



The Case Study Scenario



MANAGING GLOBAL ETHICS

Case study

Each issue, we set out a fictitious scenario that ends in a clear question or dilemma and we ask the experts: "What would you do?" If there are any topics you would like to see covered, or if you have a scenario of your own you'd like to share with *SCM* readers, contact Paul Wright at paul.wright@melcrum.com

With the pressure on today's companies to expand into markets the world over, it shouldn't come as a surprise that global growth often means bumping up against some painful choices. Even despite a growing awareness of the important roles that transparency and the rule of law play in business transactions, local custom and corporate policy may collide. Sometimes, too, ambitious growth plans intertwined with a global strategy can lead to deals that harm corporate reputations and cloud explicit value statements. One result: a communication challenge. Look at the example of BuildAll Corporation.

Among the major players in the construction industry, BuildAll has long stood out for its size, clout, and diversified experience. With its roots in a father-and-son road-paving operation, the company took a huge leap when the founder's son parlayed a degree in civil engineering into building an aggressive and hungry enterprise. Skilled in business sense as well as construction savvy, Bill Griggs formed a team of talented engineers and project planners that quickly became famous for its willingness to take on daring, difficult and innovative projects.

As its backyard market in the United States showed early signs of maturing, BuildAll was among the first companies of its kind to assume an international presence. Its hair-trigger response to rumors of possible new business abroad reaped rich rewards in the shape of lucrative contracts. Its sales and marketing team has long been noted for its aggressive style. To support its

efforts in sales and marketing, BuildAll has also developed a formidable lobbying network, domestically and overseas.

It was its lobbying (in the guise of marketing) activities that brought the company notoriety in the United States in 1991. After it won the contract to build a controversial new airport outside Fairtown, USA, evidence emerged that substantial sums of BuildAll money had made their way into the hands of local elected officials. The subsequent investigation and trial resulted in several convictions, including those of two senior BuildAll executives, and the resignation of the CEO. In the wake of the scandal, the company developed a code of conduct in an effort to rebuild its reputation and ensure that its employees recognized and avoided corrupt practices in the future. This code became the focus of a training campaign for all existing employees and also served as a cornerstone for orienting new hires.

For several years after the Fairtown incident, the episode continued to resonate. Marketing and sales managers exercised caution. Reputation was restored but some thought that the company's glory days were past – revenues had plateaued and a few key members of the management team left the fold. In 1996, the first CEO came aboard from outside the founder's family. He immediately set about reinvigorating BuildAll's order books with a view to taking the company public.

The new CEO's first priority was to boost the company's marketing efforts. He instituted a scoring

methodology for rating global markets in terms of sales potential, relationships, specific projects, forward strategy and impact. Five countries emerged as clear winners at the top of the list. Each of these countries was marked by a dynamic developing economy, a well-defined need for new infrastructure, and a welcome mat extended to foreign investment and enterprise. The BuildAll team rolled up its sleeves and went to work, with spectacular results. Major new contracts vaulted the organization back into the headlines, positioning BuildAll for a highly successful IPO.

About this time, the company discontinued its code of conduct training. While each new employee received a copy (never updated), the code was no longer singled out for attention. BuildAll's communication strategy now revolved around the many projects which the company was actively sniffing out, or on those where they had submitted the winning bid. Growth dominated everyone's thinking and everyone's annual plans. Six months after the IPO, several news reports appeared about massive bribe-taking at senior levels in the governments controlling Altifundia and Metroland. BuildAll figured conspicuously in every report. Evidence pointed to awareness of the CEO and other members of the executive team, as well as direct involvement of regional managers. The reports led to the collapse of the government in Altifundia and major embarrassment in Metroland. Several criminal investigations, as well as a Congressional inquiry, are launched.

What's your take?

How would **you** have responded in this situation? Does this case study remind you of a particular scenario or dilemma that you faced? If so, contact *SCM* and tell us how your organization solved the problem, so we can pass your advice on to other readers. E-mail: alexa.derrick@melcrum.com

Q. You are BuildAll's director of corporate communication. What strategy do you devise to communicate with employees, as well as external stakeholders, about the situation? How can your function help repair the damage?

A. Caroline Sapriel, Managing Director, CS&A, Belgium

While the decision to implement a code of conduct for BuildAll employees was good, it was done purely in reaction to the first scandal, and not positioned as an expression of what the firm truly stands for. If it stands as an expression of corporate values and ethics, a code of conduct is a permanent fixture of the organization, which is woven through the very fibers of the culture and is not affected by the arrival of new executives or other events.

In the wake of this latest revelation of misconduct, it's critical for BuildAll's board to commit to making fundamental changes and taking the necessary steps, even painful ones, to prevent any such re-occurrence and restore stakeholder confidence. It's critical for the firm to show integrity and transparency.

Painful steps may include a management shake-up and the resignation of some executives, as the ultimate expression of the intention to get rid of the "old" BuildAll image and demonstrate commitment to the "new" one.

The communication strategy that is adopted to restore BuildAll's corporate reputation will only be effective if it's founded on this commitment to change, and if it's owned by all. As director of corporate communication, I would focus on internal communication first before going to external stakeholders. An internal communication audit, to assess perceptions would be my priority to encourage ownership.

To show BuildAll's new face to the outside world effectively, the company must first ensure unity, consistency and a new spirit among

its own troops. Thereafter, a focused and robust campaign should be launched quickly and communicated simultaneously globally, albeit in different tones, to all stakeholders.

The restoration of stakeholder confidence and thus corporate reputation following a crisis, depends on how quickly and openly the organization owned up to its mistake, and the demonstrable commitment to change it makes. It's a slow process that requires a positive, proactive mind-set from all. A good reputation takes years to build but can be destroyed in a day.

A. Elizabeth Armstrong
Senior External Affairs Manager
Standard Chartered Bank, Hong Kong

Most companies understand the financial value of their reputation and how differing business customs in their countries of operation can pose a threat to this. Shareholders are increasingly seeking "ethical" investment and governments are coming under increasing pressure to punish companies who are not perceived to be acting ethically.

In the early 1990s, BuildAll made a good start with the code of conduct, but failed to embed this within the culture. In the current crisis, three goals must be met:

- Articulate to everyone that this business behavior has proved a grave risk to the organization and is clearly unacceptable.
- Change behavior of employees to ensure this never happens again.
- Reinstate regulatory and investor confidence that BuildAll will be responsive to this crisis, and maintain long-term viability.

Corporate communications can use the crisis to evoke a reputational risk assessment and implement a Corporate and Social Responsibility (CSR) policy. If implemented with the code of conduct these could have helped BuildAll avoid the situation, or at least become aware of it.

Internally this must be elevated to board level, this ensures a series of

actions to engage management and demonstrate their commitment to ethical business practices. Their behavior clearly sets the tone for employees' behavior.

The reputational risk assessment would engage senior teams in all countries of operation. These managers are responsible for identifying all business practices that constitute an ethical risk and developing a strategy to manage, if not eradicate, them. Implicit in this process is the fundamental need to change current reward and recognition systems.

We then need to communicate these messages to customers, investors, and governments, underscoring the steps that are being taken throughout the network to stamp this out immediately and ensure this never happens again.

Our external strategy would also encompass the participation of representatives from relevant government organizations, NGOs and community groups to help build our CSR policy to articulate how BuildAll will continually develop and support the communities in which it operates.

A. Frank Vogl, President, Vogl Communications, VP, Transparency International
Washington D.C.

Companies that break the law deserve to fail. Paying bribes to foreign government officials is a matter of law today for the 30 industrial nations, including the United States, that ratified the OECD Anti-Corruption Convention.

BuildAll would not only get caught and become a pariah – its business order book would sink, as would its share price, as would its support from its creditors and suppliers – but it would fail as well to hire people able to build its business in an honest and dynamic fashion. Today – especially today, as non-governmental organizations strengthen – companies that pay bribes risk total collapse. ■■■■