Chapter 47
Business Ethics in Emerging Economies:
Identifying Game-Theoretic Insights for Key Issues

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ABSTRACT

This chapter seeks to identify useful game-theoretic insights concerning key issues of business ethics in emerging economies. The study considers four elements in this sequence: game theory, emerging economies, business ethics, and key issues. The chapter does not undertake formal modeling but rather emphasizes useful insights. Game theory provides assistance in reasoning about strategic scenarios for businesses in emerging economies. A multinational entity operates within layers of institutions and norms from international to national and sub-national levels. The approach taken here is to inquire into certain specific decision scenarios available in the extant literature as instances of important classes of decision problems. These scenarios involve long-term sustainable business models, corporate values, and corporate reputation.

INTRODUCTION

The purpose of this chapter is to identify useful game-theoretic insights concerning key issues of business ethics in emerging economies. An insight should be of assistance to understanding and implementing business strategy and government policy, as well as international consensus on ethical (and legal) standards. The study draws on four elements which will be addressed in the following sequence: game theory, emerging economies, business ethics, and key issues.

The chapter is structured as follows. This section explains in general terms game theory and criteria for defining emerging economies. The explanations are background for addressing key issues of business ethics. The next section reviews the business ethics literature concerning game theory. The subsequent section identifies game-theoretic insights for four key issues of business ethics in emerging economies. (Some illustrations are drawn from developing economies; the rationale is explained below in the sub-section on defining emerging economies, as the dividing

line is evolving and gray.) The concluding section of the chapter emphasizes the findings and their implications for business ethics in emerging economies.

Game Theory

Game theory is a formal (or logical) analysis of conflict or cooperation (two conditions which may be mixed in specific instances), among interdependent actors, which is suitable for study of strategic scenarios. A game-theoretic setting, or strategic scenario, concerns action and reaction for two or more interdependent actors (e.g., individuals or groups or organizational entities). Thus, the actors can be businesses, countries (i.e., national governments), and non-governmental organizations (NGOs) or other stakeholder groups. An actor has a desired payoff (i.e., reward or benefit) and decisions (i.e., choices or strategies). The actor's selected strategy affects the payoff of some other actor. A game has this set of characteristics.

In a simple version of pure economic conflict (basically in the form of allocation games), perfect competition involves no such influences on other actors (ignoring negative externalities); pure monopoly is the absence of any competitors. In between those two abstract polar-opposites, imperfect competition (such as duopoly and oligopoly) involves strategic interaction among economic actors. Cooperation is in practice arguably a more complex matter for study, for example in instances of common-pool resources and public goods (Ostrom, 2009). A body of literature supports the view that collective action can occur through institutional evolution among cooperating individuals acting outside of formal government (Ostrom, 1998; Ostrom & Gardner, 1993).

Formal modeling applies the mathematical theory of games to economic analysis. Formal modeling emphasizes identification of optimal (i.e., best available) strategies and prediction of resulting outcomes. Bargaining theory is a subset of game theory in which the actors engage in negotiation in some form as in business – union wage negotiation. Evolutionary game theory is basically about models in which strategies are chosen by trial and error so that there is actor learning over time about performance of strategies. Formal game theory thus has a static character (i.e., best payoffs or decisions), whereas bargaining and evolutionary theories have a more dynamic character in which multiple moves and learning processes may occur. Bargaining and evolutionary learning approaches address dynamic interactions leading to change in outcomes and also institutional arrangements (Henrich, 2006).

Game theory has been applied to the study of how institutions and norms develop and evolve (Binmore, 2010; Opp, 2001). However, such institutions and norms are weak in emerging (and developing) economies, where governments range from relatively corrupt democracies (e.g., India) to evolving one-party "enlightened dictatorships" (e.g., China). There is marked separation of formal and informal norms, and often informal non-enforcement of the former. Bribes and facilitation payments are typically illegal in the country where paid, but corruption is often pervasive. From December 2009, the Organisation for Economic Co-operation and Development (OECD) recommends against facilitating payments, legal under US law but illegal under UK law under the US Foreign Corrupt Practices Act (FCPA) of 1977 and the UK Bribery Act of 2010. The US Supreme Court addressed corporate liability under the Alien Tort Claims Act (ATCA), or Alien Tort Statute (ATS), of 1789 in *Kiobel v. Royal Dutch Petroleum Co.,* a case arising in Nigeria (Scheffer & Kaeb, 2011).

The court unanimously, but splitting 5-to-4 on specific rationales, found a presumption against extraterritorial application of ATS. Conduct must occur within US jurisdiction (at least in important part) or on the high seas, and not purely in another country such as Nigeria. The majority opinion argued the 1789 act had not been intended for extraterritorial reach (but rather for protection of foreign ambassadors in the United States). There

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