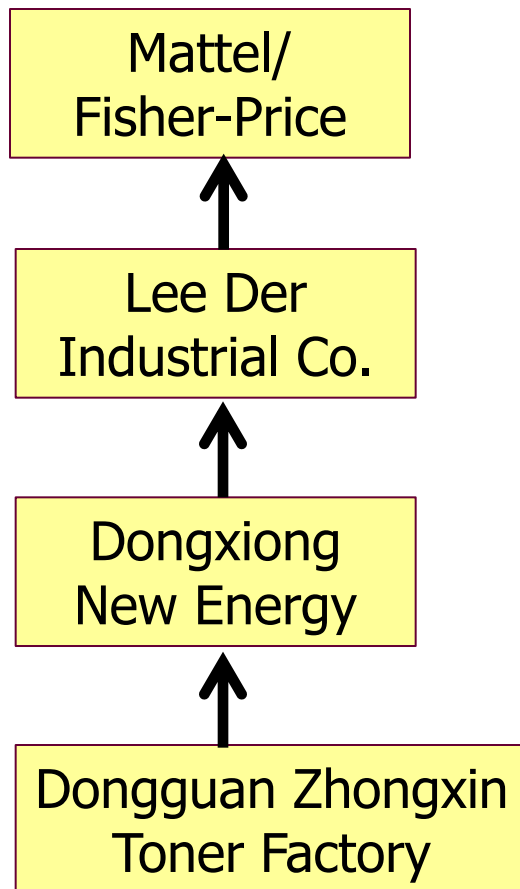


Zhang obtained paint from his trusted *guanxi* partner Liang Jiacheng at Dongxiong New Energy





Mattel in China

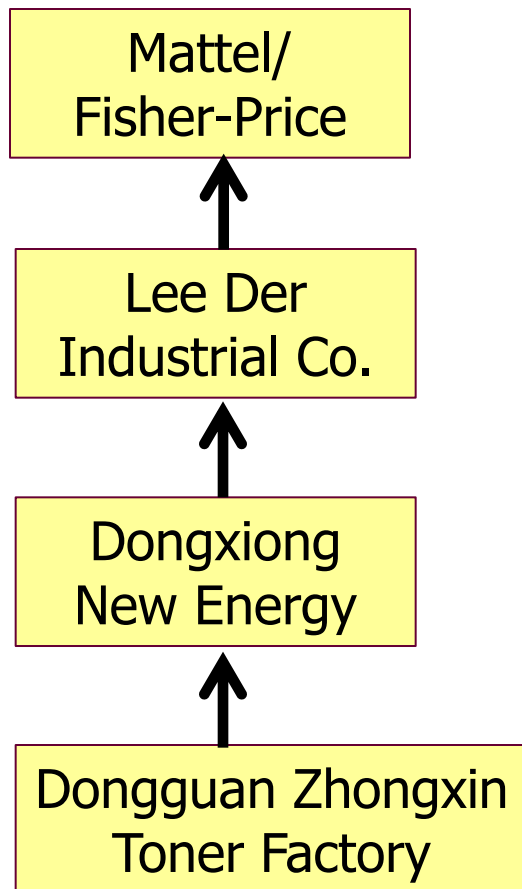


Liang was short of pigment and ordered it over the Web from people he didn't know.



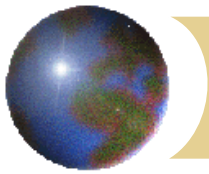


Mattel in China

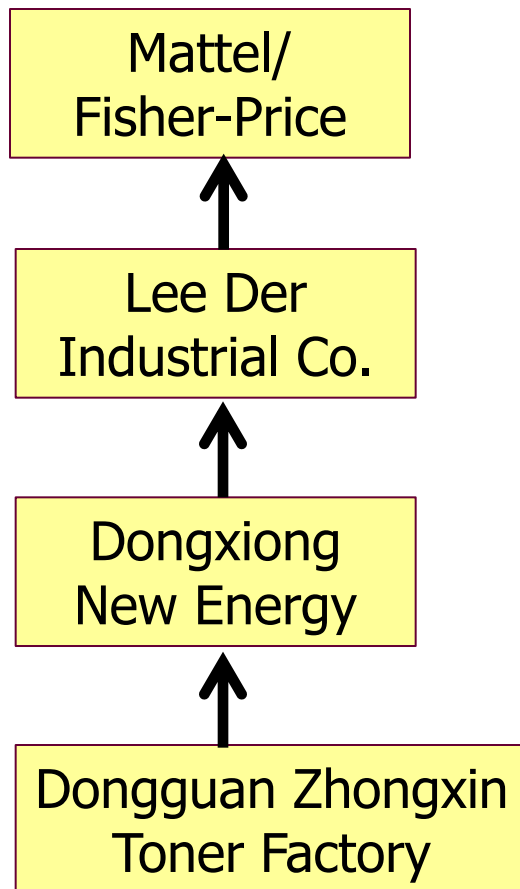


The supplier send lead-based pigment along with a forged certificate.





Mattel in China



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



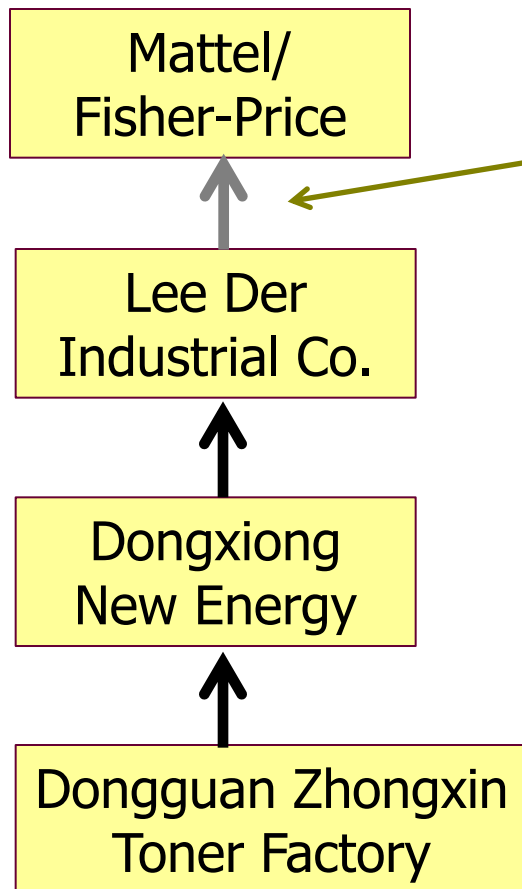
**Chinese Toy
Exec Commits
Suicide After
Recall**

China banned exports
from the company

Aug 13, 2007 7:59 AM CDT



Mattel in China



Weak link in the supply chain:

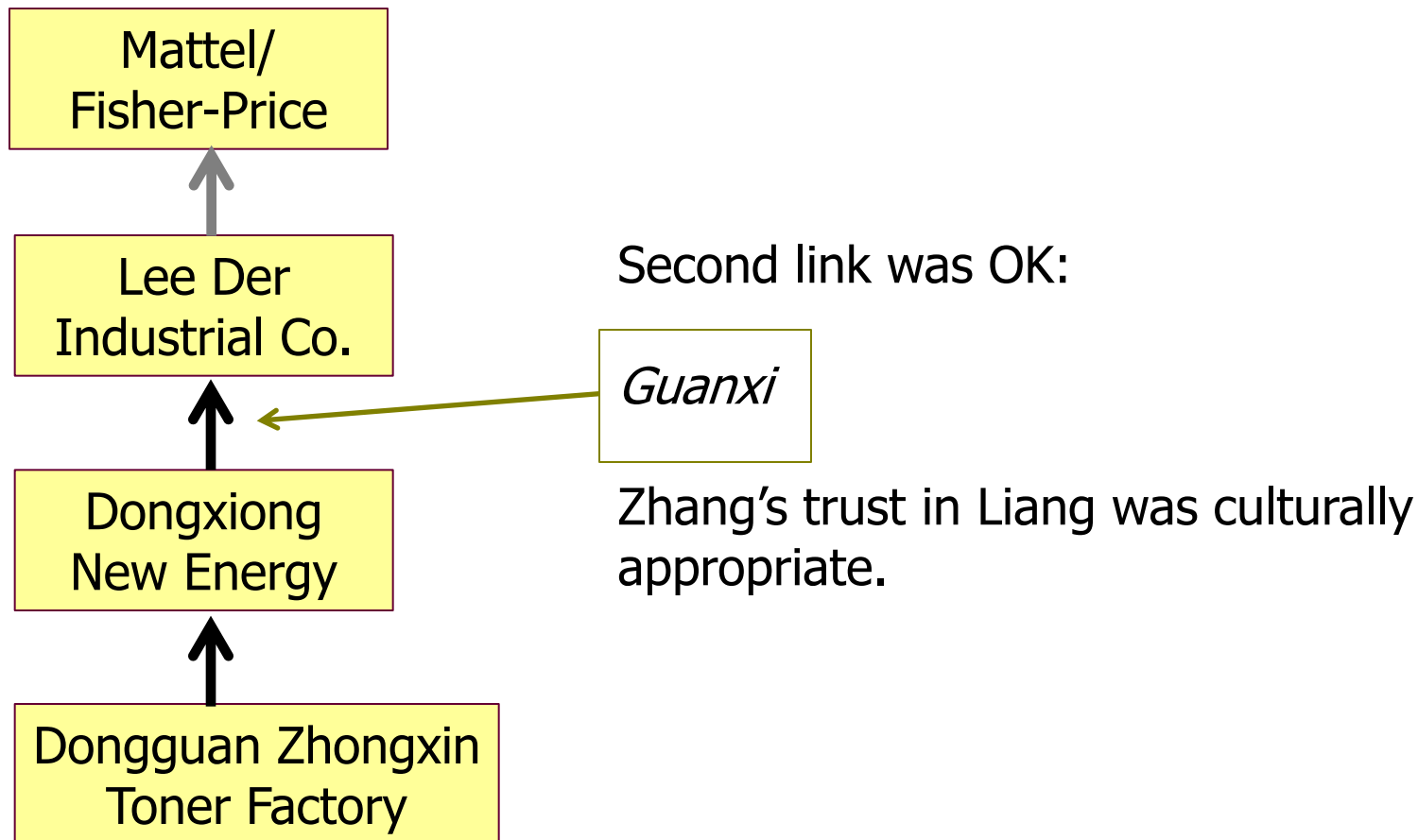
Transition from contract-based to relationship-based business.

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 in China

Mattel/
Fisher-Price



Lee Der
Industrial Co.



Dongxiong
New Energy



Dongguan Zhongxin
Toner Factory

Chain broke at third link:

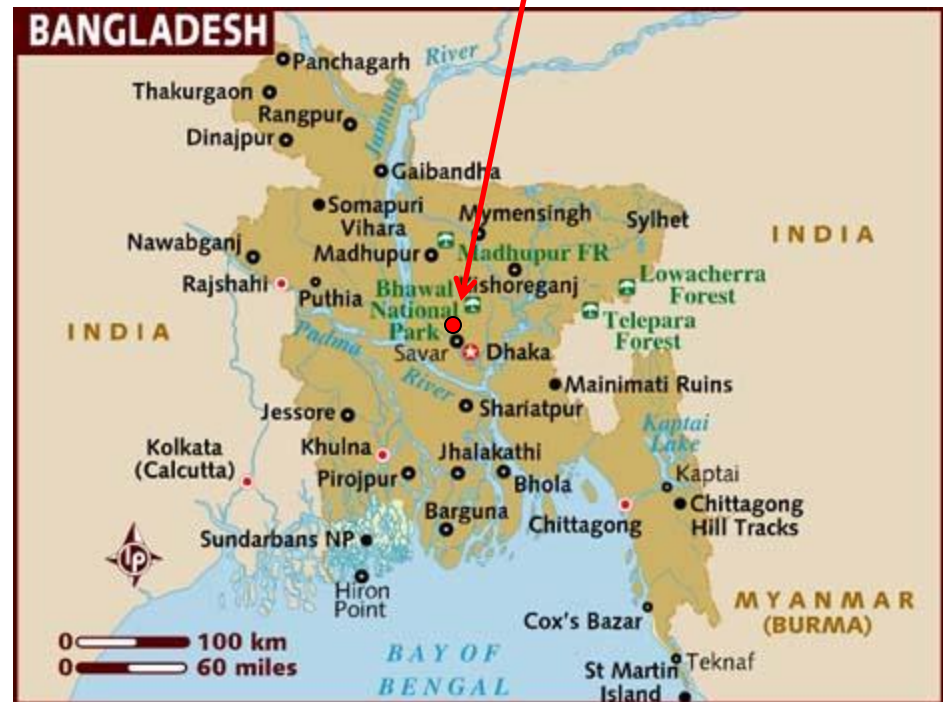
Culturally inappropriate trust of unknown party on the Web.



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.*



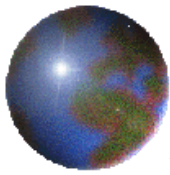


Apparel industry in south Asia

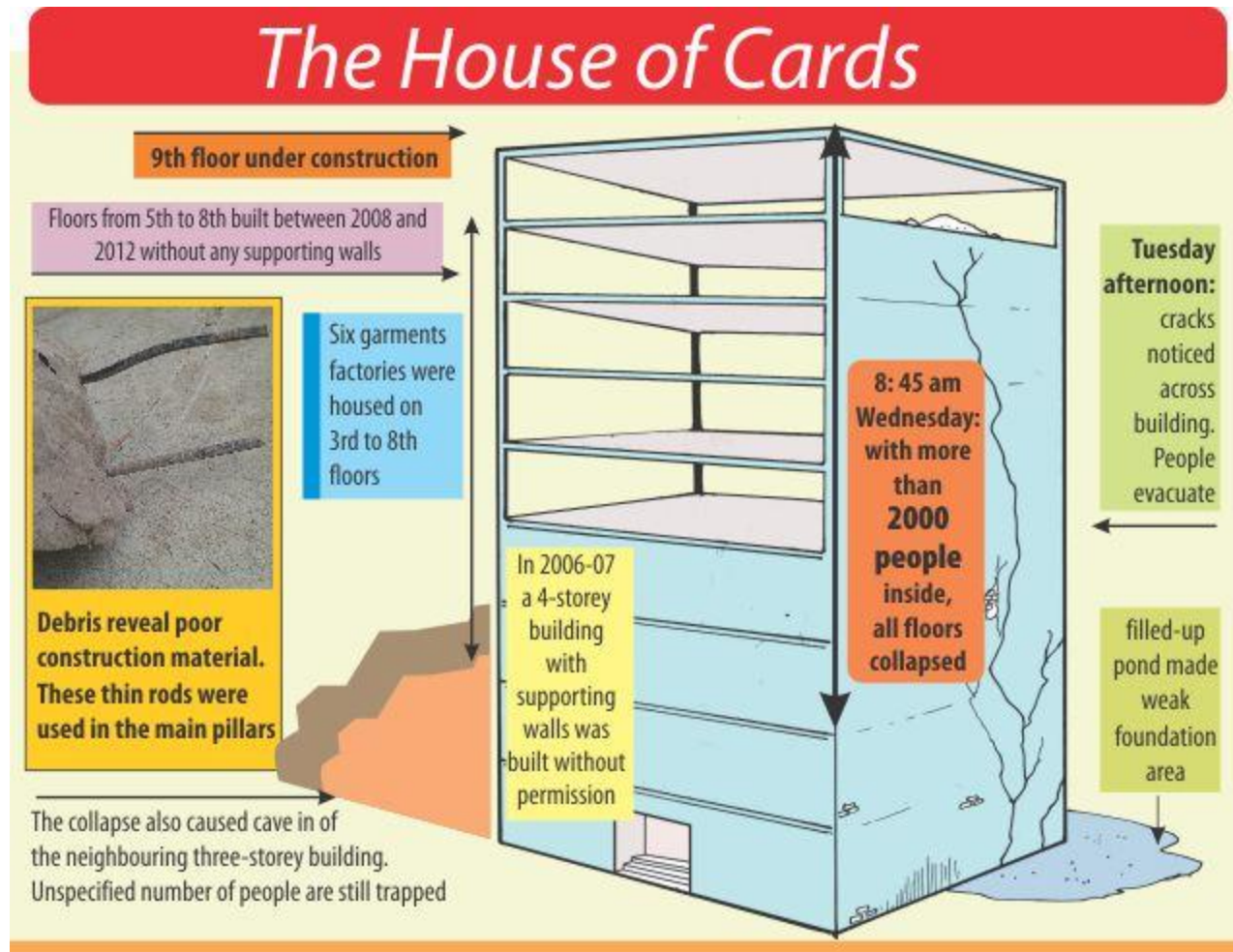
✚ At 8:45 am, the building collapsed.

✚ *1129 workers killed, >2000 injured*





Apparel industry in south Asia





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

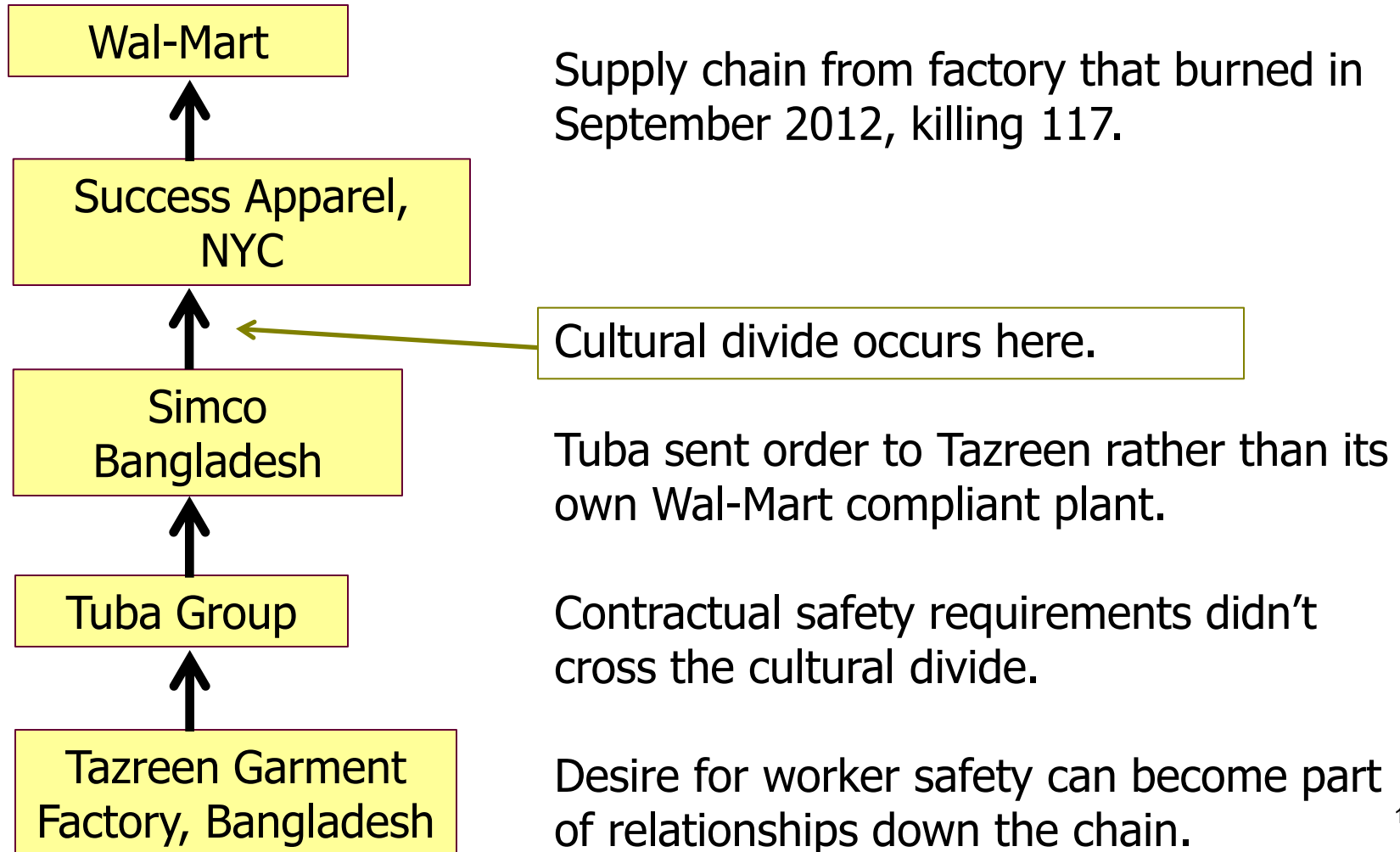
- ✚ Journalists found evidence in the rubble that Western firms were sourcing from these factories.
 - ✚ *Most firms claimed they didn't know about it.*



Calvin Klein

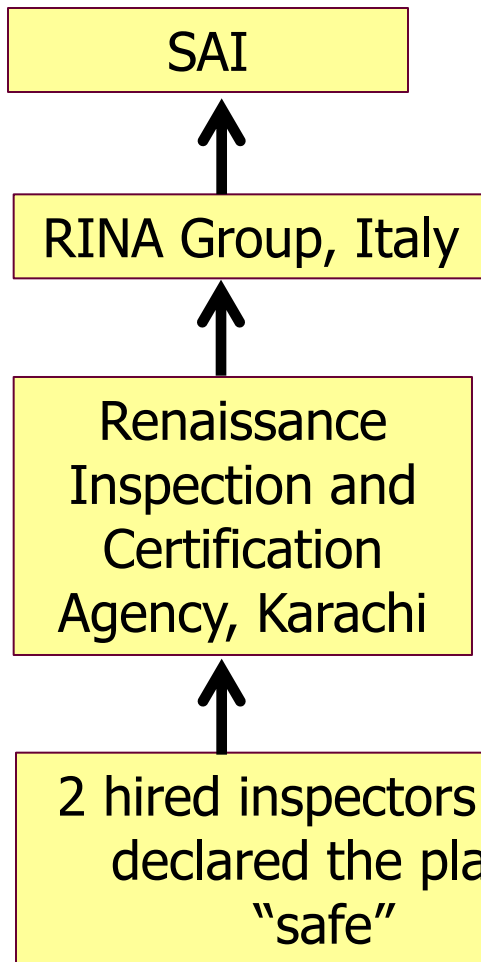


Apparel industry in south Asia





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.*





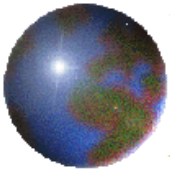
Apparel industry in south Asia

- ✚ 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?

