Changmai Corp. (A)
Teaching Note
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Abstract
The case describes several “sensitive” issues commonly faced by managers (expatriate or local) in an emerging market. The context of the case is the pulp and paper industry, and a pulp mill located in Northeast Thailand.

The case can be divided into three parts:
Part I: A (European) engineer is faced with a request for a “bribe.”
Part II: An American CEO has to take a position on “corruption.”
Part III: A discussion between expatriates and local staff on some of the sensitive issues connected with the impact of Western influences on emerging markets.

Part 1
The case starts with a presentation of the context: a pulp mill (AAP) built in Thailand by a very successful ethnic Chinese entrepreneur. An experienced Scotsman, David McLeod, having joined the company two months earlier as general manager, finds the mill has poor safety standards and has not been properly maintained. He is working actively and under some pressure to improve the situation. A government official, Mr. Lai, visits the plant to inspect safety and environment standards, and in the course of his inspection identifies a serious problem in the treatment of waste water which could have a very damaging impact on the quality of the local river. Mr. Lai makes it clear that his report on the plant’s safety, and in particular the impact of the waste water problem on the local environment, could have dramatic consequences for the company. He
suggests that if the company could pay for his trip to Europe (to accompany his wife on a pilgrimage to Lourdes), and also offer a job to his young son—just graduated from a small technical college in the south of England—he would then write a very positive report on AAP’s safety and environmental performance.

**Part 2**

Dan Bailey, the local representative in Thailand of a Chicago-based corporation in a 50/50 joint venture with Mr. Goh, has been visited by his CEO, Mr. Howard Hartford, in the course of his annual tour of his corporation’s operations in the region. Just before this visit, Bailey has been asked to pay US$35,000 (extra) to clear some essential parts from customs. He asks his CEO—who (from head office) keeps sending memos to remind his staff around the world to behave “in a totally clean way and in the best traditions of U.S. ethical practices” how to respond to this request.

**Part 3**

The last part of the case consists of conversations between expatriate and local staff about several important issues. In particular:

- the imposition by OECD countries of Western standards for safety, labor and human rights on emerging economies.
- the use of corruption in China to win a contract, so providing jobs for the many unemployed in Europe.
- the negative influence of Western values upon the youth in developing countries.
- the consequences of the catch-up process in China on the environment and on the rest of the world.
General Objectives

From the issues summarized above, it is clear that the case can be very instrumental in promoting a discussion of a variety of ethical issues encountered by global corporations, particularly when operating in emerging economies. The case provides an excellent vehicle to discuss bribery and corruption; the impact of the globalization process on “standards”; and cultures (national and international).

The case also makes it possible to explore the impact of the CEO’s values upon corporate behavior and managerial practices (particularly in an international corporation).

Course Relevance

The case could be used in many different MBA courses:

- Corporate behavior and non-market issues
- The ethical dilemma
- Culture and management
- Global corporations in the Asia Pacific region
- International management and emerging economies
- Managerial skills for international business

In executive education, the case could be used to stimulate a debate and induce reflection on ethical dilemmas in managing globally, or for a specific discussion on the issue of bribery and corruption in international business.

Teaching Questions

These could be given to the class beforehand to enhance the quality of the preparation
1. *What reasoning should McLeod apply to try and handle the dilemmas he is facing?*

2. *How do you think Bailey’s CEO, Mr. Hartford, should respond to Bailey’s predicament?*

3. *What is your reaction to the debate presented in the final paragraphs?*

**Observations and Analysis**

After an introduction to the session—to place the case in the context of the course—a discussion could be initiated by asking the participants how—as David McLeod—they would respond to Mr. Lai’s request. For instance: “*As David McLeod, how would you handle the “suggestions” made by Mr. Lai?*”

Alternatively, the instructor may ask how many participants would respond positively to both requests (the air ticket and the son’s job), then how many would give the air ticket only, how many would only satisfy the job request, and how many would give nothing. Following this, a discussion on each of these positions (and others, if any) will bring the moral reasoning used to explain the position out into the open.

In Europe, there are two common answers: One is based upon the “relativist” point of view: “Do in Rome as the Romans do,” the relativist being satisfied by following the local custom. So if corruption is the norm in this Thai environment, one should follow the local custom and not impose one’s own values (or culture) on another society.

Another argument used to justify following local practices is a consequentialist, utilitarian approach, i.e., looking at the consequences of the alternatives. The consequences of a bad report from Mr. Lai could be devastating for AAP, with an impact on the corporation’s image, on the functioning of the plant (possibility putting a temporary halt to the plant’s operations). The class...
may be reminded that in the Changmai region, the owner and his corporation do not have only “friends”... Assessing the potential cost of not satisfying Mr. Lai’s request, many would see the trade-off in giving in to the two requests (or at least one of them).

The instructor may bring into the debate the argument that to give in to Mr. Lai’s request is, in fact, to do so in order that he will write a “good” report, i.e. that he will lie. It is a bribe so that he will not tell the truth.

A discussion of the second set of issues can be initiated by the following question: How should Howard Hartford respond to Dan Bailey? or, As Howard Hartford, how would you answer Dan Bailey?

The discussion is likely to polarize between those who return to the “relativist” position (i.e. follow the local customs) and/or to the “utilitarian” (assessing the consequences of not paying the bribe) and those who have a more Kantian approach to the corruption issue.

What many may not see is that Howard Hartford has taken a very strong public position on the issue, and made clear to all his subsidiaries that the company was a “clean” one. The discussion should then focus upon what happens when the CEO does not “walk the talk” when there is a double language. Can he realistically give his “explicit” or “implicit” agreement to McLeod? If he does, then what would be the implications?

This part of the case can also introduce a debate on “what is bribery?” and “what is corruption?” and examples should be given to illustrate alternative definitions of corruption. It raises a fundamental question in an “ethics” discussion: “where do you draw the line?,” “when does an
action start to be *corruption*”?

In the discussion on the consequences of not paying the bribe to the customs, emphasis should be put on the context of the case (the nature of the company, the style (and values) of the owner, and the environment).

A discussion can also be promoted on the handling of “sensitive” issues in joint ventures and partnerships, particularly in emerging economies. Solutions such as “pass the buck” to the partner, or “subcontract” the bribery issues to a local agent, should be discussed openly.

For the third part (the last few paragraphs of the case), the class—in the preparation phase—can be asked: *Several important issues are raised in the last six (short) paragraphs of the case: what are those issues? What is your position on each?*

Among the issues brought up by participants in the session, the instructor may choose:

- to continue the discussion on bribery and corruption, using Thierry’s argument about China. This will again bring up the issue of the ends vs. the means. In Europe this debate—given the importance of the unemployment issue—is extremely “lively” and raises several fundamental questions.
- to explore the issue of Western influence upon the rest of the world: can it be “managed”? Examples can be given from Southeast Asia.
- to open a discussion on “models of development” and to bring in the remark on China and the catch-up process.
Toward the end of the session, I discuss the “alibis” often encountered in discussing bribery and corruption, identify the consequences of corruption (particularly in the developing economies) and open paths of “action” to “minimize” corruption.

Possible References


Note

This teaching note was written by Henri-Claude de Bettignies, Professor, INSEAD, as an aid to instructors in the classroom use of the case Changmai Corp. (A). Copyright ©1997 INSEAD Euro-Asia Centre, Fontainebleau, France.