

## AUSTRALIAN GRADUATE SCHOOL OF MANAGEMENT

### Business Ethics

#### The Industrial Products Company

The purchasing manager of the Industrial Products Company (IPC) is Mr. Bill Posters. IPC is situated in a metropolitan seaport of over 1 million inhabitants. The company processes certain imported raw materials for sale to other manufacturers.

Recently a Royal Commission on organised crime, appointed to study crime in the community, issued a report which emphatically and directly linked a local road transport contractor with organised crime (perhaps the Mafia) and with crime and corruption on the waterfront docks. The report shows in detail how this firm seems to operate more efficiently (that is, with lower costs) by paying bribes to give its trucks preference at the docks while other trucks wait, by collecting protection money from shipping lines and unions to prevent pilferage and damage on the docks, by collecting similar protection money from competing truckers to prevent pilferage and accidents, and by other practices.

For the last seven years Mr. Posters has purchased all contract trucking through the alleged organised-crime-linked trucking company because its bid price for services is about 2 percent lower than that of other truckers. Annual contract trucking purchases for IPC exceed \$200,000. The trucking company's services have been consistently of high quality, clearly equal to the services Mr. Posters could expect from other trucking companies.

The IPC policy manual for Mr. Posters' department includes the following statement: "The mission of the procurement department is to ensure that all products, materials, and services are purchased at take lowest cost and best terms possible. To accomplish this mission, all appropriate steps may be taken, including renegotiation, value analysis, and changing vendors."

Mr. Posters believes the Royal Commission report to be accurate, and he personally is much opposed to organised crime.

Although Posters is concerned, he is not sure what to do. He believes that if he awarded next year's contract to any other trucker which bid higher, IPC would suffer some unfortunate trucking accidents, delays in delivery, pilferage and other difficulties, in addition to paying more for trucking services. He is not sure management would support an award to a higher bidder on the basis of the Royal Commission's allegations.

*Questions:* If you were Mr. Posters, what would you do, why would you do it, and how could you go about it?

Discuss these questions in groups, and be prepared to report on your group's conclusions, including both sides of the arguments. If disagreement remains, give numbers for and against any proposal.

Hint: for some useful analysis, see Charles Grutzner, "How to lock out the Mafia," *Harvard Business Review*, March-April, 1970, pp. 45-58.