

AUSTRALIAN GRADUATE SCHOOL OF MANAGEMENT

Business Ethics

Case study: International Business

In 1972 and 1973, A. Carl Kotchian, President of Lockheed, authorised secret payments of \$12 million to representatives of the Japanese Prime Minister, Kukeo Tanaka. The revelation of these bribes led to the resignation of Mr Tanaka and his successor, Takeo Miki, who was accused of trying to cover for Mr Tanaka.

Since 1958, Lockheed had been employing the services of Yoshio Kodama, “an ultra right-wing war criminal and reputed underworld figure” with good connections to the ruling Liberal Democratic Party. Kodama was again hired in 1972 to help Lockheed sell its TriStar airliners to the only uncommitted major airline in the world, ANA. Lockheed had only narrowly averted bankruptcy in 1970 and secured a government loan of \$250 million under controversial conditions the following year. Kotchian was concerned with Lockheed’s survival, and the fate of thousands of employees.

This bleak situation all but dictated a strong push for sales in the biggest untapped market left - Japan. This push, if successful, might well bring in revenues upwards of \$400 million. Such a cash inflow would go a long way towards helping to restore Lockheed’s fiscal health, and it would, of course, save the jobs of thousands of the firm’s employees. [Statement of Mr Kotchian]

Mr Kotchian admitted that he “knew from the beginning that this money was going to the office of the Prime Minister”. He defended his actions by stating that the payments were in keeping with local business practices and were not contrary to *American law*. Moreover, the payments were initiated not from Lockheed, but from its Japanese contacts.

If Lockheed had not remained competitive by the rules of the game as then played, we would not have sold (our planes) ... I knew that if we wanted our product to have a chance to win on its own merits, we had to follow the functioning system.

Lockheed’s negotiations resulted in \$1.3 billion in contracts, which were cancelled after the disclosures were made. In 1977, the Foreign Corrupt Practices Act was passed by Congress and signed into law. This prohibits American corporations making payments to foreign governments to advance their business interests.

Dirty Hands: A Case Study

In 1972 and 1973, A. Carl Kotchian, President of Lockheed, authorised secret payments of \$12 million to representatives of the Japanese Prime Minister, Kukeo Tanaka. The revelation of these bribes led to the resignations of Mr Tanaka and his successor, Takeo Miki, who was accused of trying to cover for Mr Tanaka.

Since 1958, Lockheed had been employing the services of Yoshio Kodama, an ultra right-wing war criminal with a reputation as an underworld figure and with good connections to the ruling Liberal Democratic Party. Kodama was again hired in 1972 to help Lockheed sell its TriStar airliners to the only uncommitted major airline in the world, ANA. Lockheed had only narrowly averted bankruptcy in 1970 and secured a government loan of \$250 million under controversial conditions the following year. Kotchian was concerned with Lockheed's survival, and the fate of thousands of employees. According to Kotchian,

This bleak situation all but dictated a strong push for sales in the biggest untapped market left — Japan. This push, if successful, might well bring in revenues upwards of \$400 million. Such a cash inflow would go a long way towards helping to restore Lockheed's fiscal health, and it would, of course, save the jobs of thousands of the firm's employees.

Lockheed presented its case officially through Marubeni, a private company. Toshiharu Okubo was the executive of Marubeni handling Lockheed's case, and he told Lockheed that "five hundred million yen is necessary for such sales" of aircraft. Kotchian admitted that he "knew from the beginning that this money was going to the office of the Prime Minister", but "from a purely ethical and moral standpoint I would have declined such a request. However, in that case, I would *most certainly* have sacrificed commercial success". He defended his actions by stating that the payments were in keeping with local business practices and were not contrary to *American* law. Moreover, the payments were initiated not from Lockheed, but from its Japanese contacts.

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Lockheed's negotiations resulted in \$1.3 billion in contracts, which were cancelled after the disclosures were made. Kotchian was forced to resign. In 1977, the Foreign Corrupt Practices Act was passed by Congress and signed into law. This prohibits American corporations making payments to foreign governments to advance their business interests.

These facts are not in dispute. Lockheed did not offer a bribe: it was demanded by the intermediaries. Use of such intermediaries is common in Japan, especially in dealings with public officials. A commission is due for the services of such people. So now the question arises, what is the difference between a bribe and a normal cost of doing business, such as a commission?

Adapted by D. Grace from M. Velasquez, *Business Ethics*, 3rd. edn. 1992, 207-8; and M. Martin and R. Schinzinger, *Ethics in Engineering*, New York, 1989, 261-2.

Would the following additional facts change your attitude to this case? Why?

In the 1970s, a number of other cases of bribery involving Lockheed were exposed. In Holland, Prince Bernhard was disgraced in 1976 for allegedly accepting \$1.1 million in bribes connected with the sale of 138 Starfighters. In Italy, ex-President, Giovanni Leone and former prime ministers, Aldo Moro and Mariano Rumor, were accused of accepting bribes from Lockheed. Lockheed admitted to paying “commissions” of at least \$202 million.

In 1979, Lockheed pleaded guilty to four counts of fraud and four counts of making false statements to the government by concealing secret commissions as “marketing costs”.¹

Business guru, Peter Drucker, has argued that business has been subjected to unfair demands from ethicists. He accuses those who point the finger of blame at Lockheed over the bribery scandal of applying a very different standard from the one they would apply to an individual in similar circumstances:

There was very little difference between Lockheed’s paying the Japanese and the pedestrian in New York’s Central Park handing his wallet over to a mugger. Yet no one would consider the pedestrian to have acted “unethically”.²

Drucker argues that Lockheed’s choices were similar to those of the mugger’s victim: pay up or risk injury or even death. In both cases it is the “mugger” who is behaving unethically and the victim of extortion who is in the clear.

Are you persuaded by Drucker’s case? Does his analogy hold good?

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¹ Adapted from M. Velasquez, *Business Ethics*, 3rd. edn. 1992, 207-8; and M. Martin and R. Schinzing, *Ethics in Engineering*, New York, 1989, 261-2.

² See his article “What is business ethics?” in the readings.
Adapted by D. Grace from M. Velasquez, *Business Ethics*, 3rd. edn. 1992, 207-8; and M. Martin and R. Schinzing, *Ethics in Engineering*, New York, 1989, 261-2.

Matters for consideration and discussion:

Mr Kotchian believed his actions were defensible commercially. He did not seem to believe they were defensible ethically. Is this (commercial defensibility) a higher value? If so, does such an attitude devalue ethics?

Would you do business with a company which approached you for a bribe or accepted a bribe? Would not a company prepared to bribe also be prepared to cut corners in other areas? Note that in the Lockheed case, those demanding bribes were intermediaries, not the principals of ANA who would have to carry responsibility for purchasing an inferior aircraft if the Tristar was the product of corner/cost cutting.

What does the history of bribery in Lockheed reveal about its corporate culture? What sort of corporate culture would have allowed Mr Kotchian to believe that he could offer secret commissions? What kind of corporate culture would have permitted dealing with a war criminal as an intermediary?

How much personal responsibility should Mr Kotchian have carried for Lockheed's conduct? Mr Kotchian knew that payments were destined for the Prime Minister. Consider the enormity of the proposition: the President of Lockheed was paying the Prime Minister of Japan for favourable treatment.

Ethical Themes.

Trust
Honesty
Fairness
Prudence
Justice
Reliability
Corporate Culture
Predictability