

Continuing Capital Investment Decision

I. Introduction and Background:

You are a U.S. citizen employed by HotFeet, a Seattle based U.S. owned shoe company that manufacturers many of its shoes overseas. You live in Sri Lanka and work at the wholly owned subsidiary located there, Asian HotFeet (AHF). You have been employed by HotFeet for 20 years, for fifteen of those years you have lived in Sri Lanka and for the last five years you have been AHF's Chief Operating Officer. You were hired by George Landon, who is now the president of the company. The two of you continue to have a good relationship, and you play tennis together whenever he visits. Landon's personal loyalty to you has positively affected your career at several critical points and you know you owe him a lot. You are married to a local who has extensive family, many of whom are directly or indirectly employed by your company. You have three beautiful children; you are quite proud of your family and you enjoy your lifestyle very much. A major part of your satisfaction is derived from the knowledge that your company's presence has greatly benefited the local populace. This is in no small part because of your efforts to ensure fair treatment of local workers and maintaining a high level of reinvestment in the country whenever possible. Because of this, and because of your local connections through your spouse, you are a highly esteemed individual in Sri Lankan society.

Although you are still a U.S. citizen, you have begun to notice that you really don't think of yourself as an American anymore. You know that the home office gossip is that you have 'gone native,' but that's okay with you since you have no aspirations to move back to the States, or live anywhere else for that matter.

Asian HotFeet is owned and officially run out of the parent company's Seattle headquarters (USHF), but in reality you have significant leeway in running local operations as long as you meet the company's profit expectations. AHF comprises about 15% of the total operations of USHF, so this subsidiary is a very important strategic investment for the parent company. The subsidiary is evaluated as a profit center; about 60% of the output is sold directly by AHF in the Asian markets, but still about 40% is "sold" to the parent at a transfer price set by the parent company. Traditionally, the transfer price has been set fairly high to keep the profits in Sri Lanka, which has a lower tax rate than the U.S. USHF then directs how the profits are reinvested around the world and in Sri Lanka, with your consultation on local projects. Long term financing and foreign exchange management are however centralized functions managed directly by USHF. You have little experience with either large scale financing, or measuring and managing foreign exchange risk, although you have lobbied many times for more responsibilities in these areas. AHF's profit growth was very high for many years until the Asian crisis and the continuing weakness in Japan generated several years of losses. More recently AHF has had acceptable levels of profits, but is now once again having difficulty meeting the profit goals set by USHF. The parent company finance group asked you to fly to the US and discuss some changes. At that meeting your bosses indicate that due to a combination of factors USHF is considering either closing or relocating the AHF facility to another country. They explain to you that the firm's cost of capital has risen making AHF's return on investment inadequate to satisfy their goal of maximizing USHF's shareholder wealth. In addition, the firm was surprised by the

recent weakness of the Euro and the strength of the dollar, resulting in speculative foreign exchange losses that have exacerbated the parent firm's profit problems. More to the point, newer production technology with higher productivity and automation has recently become available, and the parent is rethinking its strategy about locating in low cost labor areas that are far from the major markets. In addition, Sri Lankan wage rates are beginning to rise and the cost advantages of that location are not as great as they once were, particularly considering the added costs and inconveniences of operating in a lesser developed country. Landon tells you that you would most likely be the manager of the new facility, and you would work with the finance and operations groups in determining where the new facility would be located.

You argue that AHF should not be closed or relocated, pointing out the strong mutually beneficial relationships that have been built between the local populace, the Sri Lankan government and the AHF, relationships that, though perhaps not measurable in dollars, are very valuable and time consuming to build. These would be forfeited by a move or a closure and would be costly to develop elsewhere. You argue that capital costs and exchange rates are subject to frequent changes and that it is naïve to make long term operating decisions according to what may be short lived unfavorable interest rates and exchange rates. You indicate that 'your people' can certainly be taught to use any new technology, that they are good at their jobs, and culturally they have a history of taking pride in craftsmanship that would be hard to find elsewhere. That is why AHF has a lower rejection rate and less waste than any other plant owned by USHF. You argue that the rising wage rates in Sri Lanka indicate the successfulness of AHF and other multinationals at improving the quality of life of the local people, and you remind the home office that we are also building potential customers for our product as local incomes rise. Finally you tell them that they do not understand the differences that businesses like AHF have made in the lives of many of the indigenous people. Education levels are starting to rise; the use of child labor, a common practice, is dropping. The selling of children by impoverished families with no hope of feeding them has dropped dramatically in the last 10 years. But all these gains are precarious, and yes the Asian economy as a whole is still weak compared to the high growth years, but you are convinced that better times are ahead as the Japanese and Chinese markets improve. Still the local economy is very dependent on a few large employers, and if AHF and even one or two others leave the human cost could be high, very high indeed. How do you weigh this potential cost against the shareholder wealth goal?

II. Decision 1:

Landon is impressed by your passion and your arguments. He indicates that they may allow AHF to continue if you can cut costs sufficiently. The finance people are not happy with this however and they indicate that allowing AHF to continue at its current profit rate is tantamount to running AHF as a charitable operation, and that USHF's substantial contributions to U.S. charities such as the American Red Cross, United Way, etc. will likely have to be eliminated to at least partially offset the drain on profits caused by continuing AHF. Landon is a big supporter of the Red Cross and he does like that alternative at all.

To wrap it up Landon lays it on the line for you, he tells you up front that he would prefer to close AHF and start over in another country with the new technology. He explains why: USHF's stockholders are upset at the recent poor stock performance. Shutting down and selling AHF's assets would provide some ready cash and allow the parent firm to pay a bonus dividend to the shareholders while still providing a sizeable down payment on the capital investment required for the new technology. Given the current economic situation and the skill level of Sri Lankans it just doesn't make sense to locate the new facilities in Sri Lanka. He obviously thinks this is the best thing for the company, and it would avoid a potentially serious row with the stockholders. Landon indicates though that if you can prove that AHF can meet the necessary profit targets, he might reconsider. If you are willing to try you will have to figure out how to cut costs or otherwise improve profits to keep AHF running. Can you do it? He tells you he will give you six months and then reevaluate if they still want to continue. Landon makes sure you understand it will mean cutting the work force, cutting the wage rates and trying to find lower cost supplies without sacrificing quality.

You've looked at the finance group's numbers and profit targets. You also know that politically it will be very difficult to fire or lay off people in Sri Lanka, so you realize that extensive wage cuts of 50% or more will be necessary. This will reduce many families to subsistence living. Worse, you will have to act very quickly and your employees will have had no warning of what's coming. Even that may not be enough. You fear that resorting to child labor or prison labor may be the only way to make this work in this time frame. You don't know what you will do if faced with that choice. Plus you know that your reputation with Landon and the company is on the line with this decision. If you try and you can't make this go, your career with this company will certainly suffer and you will probably lose your shot at managing the new facility if the company does take that route.

Part A: Are there any ethical issues here? If so, what are they? Should the shareholder wealth goal be paramount in this situation? Why or why not?

Part B: The decision is up to you. What do you do?

Please circle either a. or b.

- a. Continue operations and try to cut costs within six months.
- b. Or do what the boss wants and decide to shut down now.

Please tell why you made the decision you did.

III. Result of Decision 1 and new Decision 2:

Your Decision 1 was to: **Continue operations and try to cut costs within six months**

Your days are extremely busy trying to find appropriate ways to cut costs. Wages of all employees, including yourself, have been halved, no one is happy and morale is very low, but most people seem to understand you are doing the best you can in a bad situation. Many of your extended family are upset and have been asking your spouse to influence you to do more to help them. Your relationships with government officials have also cooled dramatically. You are not yet sure why. Supply costs have been reduced, at least for a time, and the sale price on Asian shoes has been increased, but this has led to declining sales growth. As you feared, the results are still not good enough to meet the USHF's profit requirements, and you have quietly been asking local interests if they would be willing to buy out AHF's operations. About 3 months into your trial period a local government official, Abuwahr Sahib, approaches you and offers to buy the company. He will only pay a substantial discount from its value however. You don't know Sahib personally, but he has a somewhat shady reputation and he has many highly placed government connections. Sahib is a shrewd individual who is well aware that his offer price is much less than the actual value of the operations. You figure that his offer is at least 30% to 40% less than the actual value. Sahib is effectively extracting a bribe by offering to buy the company at a bargain price. In exchange Sahib agrees to keep AHF running and to continue to employ you as manager at your original salary. All he asks is that you recommend the sale be approved by the parent USHF. USHF will realize that the offer price is discounted, but they don't have as good an idea of the value as you do, and you are pretty sure you can convince the home office to agree to the deal. Sahib made it plain that he will not up his offer, and that he can guarantee that his would be the only offer looked upon favorably by the government. What do you do?

Decision 2:

Part A: Are there any ethical issues here? If so, what are they?

Part B: The decision is up to you. What do you do?

Please circle either c. or d.

- c. Recommend the company sell to Sahib
- d. Keep going as planned

Please tell why you made the decision you did.

III. Result of Decision 1 and Decision 2:

Your Decision 1 was: **Decide to shut down**

Upon your return you announce that AHF will be closing sometime in the next 3-9 months. You indicate that you will try to keep as many people employed as long as possible; but you are not sure how long that will be. You begin to look for buyers of specific assets or of the company as a whole. You desperately hope that a local buyer may be found, but you know that is unlikely. No one is happy, least of all you and your spouse, and morale is at an all time low. Many of your extended family are particularly upset, and have been asking your spouse to influence you to do more to help them. Your relationships with government officials have also cooled dramatically. You are not yet sure why.

About 3 months into your trial period a local government official, Abuwahr Sahib, approaches you and offers to buy the company. He will only pay a substantial discount from its value however. You don't know Sahib personally, but he has a somewhat shady reputation and he has many highly placed government connections. Sahib is a shrewd individual who is well aware that his offer price is much less than the value of the operations. You figure that his offer is at least 30% to 40% less than the actual value. Sahib is effectively extracting a bribe by offering to buy the company at a bargain price. In exchange Sahib agrees to keep AHF running and to continue to employ you as manager at your original salary. All he asks is that you recommend the sale be approved by the parent USHF. USHF will realize that the offer price is discounted, but they don't have as good an idea of the value as you do, and you are pretty sure you can convince the home office to agree to the deal. Sahib made it plain that he will not up his offer, and that he can guarantee that his would be the only offer looked upon favorably by the government. What do you do?

Decision 2:

Part A: Are there any ethical issues here? If so, what are they?

Part B: The decision is up to you. What do you do?

Please circle either c. or d.

- c. Recommend the company sell to Sahib
- d. Don't sell, keep going as planned

Please tell why you made the decision you did.

IV. Result of Decision 2 & new Decision 3:**A. Your Decision 2 was: Recommend company sell**

USHF agrees and the deal is consummated. You stay on as manager of the new company, Sahib Shoes, but you now handle the business end, trying to learn finance and foreign exchange management while Sahib has appointed his own man to run the day to day operations. Soon you learn through your family connections that Sahib has begun using both child and prison labor and finding excuses to fire the original workers. None of your family has been fired though. Outraged, you go to Sahib and threaten to quit and go to the government. Sahib calmly retorts that if you do either he will fire all your family and ensure that none of them will be able to find other employment. Also he reminds you of your assistance in their deal with USHF and threatens to make your role public. What do you do? Do you quit?

Decision 3:

Part A: Are there any ethical issues here? If so, what are they?

Part B: The decision is up to you. What do you do?

Please circle either e. or f.

e. Quit and go to the government

f. Protect your family by continuing to work

Please tell why you made the decision you did.

B. Your Decision 2 was: **Don't sell, keep going as planned cutting costs**

You suddenly find your firm faced with supply problems, additional taxes on transactions and surprise government inspections disrupting work. Sadly you realize that trying to continue operating isn't going to work, and you notify the Seattle offices that you are agreeing to shut down AHF as soon as possible to and you will concentrate on finding buyers for the firm's assets. Upon learning this, Sahib offers to buy specific assets from your company, although once again at bargain basement prices, and in exchange offers to find jobs for you and/or all your family members if you sell to him at his price. What do you do?

Decision 3:

Part A: Are there any ethical issues here? If so, what are they?

Part B: The decision is up to you. What do you do?

Please circle either e. or f.

- e. Refuse to sell assets to Sahib, continue as planned with the shutdown
- f. Recommend the sale of the assets to Sahib

Please tell why you made the decision you did.

C. Your Decision 2 was: **Keep going as planned to shut down**

Sahib tries one last time. He offers to buy specific assets from your company, although once again at bargain basement prices, and in exchange offers to find jobs for you and/or all your family members if you sell to him at his price. What do you do?

Decision 3:

Part A: Are there any ethical issues here? If so, what are they?

Part B: The decision is up to you. What do you do?

Please circle either e. or f.

e. Refuse to sell assets to Sahib, continue as planned with the shut down.

f. Recommend the sale of the assets to Sahib

Please tell why you made the decision you did.

V. Final results

- a. Decision 1: Continue operations and try to cut costs within six months
- c. Decision 2: Recommend the company sell to Sahib
- e. Decision 3: Quit and go to the government

As a result of your actions an investigation into Sahib's affairs is begun, but it progresses slowly and no action is taken by the government. One by one your family members are fired from the company and they have tremendous difficulty in finding other employment. You and your spouse have lost face in their eyes, and you and your spouse and children have been ostracized. Your role in the sale of the business to Sahib at a cut rate price is public knowledge and you cannot find work either. All your old contacts will have nothing to do with you. You receive an angry phone call from Landon wanting to know how you could have betrayed your employers and him. Having no one else to turn to, you have no choice but to leave Sri Lanka in disgrace. Your spouse refuses to accompany you. You will try to start over elsewhere, alone. Eventually Sahib is forced out of the company by the government. A government backed consortium of local buyers takes over the company and labor conditions slowly improve.

V. Final results

- a. Decision 1: Continue operations and try to cut costs within six months
- c. Decision 2: Recommend the company sell to Sahib
- f. Decision 3: Protect your family by continuing to work

An investigation into Sahib's affairs is begun, but it progresses slowly and no action is taken by the government until U.S. pressure eventually forces the authorities to act. Suddenly, without warning, you and Sahib are arrested for human rights violations. After a quick trial, you and Sahib are both sentenced to 10 years hard labor in a Sri Lankan prison. Sahib is freed after two years when his family manages to bribe a high ranking justice official. You try to involve U.S. officials in your case, but no one is particularly interested in helping you because your role in the sale of the business to Sahib at a cut rate price was made public knowledge at the trial. Landon in particular made it plain that he will have nothing more to do with you. A government backed consortium of local buyers takes over the company and labor conditions slowly improve. Eventually you are freed, but your career is over.

V. Final results

- a. Decision 1: Continue operations and try to cut costs within six months
- d. Decision 2: Keep going as planned and refuse to sell the company to Sahib
- e. Decision 3: Refuse to sell the assets to Sahib, continue as planned with shutdown

A consortium of buyers headed up by Sook Whang, an old Asia hand and long time friend of George Landon, approaches you about purchasing AHF. Whang indicates their desire to purchase the company and keep it running in Sri Lanka. Although you would not be the new company's manager, they wish to retain your services as a consultant, utilizing your business experience and extensive contacts. He states that he hopes he can look forward to working with you for a long time to come. Whang indicates his willingness to negotiate a fair price for the firm as he recognizes the many benefits AHF, and you, have brought to his country. Whang asks you to go ahead and resign from AHF so that you will have no conflict of interest, and states that he will negotiate the details of the deal with Mr. Landon. Whang goes on to say that he knows that Sahib and others have been troubling your efforts to manage AHF, and with a quiet smile Whang indicates that Sahib "will no longer be a problem." You agree and send a resignation letter to USHF, including your estimate of the fair value of the company. Landon is pleased with the news, though not surprised since he is the one who first contacted Whang about the opportunity, and the deal is quickly and easily done. USHF receives enough cash to satisfy their stockholders with a small extra dividend and enough money to begin its next phase of technological improvements. Without the high profit goals imposed by USHF, wages and employment levels return to normal levels fairly quickly, and your status with your family has increased quite a bit.

V. Final results

- a. Decision 1: Continue operations and try to cut costs within six months
- d. Decision 2: Keep going as planned and refuse to sell the company to Sahib
- f. Decision 3: Sell the assets to Sahib at bargain prices

Sook Whang, an old Asia hand and long time friend of George Landon, notifies Landon concerning the discounted asset sales and what he believes is your probable motivation. Landon agrees to put a stop to the sale, and Whang uses his government contacts to persuade officials that allowing the sale will profit only Sahib, and not the Sri Lankan economy. The government agrees and Sahib is warned to leave the company alone. You receive an angry phone call from Landon who feels that you betrayed him and the company. He fires you on the spot and threatens you with further prosecution. Your career in Asia is over. Whang tells Landon that he has a consortium of buyers willing to purchase AHF at a fair value, and that they believe they can operate it profitably in Sri Lanka by focusing only on Asian markets. Landon is pleased with the news, though not surprised since he is the one who first contacted Whang about the opportunity, and the deal is quickly and easily done. USHF receives enough cash to satisfy their stockholders with a small extra dividend and enough money to begin its next phase of technological improvements.

Vignette 1: Whistleblower
Version 1
February 15, 2002

Decision 1

You are assistant plant manager in charge of day to day operations of a cosmetics plant operating in Malaysia. You have been on the job for about a year, but you still have a lot to learn. Your plant produces various cosmetic items such as mascara, lotions and moisturizing creams. Your products are primarily sold in East Asian markets, including India, Japan, South Korea, Hong Kong, Singapore and Australia. Your products are advertised as totally hypoallergenic and when appropriate, ophthalmologist tested, to prevent any adverse reactions of customers. The firm guarantees to fully refund the cost of products if any adverse reactions occur. To date, none have. Until recently, your products have not been sold in the United States and Europe because the formulations had not been approved by the appropriate regulatory agencies, however, FDA approval for sale in the U.S. has recently been granted for your mascara products.

Although you have several purchasing agents who do the actual buying of supplies, you are ultimately responsible for managing the quality, quantity and cost of all ingredients used in the process. Recently, your mascara products have been catching on among teens in the western United States due to the exotic colors, and the home office has asked for a 40% increase in mascara shipped to the U.S. over the next several months. You have alerted the engineers, and they have assured you that if the ingredients can be acquired, they can meet the increased demand. Unfortunately, DuPont and BASF, two of your main suppliers cannot provide enough carnauba wax, a natural extract from the Brazilian wax palm tree, and hydroxyethylcellulose (HEC), an emulsion stabilizer with no known toxicity, two primary ingredients in the production of your mascara. You have notified your immediate boss, Chief Operations Officer of Malaysia John Lee, and he is working with Bill Morrow, one of your purchasing managers, on finding additional sources. You also asked John if he wished you to notify the parent operations supervisor, Michael Chang, located in the U.S., that you were having trouble finding additional supplies and ask for their help. John said no; he would take care of that if it became necessary, but he thought they could find the necessary supplies.

John Lee asks you to fly to corporate headquarters and present the regular detailed status report on plant operations to the U.S. parent bosses, omitting any mention of the current supply problems. John usually does this once a quarter, but he has asked you to fill in for him because of the urgent need to step up production. You have filled in for him periodically before and you agree to do so again and fly out for a few days to make the presentation and visit family before returning to Malaysia. Your presentation indicates the Malaysian plant's continued strong profitability due to low input costs and the home office is quite pleased with your and Mr. Lee's management efforts. While in the States, Michael Chang impresses upon you the need to get the mascara to the U.S. market quickly. Michael tells you, "We need all that you can get us, and we need it yesterday!" Chang relates that he has arranged to have several large buyers representing the big retail chains test out your product in two weeks at a large trade show. They won't buy however, unless Chang can demonstrate the product is currently available. Chang also tells you he believes that the growing U.S. sales market could require doubling production capacity, and

he hints that you may be considered for the top job in a new facility if sales grow as expected.

Upon your return to Malaysia, John Lee informs you that he has found other suppliers for the carnauba wax and HEC, and he shows you the purchasing order submitted by Bill Morrow. Several days later though one of your production people, Henri Jonson, informs you that they are having trouble preventing the mascara product from clotting, and they have not been able to exactly reproduce the same colors they were getting in earlier production runs. Henri indicates that these and similar problems have occurred periodically in the past, and he is not sure why. There have been no customer complaints though. Upon further investigation you find that different ingredients, concentrated beeswax and magnesium silicate, have been used to replace the carnauba wax and HEC respectively. These are commonly used ingredients in mascara sold in the U.S., and these ingredients are FDA approved. Some of the product has already shipped to the firm's traditional Asian markets. The bulk of the mascara though is ready to ship to the U.S. via air freight, which is very expensive, and is scheduled to go out today. You try to contact Bill Morrow, but he is on another purchasing trip and cannot be reached immediately. You also try to contact John Lee, but he is entertaining a group of national politicians at a resort and also cannot be reached. What do you do? Do you stop the shipment or allow it to go to the United States? If you stop the shipment you will miss the trade show and upset Chang's plans to show off your product. Do you report possible irregularities to John Lee? To Michael Chang? You decide. Be sure to indicate WHY you decide to pursue a specific course of action.

Result of Decision 1:

Stop shipment and report irregularities to Lee, telex Chang that the shipment will be delayed but give no reason why.

John Lee is visibly angry at you when he returns and learns you cancelled the shipment. He becomes even angrier when you tell him why.

Lee's comments to you: "We often substitute similar ingredients when we can't find the standard ones. You should have known that! We make sure that all the ingredients are approved for use in the market that we are selling them, and that's what matters. What's more, we get minor color and viscosity differences in every production run. Its expected. You didn't tell any of this to Chang did you? You better not have! And this had better not ever happen again! I don't know how I am going to fix it with him. You have really blown this one you know! I will try to protect you, but Chang may insist on firing you. Just so you know."

You comment on the purchasing memo indicating that carnauba wax and HEC were purchased when in fact they were not.

Lee's response: "Aw, that's just Bill's way of doing things. You know you have to figure out how to create a whole new purchasing form if you change the ingredients, and then you have to change it back next month. Plus, he's lousy on computers, and he hates having to deal with the accountants. If you change the order type the accountants always want to know why. You know he is our best buyer, he always finds what we need and he always gets a good price. He's got more contacts in the business than you or I will ever have. So I keep him out shopping and let him get away with less paperwork. That's the way its done around here. So sue me! Chang doesn't care as long as we deliver. Which we didn't do because of you! I am going to be nice and not put a formal reprimand in your file, but I still don't know what Chang is going to want to do. Now get back to work and let me try to clean up this mess you made."

Decision 2:

Development of Vaccine

I. Introduction and Background:

You are in your second year of working for BioEthics as Assistant Product Manager at one of their research plants in Charlotte, NC. The firm is a subsidiary of Meretek, a large pharmaceutical firm with operations in over 170 countries. You have spent most of the two years learning the technical aspects of the business. Your strengths are in cost management, supply procurement and generating operating efficiencies. You are happy with your job, and you believe that working for a large pharmaceutical firm will give you a strong footing to continue your professional career. Lately, Bioethics has been creating a stir in the health industry with the development of a promising AIDS vaccine called Vium that prevents healthy people from becoming infected. Over the last two years, lab tests of Vium have been completed, and the firm is ready to begin clinical trials. Because of some severe side effects in lab trials involving animals, the firm is having a hard time convincing the FDA to let them start clinical trials involving people. Severe damage to both the kidneys and the liver has been observed in a significant proportion of lab rats. The FDA is thus insisting that more lab tests be conducted with different versions of the vaccine to limit the side effects before allowing any clinical tests involving patients. The upper management of BioEthics and Meretek believe that the vaccine is ready for such tests and their scientists believe that the side effects are not likely to be as prevalent, nor as serious in humans. Optimism at the firm has been growing that this vaccine may provide the long awaited breakthrough in curing the deadly AIDS virus. Management also knows that other firms are also making progress in their own research, and the first firm to generate a viable vaccine will make huge profits, even if the drug is sold at a low markup. BioEthics has contacted a regional subsidiary of Meretek in Botswana, Africa. The Botswanan subsidiary has reported that they have received approval from their government to test the vaccine locally on volunteers. Your firm leaps at the opportunity and immediately finalizes the deal. Your boss Jim Johnson is asked to personally take the vaccine to Botswana and oversee the clinical trials. As his assistant you are to accompany him to Botswana.

Jim Johnson is not only your boss, but he is also a mentor and a good friend. He has been your chief supporter in the company, and it was due to his personal request that upper management allowed you to accompany him in this (hopefully) historic development. You and Johnson are both given a crash course in Botswanan culture to give you some idea of what to expect.

Special precautions have to be taken in transporting the vaccine. There is currently only a limited supply available, and you are scheduled to take about half the existing supply to Botswana. The vaccine is produced by combining various rare natural elements, including live bacteria, and your engineers have not yet been able to synthesize the ingredients to produce large quantities. The vaccine is stored in liquid form and must be kept at 35° F to 38° F; if the temperature rises above that level the vaccine will be ruined within 15-20 minutes. A front man has gone ahead to Botswana to ensure that you have all the necessary paperwork so that customs should not be a problem. You are also given several thousand dollars to cover any emergency expenses that may arise.

At the airport you personally oversee loading of the vaccine into the cargo space into the chartered airplane, and ensure the proper temperature controlled environment is in place. The

vaccine is stored in a double sealed container with an alarm that will sound if the temperature becomes too high. The equipment should be able to maintain the temperature for 15 hours, give or take, which should be plenty of time.

You are worried because Johnson is nowhere to be seen and you know he would want to personally oversee the preparations. In fact, you are astonished that he is not there as he is one of the most punctual and reliable people you know. As time passes you become more and more anxious and repeatedly try to contact him via your cell phone, but you get no answer. You delay the plane's takeoff, but you begin to worry about the refrigeration power lasting long enough. After an hour and a half wait, and still no Johnson, you make a decision and decide to take off. After takeoff you receive a message from Johnson telling you that his wife went into premature labor and he is at the hospital and could not get away. He tells you not to worry as everything has been already arranged at Botswana and you should be met by the local manager there "who will take care of every thing." In particular, although the airport has no refrigeration facilities that are suitable, the local manager has the necessary refrigeration setup at their labs near the airport, only about a half hour away from where you land. In the meantime Johnson says that he will arrange to send another person to help you in Botswana as soon as possible. You try to reassure him that you are up to the job, but you can't help thinking that that you are off to a bad start. Nevertheless, you sit back to enjoy the scheduled 10 hour flight to Botswana.

II. Decision 1

The plane journey is long, but uneventful. You land about forty five minutes behind schedule because the plane took longer to refuel in Madrid than expected. Once there you are happy to reach your destination and determined to justify Johnson's faith in you. Airport officials seem very friendly and you hurriedly ask where to find the customs office. Once you have this information, with the proper papers in your hand you approach the customs official. The customs official however is not friendly at all, although you are relieved to learn he speaks passable English. After perusing your papers he informs you that the papers are incomplete because the paper with the Presidential Seal of Approval is missing. You are dumbfounded. You were told that all the necessary papers were complete and that everything would be in order after a cursory inspection. You ask the customs officer to look at the papers again. Without looking he says, "I have examined them and they are incomplete; you must have the approval, otherwise I cannot allow the shipment to pass." As you are debating the issue with the custom's officer you see from his window that the vaccine is being unloaded from the plane and is sitting on the tarmac in the 100⁰ heat. By now it has been over twelve hours since the vaccine was placed in the portable storage facility and you begin to feel a hint of desperation. The official tells you once again that he cannot allow the shipment to be moved and advises you to come back tomorrow with the proper paperwork. He turns away, dismissing you. For the moment, you have no idea what to do. However, about 20 minutes later, the local manager, Maurice Odumbe, arrives and to your great relief Odumbe seems both competent and friendly. You quickly explain the situation to him, emphasizing that you are almost out of time. Odumbe informs you that it will probably take about 45 to 50 minutes to reach the refrigerated lab facilities. Odumbe then asks whether or not you have some contingency funds with you. You explain that you do and he tells you that if you offer the customs official several hundred dollars, the official will approve your papers. You know from the orientation that bribing a government official is a direct violation of the U.S. Foreign Corrupt Practices Act (FCPA) and you could be jailed for that. You also know that bribery is also illegal in Botswana, and offering a bribe could technically make you subject to arrest. By now though you are desperate; you realize that you only have a small amount of time left to make a decision before you run the risk of having the vaccine be destroyed by the heat. What do you do?

Please circle either a. or b.

- a. Refuse to pay the bribe, continue to argue with the custom's officer and hope that he yields.
- b. Do what Odumbe suggests, give the customs official a few hundred dollars and hope he lets you transport the vaccine.

Please tell why you made the decision you did.

Is this an ethical decision or a business decision? Please explain why?

What other alternatives would you have chosen in this situation?

III. Result of Decision 1a:**Refuse to pay the bribe, continue to argue with the custom's officer and hope that he yields.**

You decide not to fall into the trap of bribery and tell Odumbe there is no way you will pay the bribe. You continue to squabble with the official hoping he will allow you and the vaccine to enter the country. Odumbe then asks the officer for a telephone, telling the official he needs to call Mr. John DeSouza; Odumbe further explains to the official that Mr. DeSouza is one of the owners of the firm that they work for. The custom's officer suddenly looks a little pale and hurriedly looks over the papers again and says, "Oh! I am sorry I didn't see it before. There it is. Sorry for any inconvenience, I was just doing my job, please go ahead."

You and Odumbe hurriedly move the vaccine by truck to the refrigerated storage area. Upon reaching the laboratory the research scientists test the vaccine and tell you that the vaccine is still viable. You are relieved and happy that the first part of your mission has been accomplished.

Along the way you ask Odumbe about Mr. DeSouza. Smiling, Odumbe says that DeSouza is the mayor of Gaborone and a very important person in Botswana. Most likely the custom's officer was scared of angering DeSouza and relented. Odumbe adds with a laugh, "Lucky for us, the customs man did not know I was bluffing!"

IV. Result of Decision 1b: Paying the customs official a few hundred dollars

After talking to Odumbe you take three hundred-dollar bills from your pocket and angrily place them on the officer's table. Without saying anything he picks up the papers again and looks over them, signs and tells you to go ahead and pick up the vaccine, adding that he hopes you enjoy your stay in beautiful Botswana!

Odumbe and you hurriedly move the vaccine by truck to the refrigerated storage area. Upon reaching the laboratory the research scientists test the vaccine and tell you that the vaccine is still viable. You are relieved and happy that the first part of your mission has been accomplished.

V. Decision 2

After taking the shipment to the necessary destination you take a break and go to your hotel to get some rest. As Johnson promised, the next day another manager, Bob Gall, arrives to help you. Although you have never met Gall you know that he has extensive international experience in Western Europe. You and Odumbe pick him up from the airport and all three head for the research lab. There you give all the necessary paperwork to the researchers, most of whom are either European or American. They have a few questions for you and Gall, but on the whole things go smoothly. Odumbe has arranged for an ample supply of volunteers willing to be tested with the vaccine for a small payment. The volunteers are informed of the risks, but they don't seem to be deterred by them and none demur.

About two weeks into your stay, you, Gall and Odumbe are reviewing the preliminary test results in Odumbe's office, results which have so far been very promising. You are all very excited that there have been no serious side effects reported. At this point a middle-aged man in some sort of a uniform you don't recognize suddenly barges into the office and loudly demands the office be shut down immediately as it is operating illegally. While you are still trying to figure out if this is a joke or not, Odumbe opens the drawer to his desk and hands the man a bundle of local currency notes. The uniformed official then leaves without another word. Apparently the person was a police officer and for the firm's own 'protection' the firm pays the police, every once in a while, a 'security' fee. The two incidents intrigue you, and the next day you check the firm's books and find that apparently almost 15% of expenses are labeled "Miscellaneous & Facilitation Payments." You approach Odumbe who explains that much of these "miscellaneous payments" are used for incidents like the ones you saw yesterday and at the airport. You discuss the situation with Gall. He is not concerned at all, and says that it's the local custom, and it is best that "we stayed out of it". He also mentions that, "HQ probably knows about all this" and "understands the situation here." Odumbe also quietly informs you that if they stopped making the payments, the steady supply of volunteers may dry up. When pressed, Odumbe will say no more and you begin to wonder about where those volunteers actually come from.

The next day you proceed to take a flight home to the states to report how the research efforts are proceeding and whether the efforts there should be expanded. Management is planning to hold a press conference after they get your report, hoping that this will pressure the FDA to speed up clinical trials in the U.S. On the way you are contemplating the situation at the Gaborone office. You have to write a report on your visit and present it to the top brass of both Bioethics and Meretek. You know that your performance will reflect on your friend Jim Johnston and you want to get this right. This is probably a once in a lifetime profit opportunity for the firm. You are thinking about what to include and what to leave out. What do you tell management about the Botswanan operation? What is the right thing to do? You decide.

Decision 2: Please circle one of the following choices:

- c. In your report explain all that happened in Botswana, including the 'baksheesh' incidents and your suspicion that the volunteers may not be truly volunteers and ask the firm to stop all such payments.
- d. Write the report focusing only on the research results and omitting the baksheesh incidents and your suspicion that the volunteers may not be truly volunteers.

Please explain why you chose the one you did.

Is the second decision an ethical decision? Please explain why or why not.

Is there another alternative you might have chosen? Please explain?

VI. Final results

- a. Decision 1: Refuse to pay the bribe, continue to argue with the custom's officer and hope that he yields.
- c. Decision 2: In your report explain all that happened in Botswana, including the baksheesh incidents and your suspicion that the volunteers may not be truly volunteers and ask the firm to stop all such payments.

Management is very unhappy that you risked losing the vaccine over a few hundred dollars, but since you were obeying the law, there is little they can say to you. You get the impression they would rather not have known about the baksheesh and the volunteers and you can tell they are having second thoughts about the press conference. After your presentation, Johnson informs you that you will not be going back to Botswana and he announces that you are being transferred to a different division. A procurement officer is currently needed at the Cleveland facility and you have one week to pack up and leave. Odumbe receives an official reprimand for not properly reporting all business practices and expenses, but no further action is taken against him and the firm decides to continue testing the vaccine in Botswana for the time being.

VI. Final results

- a. Decision 1: Refuse to pay the bribe, continue to argue with the custom's officer and hope that he yields.
- d. Decision 2: Write the report focusing only on the research results and omitting the baksheesh incidents and your suspicion that the volunteers may not be truly volunteers.

You and your report are warmly received. After the meeting, management quickly decides to go ahead with the press conference. Johnson congratulates you and thanks you effusively “for really coming through for me and the company.” He tells you that both you and Odumbe can expect a large bonus this year. Johnson goes on to say, “I know I can always count on you, and that means a lot to me, I won’t forget this.” However, you then relay to him the baksheesh incidents and his good humor quickly evaporates, but he tells you not to worry about that stuff. You don’t see much of Johnson after that and a few days later you learn that you are being promoted and reassigned. You will now be an Assistant Vice-President in internal audit and control helping to oversee U.S. operations. Johnson flies out to take over the project, but there will be no more overseas trips for you.

VI. Final results

- b. Decision 1: Pay the customs official a few hundred dollars.
- c. Decision 2: In your report explain all that happened in Botswana, including the baksheesh' incidents and your suspicion that the volunteers may not be truly volunteers and ask the firm to stop all such payments.

The presentation does not go well, at the end there is only a stony silence. Johnson, who was present, tells you why after the meeting. He says, "I understand why you paid the bribe, and to tell you the truth I probably would have done the same thing. But, you know, putting it in the report was not smart. It was illegal and you left them with no choice, they are probably going to fire you, or at least officially reprimand you. Any chance of career advancement with this company is gone. You may not be prosecuted since they probably won't turn the information over to the FBI because they are going to keep testing the vaccine in Botswana. The press conference idea is dead though. I wish you had let me know what was in your report. You really let me down this time. See you." Several days later you receive an official letter of reprimand and learn that you are being transferred to bookkeeping at a reduced salary. Odumbe also receives an official reprimand for not properly reporting all business practices and expenses, but no further action is taken against him, and the firm decides to continue testing the vaccine in Botswana for the time being. Johnson flies out to take over as project manager.

VI. Final results

- b. Decision 1: Pay the customs official a few hundred dollars.
- d. Decision 2: Write the report focusing only on the research results and omitting the baksheesh incidents and your suspicion that the volunteers may not be truly volunteers.

You and your report are warmly received. After the meeting, management quickly decides to go ahead with the press conference. Johnson congratulates you and thanks you effusively “for really coming through for me and the company.” He tells you that both you and Odumbe can expect a large bonus this year. Johnson goes on to say, “I know I can always count on you, and that means a lot to me, I won’t forget this.” You don’t tell Johnson about the baksheesh incidents either, nor your suspicions about the volunteers. Johnson tells you that he would really rather stay stateside for now with the new baby and he recommends you take over as product manager for the Vium vaccine, management readily agrees. This is a huge promotion with a large salary/bonus increase, a major leg up for your career. You swallow your qualms and head back to Botswana.