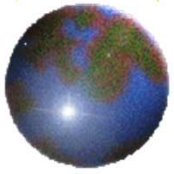


A Cross-Cultural View of Corruption

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Symposium on Ethics and Internationalization
University of Maryland, April 2004



Outline

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



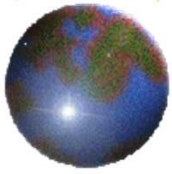
Outline

- ✦ *Scenario:* Korea
- ✦ Bribery around the world
- ✦ *Scenario:* China
- ✦ *Scenario:* Kenya
- ✦ Ethics and human nature



What Is Corruption?

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



Corruption as culturally defined

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



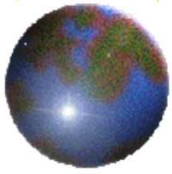
*What is **corrupt** here may be acceptable elsewhere*

- 📍 For example: purchasing agent
 - 📍 Agent may award contract based on **quality of the bids** or based on **personal connections**.
- 📍 Here, cronyism is corrupting.
 - 📍 Due to **conflict of interest** (company vs. agent)



*What is **corrupt** here may be
acceptable elsewhere*

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



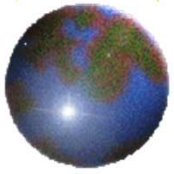
*What is **acceptable** here may be **corrupt** elsewhere*

- 📍 Here, lawsuits are routine.
 - 📍 Disputes are resolved by **appeal to the rules.**
 - 📍 Assume **individual responsibility.**
- 📍 In Japan, lawsuits are corrupting.
 - 📍 They would **undermine rather than restore harmony.**
 - 📍 Consider: airline crash; Shohei Nazawa of Yamaichi Securities.



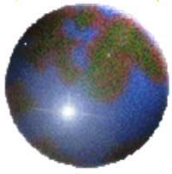
What is corrupt here and elsewhere may be corrupt for different reasons

- 🌐 Here, bribery is corrupt because it **undermines the rules.**
 - 🏠 There must be a general expectation that people will obey the rules.
- 🌐 In Confucian countries, bribery is corrupt because it **undermines personal relationships.**
 - 🏠 It is a short-cut around relationship building.



Scenario: Taiwan

- You are a manager in your company's Taiwan branch.
 - You meet with a team representing a potential Taiwanese supplier.
 - When the team leaves, you notice that one of them left his briefcase.
 - While looking for the owner's name, you find the case to be full of **cash**.



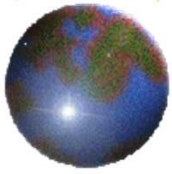
Scenario: Taiwan

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



Scenario: Taiwan

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



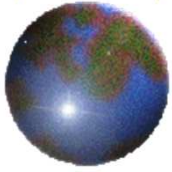
Scenario: Taiwan

- 📍 *Guānxi* provides a basis for **long-term** trust relationships.
 - 📍 It is uncivilized to renege on *guānxi*.
 - 📍 Given a proper relationship, one's word is his bond.
 - 📍 Legal enforcement is irrelevant.



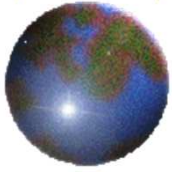
Scenario: Taiwan

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



Scenario: Taiwan

- ❏ One should not exacerbate this weakness in the system.
 - Bribery may sometimes be necessary, but one should not go along with it simply to “do as the Romans do.”
- 📍 **Bribery is corrupting in the West, but for a different reason.**
- ❏ It undermines the assumption that people are playing by the rules.



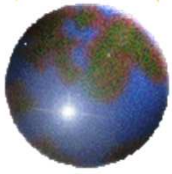
Scenario: Taiwan

- What to do about the briefcase?
 - Send a *trusted* subordinate to return the briefcase to the owner.
 - Send a vaguely worded message to the owner's boss, stating that you are returning lost property.
 - The owner clearly got the cash from his boss.
 - You don't want him to keep it, leaving his boss with the impression you accepted the money.



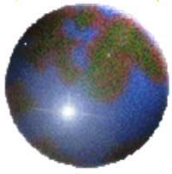
Relationships vs Rules

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



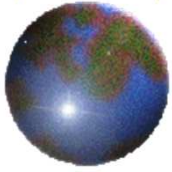
Rule-based investment

- 📍 Investment decisions are made on the basis of **public information**.
 - 📍 Provided by accountants who follow GAAP.
 - 📍 Based on **transparency**.
- 📍 Improper accounting **corrupts**.
 - 📍 Undermines trust in the system.



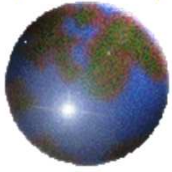
Relationship-based investment

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



Rule-based negotiation

- Negotiation is a **poker game**.
 - ❏ You can bluff, etc., but within the rules.
 - ❏ It doesn't matter much who the people are.
 - Aside from their skill at playing the game.
 - Or whether they are known cheaters.
- Appeals to logic and fairness/efficiency principles.
 - ❏ See *Getting to Yes*.



Rule-based negotiation

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



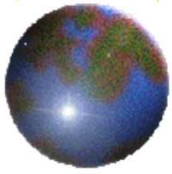
Relationship-based negotiation

- There is no framework of rules.
- The other party is **friend** or **foe**.
 - If a friend, there is **no formal negotiation**.
 - If a foe, negotiation is **war**, with no Geneva convention.
 - There is no neutral ground.



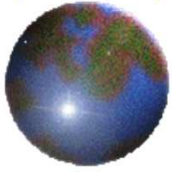
Relationship-based negotiation

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



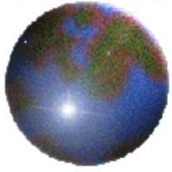
Relationship-based negotiation

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



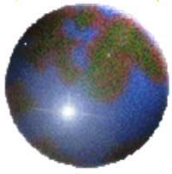
Relationship-based negotiation

- ❏ There may be **no discrete “deal.”**
 - Or if there is, it is constantly subject to revision as circumstances change.
- ❏ Enforcement is based on the **flesh-and-blood** relationship.
- ❏ Both parties invest in the relationship, in one way or another.
 - Emotional investment (Mexico).
 - Exchange of favors (China).
 - Honor, old boy connection (Japan).
 - Side payments (Korean government officials).



Efficiency vs. stability

- 📍 Rule-based, transparent business is **fast and efficient**.
 - 📍 Can do business with strangers.
 - 📍 No need to build personal trust relationships.
- 📍 But it is **unstable**.
 - 📍 Relies on structured and predictable political/legal environment.
 - Western-style business collapsed in Eastern Europe.
 - Impossible in much of Latin America.
 - 📍 Vulnerable to accounting scandals.



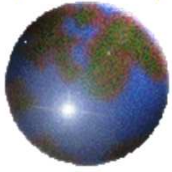
Efficiency vs. stability

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



Scenario: Korea

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



Scenario: Korea

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



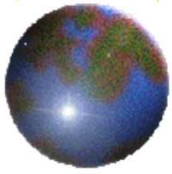
Scenario: Korea

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



Scenario: Korea

- The ethical issue.
 - One can argue that the success of the Korean business system relies on “special relationships” between business and government officials.
 - This is not a rule-based system.
 - There must be some mechanism to encourage people to abide by the government’s economic regulations.



Scenario: Korea

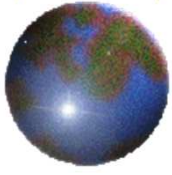
- ❏ One expensive and onerous mechanism is police power.
- ❏ Another is to require business people to “invest” in their relationships with government officials.
 - The business person has an incentive to go along with the official’s wishes in order to preserve a costly relationship, thus allowing the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



Scenario: Korea

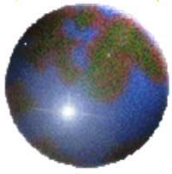
- Since the practice can get out of hand, it is loss of face to be exposed in bribery.
- Analogous to illegal parking in the USA: a certain amount of it is necessary.
- Journalists sometimes take bribes from a government official in exchange for not exposing his receipt of bribes.

🇺🇸 On this argument, paying the bribe (indirectly) is not a form of corruption.



Scenario: Korea

- 📍 Is it legal?
 - 📍 The U.S. Foreign Corrupt Practices Act forbids bribery of foreign **government** officials.
 - 📍 The Act distinguishes **bribery, extortion, and facilitating payments.**
 - Only bribery is illegal under this Act.



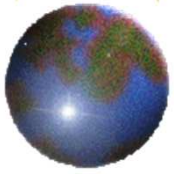
Scenario: Korea

- ❏ Is the Korean payment legal under U.S. law?
 - Ask your lawyer.
- ❏ Note that the host country may have anti-corruption laws.



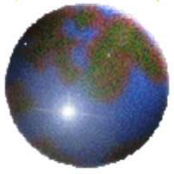
Bribery Around the World

- 🌐 China/Taiwan.
 - 🏢 Bribery is **common** in some contexts.
 - 🏢 It is corrupting because it undermines more stable forms of relationship, such as *guānxi*.
 - 🏢 In mainland China, possible severe penalty (e.g., death) for bribing government officials.
 - Bribery erodes centralized government power.



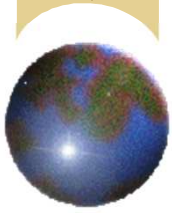
Bribery around the world

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



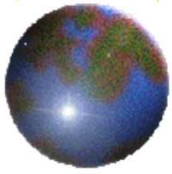
Bribery around the world

- 🌐 Japan.
 - 🏢 Scandals periodically come to light.
 - 🏢 Bribery is corrupting because it **undermines group solidarity**.



Bribery around the world

- 📍 Singapore.
 - 📍 Bribery is strictly forbidden and not practiced.
 - 📍 **Rules** enforced by public acceptance of authoritarian government.



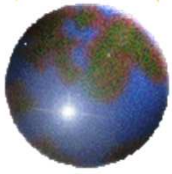
Bribery around the world

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



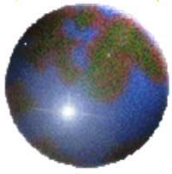
Bribery around the world

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



Bribery around the world

- 📍 Russia/Eastern Europe.
 - 📍 Bribery is common but an unmitigated evil.
 - 📍 It is a symptom of **system breakdown**.
 - 📍 Better to use corporate clout, connections, and pro bono activities; maintain a clean reputation.



Bribery around the world

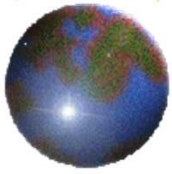
- 📍 Arab countries.
 - 📍 Much local variation.
 - 📍 **Kickbacks** are common, sometimes written into the contract.
 - 📍 Hard to make ethical judgments, due to local conditions and mixing of cultures.



Bribery around the world

🌐 Turkey.

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



Bribery around the world

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



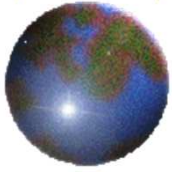
Bribery around the world

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



Scenario: China

- You are in Shanghai to complete arrangements for a joint venture.
 - Your Chinese counterpart has proposed several persons for top executive positions.
 - They include his son-in-law, his brother, his nephew, etc.
 - Should you object?



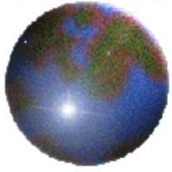
Scenario: China

- Nepotism can be a positive factor in Confucian cultures.
 - ❏ In the West, the boss tends to go easy on relatives.
 - ❏ In Confucian cultures, the boss (patriarch of the family) exercises greater authority over family members than others.
 - Also knows their strengths and weaknesses.



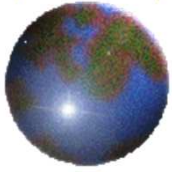
Scenario: China

- More fundamentally, the family is the foundation of Confucian culture.
 - Children support parents/grandparents in old age, parents get jobs for children.



Scenario: Kenya

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



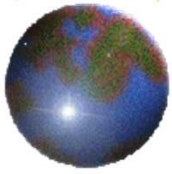
Scenario: Kenya

- Your sense of equality encourages you to try to convince the staff that you are “one of them.”
 - This is admired in USA, Australia, etc., but not in most of the world.



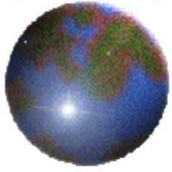
Scenario: Kenya

- Attempts to promote equality violate the norms of an authoritarian culture.
- Subordinates **lose respect for the boss.**
 - In Africa, they also resent invasion of their turf.
- Authority is **not earned by individual merit.**
 - It is endowed by circumstances (family, appointment, mandate of heaven, etc.)
 - Your duty is to accept your role.



Scenario: Kenya

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



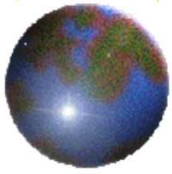
Ethics and Human Nature

- 📍 Cross-cultural ethics ultimately reflects different interpretations of **human nature**.
- 📍 *Western view:* human beings are **autonomous rational individuals**.
 - 📍 Whence the central role of equality and rationality in ethics, emphasis on individual responsibility.



Ethics and human nature

- *Confucian view*: human beings surrender much of their autonomy to parents, ancestors, the emperor, etc.
 - ❑ We are creatures defined by **relationships** rather than autonomous rational beings.
 - ❑ Whence the central role of **authority**, **saving face**, placing responsibility on the **ruler** rather than the individual.
 - ❑ Confucian cultures: China, Taiwan, Japan, Korea, Vietnam; subcultures of Singapore, Indonesia, Malaysia, etc.



Ethics and human nature

- *African view (other cultures as well):* the basic unit of human existence is the **community**, not the individual.
- *Many traditional cultures:* there is no fundamental difference between human beings and other animals.
- *Hindu/Buddhist view:* human beings are not separate entities but manifestations of a **single consciousness** (*atman*).