



*A business partner
committed to your success
in China*

Business Ethics in Asia:



Staying Clean in the Quagmire of Unethical Business Practices

- Speech by AC Capital Managing Director, Alistair J. Nicholas, to Asia-Pacific Regional Management Team of A Global Fortune 100 Company

The Ethics Dilemma

- ❑ Business' contract with society
 - Are companies subject to a social contract?
- ❑ Do cultural differences apply?
 - Is the social contract different in Asia to Europe and North America?
 - Can we know right and wrong?
- ❑ Corporate responsibility
 - Can companies make a difference?
- ❑ A more moral world
 - Great expectations
 - Backed by legislation
 - And globalisation
- ❑ What about the "grey" areas?
 - Drinking, playing golf, karaoke, dining the taxman, etc.
- ❑ Doing well by doing good



Business' Contract with Society

- ❑ Does business have responsibilities
 - Is business' role only to maximise profits?
 - What about a company's responsibilities to stakeholders
 - Shareholders
 - Employees
 - Business partners
 - Customers/consumers
 - The general public
 - Government
- ❑ There is a view that business has a contract with society, that it has obligations and duties to fill

But Asia is different, demanding a different mode of behaviour, a different modus operandi



*A business partner
committed to your success
in China*

The Asian Experience

- ❑ Confucianism and Guanxi (关系)
 - Corruption of the virtuous
- ❑ Byzantine bureaucracies & command economies
 - Daunting size and red tape
 - Poorly educated and poorly paid employees
- ❑ Temptations of the *gods*
- ❑ Weak legal structures
- ❑ Absence of a free press



*A business partner
committed to your success
in China*

We Are The Same

“If you prick us, do we not bleed?” – William Shakespeare, *The Merchant of Venice*

Corruption impacts all societies equally

- Decision-making distorted and irrational
- Disproportionate resource allocation
- Business and economy negatively impacted
- Investment frightened away
- Rich get richer, poor get poorer
- Individuals most hurt by corruption



No one has put forward an intellectual argument in support of corruption, not even in the most corrupt of societies; no one admits to being corrupt and every society has rules against corruption – although enforcement may be weak



*A business partner
committed to your success
in China*

Corruption Index & Rankings

Country	Corruption Perception Index (2004)	Rank
Singapore	9.3	5
Australia	8.8	9
Hong Kong	8	16
France	7.1	22
Japan	6.9	24
Taiwan	5.6	35
South Korea	4.5	47
Thailand	3.6	64
China	3.4	71
India	2.8	90
Philippines	2.6	102
Vietnam	2.6	102
Indonesia	2	133

Transparency International ranks 146 countries on corruption. For more details see: www.transparency.org or www.icgg.org



*A business partner
committed to your success
in China*

The Saints Seduced

- ▣ Guanxi and “gifting” critical to business success
- ▣ It’s part of the culture – when in Rome...
- ▣ Can’t afford to be the only virgin in the brothel
- ▣ Individual rationalisations
 - “Best interests of the company”
 - “This is how things get done”
 - “They’ve been doing it this way for a long time”
 - “It’s only a small amount of money compared to what’s at stake”

Corruption is a subtle, incremental process



WALL STREET

Corruption's Impact On The Company

- ❑ Corruption reduces working capital, impacts bottom line
 - Costs of corruption have to be recovered
- ❑ "Snowball" effect on individual and company
- ❑ Corrupt practices follow the company home
- ❑ Corruption impacts on the culture of the home country of the company
- ❑ Corruption hurts the reputation of the company and long-term business sustainability
- ❑ Places individual in compromising position

Most companies have codes of ethics to protect long-term sustainability of the organisation



Corporate Responsibility

- ▣ Part of the social contract to improve business practices in countries of operations
 - Many people attracted to working for ethical companies in Asia so they can rise above the corrupt practices of local firms
 - Expectation that foreign companies should behave better than local organisations
- ▣ Responsibility to shareholders
 - Shareholders lose from lower returns
 - Corporate Social Responsibility audits and indexes



Towards A More Moral World

▣ Great Expectations

- Society is holding business up to a higher standard
 - Asian society following suit

▣ Legal Requirement

- OECD guidelines
- US – Foreign Corrupt Practices Act
- UK – Anti-corruption laws
- France – most stringent laws
 - 15 years for trans-national bribery
- Most Asian countries have strong anti-corruption legislation
 - China included – problem is enforcement
 - Penalties can be stiff, up to death

▣ Globalisation and access to world financial markets

- Corporate Governance and shareholder confidence
- Need to set example



*A business partner
committed to your success
in China*

Which Way Does The Compass Point?

- ❑ Bribery and kickbacks?
- ❑ Nepotism and special favours?
- ❑ Misappropriation of property?
- ❑ Insider trading, price fixing and collusion?
- ❑ Discrimination and sexual harassment?
- ❑ Intellectual property rights infringement?



*A business partner
committed to your success
in China*

The “Grey” Areas

- ❑ Gift giving & taking
- ❑ Fam trips
- ❑ Golf
- ❑ Karaoke
- ❑ Eating and Drinking
- ❑ Dining the taxman
- ❑ Payments to media

Setting limits, monitoring, reporting and evaluating



*A business partner
committed to your success
in China*

Graceful, Face-Saving Exits

- ▣ Company's reputation for probity & code of ethics
- ▣ Reference to company position
- ▣ Reference to national laws
- ▣ Health issues

Give a valid reason or reasonable excuse why you can't act in certain ways and it will be understood



WALL STREET



Doing Well By Doing Good

- ❑ Society, whether in the West or Asia, holds business up to a higher standard
- ❑ There is a social contract and companies are party to the contract
- ❑ If we fail to deliver on our half of the social contract we will be punished by consumers, employees and government – and the media
- ❑ Businesses that ignore the social contract will not survive in the new world order.



*A business partner
committed to your success
in China*



“Do not be desirous of having things done quickly. Do not look at small advantages. Desire to have things done quickly prevents their being done thoroughly. Looking at small advantages prevents great affairs from being accomplished.”

- Confucius



*A business partner
committed to your success
in China*

Bibliography

- ❑ Michael Backman & Charlotte Butler, *"Big in Asia"*, Palgrave Macmillian 2003.
- ❑ Ethan Guttman, *"Losing the New China"*, Encounter Books, 2004
- ❑ *"Wall Street"*, Written and Directed by Oliver Stone, 20th Centry Fox, 1987.
- ❑ *"The short arm of the law"*, 28 Feb 2002, Economist print edition
- ❑ *"The world in 2005"* The Economist Special edition.
- ❑ Transparency International, www.transparency.org

Bibliography

- ❑ Paul Reynolds, *"Profit and Principles: Business ethics in Hotel Management Companies in Asia"*, Australian Journal of Hospitality Management, Autumn, 2000, v7.
- ❑ Wharton Business Ethics, <http://knowledge.wharton.upenn.edu>
- ❑ Charles Darwent *"Sullied Hands and Sweetheart Deals"*, Chief Executive (U.S.), April 1996 n112
- ❑ Deidre McMurdy, *"The True Cost of Bribery"*, Maclean's, Nov 24, 1997.
- ❑ Scott D. Seligman, *"Chinese Business Etiquette"*, Warner Books, 1999.



*A business partner
committed to your success
in China*

商务伙伴致力于您的成功

Thank you

Contact:

Alistair Nicholas

Managing Director

Tel.: 86-10-6417-2588

Fax.: 86-10-6417-9547

E-mail: alistair.nicholas@accapitalpr.com

Website: www.accapitalpr.com