

## AUSTALIAN GRADUATE SCHOOL OF MANAGEMENT

### **Business Ethics**

#### **International business: SEA Inc**

##### *Part 1.*

John Hinksman is a senior manager with Wilkinson & March, the international building materials manufacturer and distributor. In 1990 John is sent to a South-East Asian capital to expand W&M's penetration into the "tiger" economies. W&M already has a strong presence in this city as a manufacturer of fibreboard and insulating materials. W&M employs 400 local employees in its manufacturing and a further 35 in its management and distribution departments. It now anticipates an expansion program employing up to 100 additional local sales people and managers, and offering international business experience to some of the bright young graduates returning from Australian and American universities. John's job is to lay the foundations for expansion of W&M in the region by creating a higher profile for the corporation in South East Asia. His success will be directly measured by greater success in competitive tendering.

John and his family move to their new location in November. He immediately begins meeting members of the local business community. A couple of weeks before Christmas, a food-and-wine hamper is delivered from one of the company's suppliers. It is clearly a personal gift. Should John accept it? If he does not, he will certainly cause a loss of face to the businessman who sent it. If he does, he will have placed himself and his firm under an obligation to the supplier. To cause loss of face to a local would be bad for business and have some effect on the ability of W&M to expand and offer local employment. It might also affect the firm's positioning in South-East Asia at a crucial time. On the other hand, acceptance of a gift of this type— even though small when measured against the revenues of W&M — would indicate that John was open to placing himself under personal obligations in his business capacity.

What should John do?

##### *Part 2.*

One of John's first tasks is to inspect W&M's factories and meet their managers. He begins with the insulation manufacturing plant and finds to his dismay that workers there are not wearing protective overalls and masks. He is told by the deputy manager that this is not uncommon in the city's factories, where the heat and humidity can be very harsh. The workers prefer to wear light clothing in the stifling conditions. It is indeed hot and humid in the factory and John notices that he is sweating profusely. "Don't the workers ever get sick from inhaling the insulating fibres?" he asks.

"Yes, workers get sick from time to time, Mr Hinksman," replies the deputy manager. "Then they just go back to their villages and we don't see them again."

"You mean they die?"

"I don't know, Mr Hinksman. Perhaps."

John raises the matter at the next meeting of managers and is told that the conditions in W&M factories are actually better than those in most comparable plants, including those of competitor MNCs. He is told that to attempt unilaterally to improve health and safety standards would make W&M uncompetitive and ultimately put over 500 people out of work. He is advised by local and expatriate executives alike that any drastic modifications to the

factories would hinder or perhaps even prevent the realisation of W&M's expansion plans. This advice is confirmed later when John raises his concerns with Bob Patterson, another Australian manager working with W&M's major competitor. "You just can't do it," says Bob. "If we were back in Sydney or Melbourne, there would be no question about it, but here the costs are just too high, and I don't just mean for shareholders. Employment is very important to these people. When one leaves, a dozen more line up to replace him. This is a matter for the local authorities, not for individual companies."

John asks for details of employee turnover in the insulation factory, and finds an attrition rate which seems far too high. He concludes that his factory is making people sick, and maybe even killing them. It also provides employment to hundreds of people and supports their families. If he risks his business, it will not only be the regional plans of W&M which will be harmed, but the very people whose health John is concerned about. What should he do?<sup>1</sup>

### *Part 3.*

John's assistant CEO, James Allardyce, had moved his family to the city eighteen months before John's arrival. His track record as an executive was exemplary. He had great charm and an engaging manner. He spoke Cantonese and Indonesian, and quickly built rapport with local officials and entrepreneurs. John soon found that having James at his right hand opened doors to W&M, and, quite frankly, made sure that an annual bonus would come the way of the South-East Asian division. John's family got on well with James'. Both their wives were lawyers, and they sent their children to the same school. All of this reinforced the team ethos within W&M SEA.

John's personal assistant, Lucille Chee, was his other indispensable staffer. She had come from this part of Asia, but had been educated at UNSW and had been an Australian for many years. She welcomed the opportunity to work in the country of her birth and provided John with invaluable advice. Lucille was John's eyes and ears in W&M, but was too busy to bother with gossip. One day she approached John with a serious expression on her face, and hesitancy in her voice.

"It's Mr Allardyce," she said. "He's using his position to harass junior female staff. They won't report it because they're afraid. But this is unacceptable for W&M. It goes against our code of ethics, and could damage the company's good name." John is shocked. He asks for evidence. Lucille tells him that he will not get it, but that for the sake of the company he should confront James Allardyce.

John is aware of the company's code of ethics. It is an international code, applying to all divisions. He helped to draft it and supported its adoption. But here was an unsubstantiated allegation about a highly effective staff member against whom no direct complaint had been made. On the other hand, Lucille Chee was a known and trusted employee who had never shown the slightest inclination to dishonesty and did not have an obvious interest in fabricating a story. If John confronted James with the allegation, it would affect their working relationship whatever eventuated. If he failed to do so, he would appear to be failing to take the code seriously. Either way W&M stood to lose. What should he do?

© Damian Grace 2002

---

<sup>1</sup> This case owes its general outline to Dick Warburton, Chairman, Caltex. The details have been changed.