



Business Ethics

Professor: Bob Marks & Damian Grace

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Presentation Case Summary.

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Asian Pulp and Paper (APP), a well known, major paper manufacturer in Asia found itself facing severe financial crisis as a consequence of some poor decisions taken by its management in the past. The company started an anti competitive pricing policy

and lowered the price of its product by substituting its raw material resources with cheaper wood. As a result they manage to price out major competitors from the market. However, unable to sustain its market position, the company overburdened its capital structure with excessive amount of debt which it was unable to service because of falling margins causing a fall in its share price. The issue APP faces is that whether it should continue depleting the natural resources of the rainforest which may become scarce eventually and also cause harm to the environment or should it look at the interest of its Investors as well as for ethical issues, switch to a more sustainable source of raw material. Furthermore, since the government and investors have vested interest in the ultimate profitability of the company, the case highlights the ethical dilemmas faced by the various stakeholders to the company and the consequence of their actions on the others. (APP has to do all it could to recover from its current situation.)

There are several issues that need to be addressed before a justifiable action can be suggested for the company. The most important dilemma is from the point of view of the Government who has now become the major preferential creditor and would get first right to the asset of the company in case of bankruptcy. The government is responsible for the consequence of APP's action of cutting down the tropical forest and affecting the environment. However, it may also be interested in any short term gains to be made from the company's immediate profitability. The government also faces the moral responsibility of creating a law that helps to protect the interest of the society from any corporation that indulges in environment unfriendly behaviour.

The case also brings to question APP's responsibility towards both its shareholders as well as its environment and society. On one hand it faces the 'unethical' issue of indulging in anti competitive behaviour and killing other players in the market and also of damaging the environment by felling trees and, on the other hand it faces the principle of 'maximising shareholder value' for its investors. The management of APP has clearly ignored the consequence of its action over the long term sustainability of the company. Furthermore, it has ignored its moral responsibility towards the larger community of people and the implications of cutting down trees without replanting them.

The investors are also considered guilty on grounds of encouraging such practices despite full knowledge of the company's activities. The question is that who decides what is the Bank's liability towards the company's current situation and where should it draw the line? Is it the responsibility of the bank to ensure that the money it lends to each and every customer is being used for 'socially ethical' purposes or should they only serve the interests of the people directly affected by its action i.e. employees and lenders? Banks have the incentive to continue to force APP to cut down trees to recoup costs however, they have the choice, assuming complete knowledge of APP's operations, to discourage such practices and treat the funds applied formerly as sunk costs. The question that arises here is that what resources can banks allocate for investigating the ethical character of their clients' activities?

The answer to these questions is that all stakeholders do have some social responsibility to which they need to subscribe to for the greater good of the society. The effect of their actions over other stakeholders can be demonstrated through the Virtuous Circle (presented in the case).

In the end we have identified principles for the government, company and its shareholders which is to maximise shareholder wealth and fulfil certain social responsibilities. These principles are applied to deal with situations that call in question the fact that should we be engaging in environmentally irresponsible behaviour? APP has to choose between the interests of the other stakeholders i.e. the society and the British Investors.

The right answer to all these questions is to find a win-win situation which should perhaps be done by investing in environmental friendly methods of doing business - recycling paper, replantation.