

## Changmai Corp. (R)

7/07/4504

This case was written by Charlotte Butler, Research Associate and Henri-Claude de Bettignies, Professor at INSEAD. It is intended to be used as a basis for class discussion rather than to illustrate effective or ineffective handling of a situation.

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David McLeod had been general manager of the All-Asia Paper Co. (AAP), part of the Changmai Corporation, for just two months. Previously, he had spent four years running a large and long-established pulp mill in South Africa. Bored by a job that had fallen into well ordered routine, McLeod had eagerly responded to the challenge presented to him by Changmai director of personnel, Barney Li, to take over as head of the five year old AAP pulp mill, one of the biggest in SE Asia, and double production within a year.

As Li explained, the ethnic Chinese owner of the Changmai group, Tommy Goh, was dissatisfied by the performance of the mill, then headed by a Malaysian expatriate and producing on average 21,500 tonnes of pulp per month. The mill contained state-of-the-art equipment which, Goh felt, was not being used to full capacity. He was therefore looking for an experienced western manager to introduce a more professional approach and increase production. Time was of the essence as Goh's instinct, which had never failed him yet, told him that the volatile paper industry was about to undergo one of its periodic surges. When this happened, Goh wanted to be able to take full advantage of the rise in pulp prices. Currently, the mill's production costs ran at US \$250 per ton of kraft pulp, and if, as Goh anticipated, the price climbed again beyond a previous high of US \$700 per ton, he stood to make a real killing.

McLeod, a highly qualified engineer, had a wide experience gained in some of the most sophisticated pulp mills in the world. A Scotsman by birth, he had begun his career in Scandinavia before moving on to Canada, the US and finally South Africa. For him, the opportunity to work in Asia was an added attraction. When he finally met Goh, in a hotel room in Hong Kong, he was impressed both by the man and by his knowledge of the industry.

At age 45, the entrepreneurial Goh was head of a diversified empire. Building new businesses was his life's blood so although rich and successful he remained restless, always searching for the next big opportunity. Closest to him, apart from two family members working in the Changmai group, were those dating from his early days in the tough world of street trading, where he made his first million by the age of 24. These people bore Goh unstinting loyalty.

Goh was a forceful personality, whose enthusiasm for what the mill could achieve made McLeod eager to get to work. His new boss, McLeod decided, was a man of some vision, clearly used to making fast decisions and seeing them implemented immediately. In meetings, Goh's impatience was signalled by the way he constantly checked his Rolex wrist watch, and barked orders to the young, smartly-suited aide who relayed his chief's commands into a mobile phone. McLeod was surprised, therefore, when Goh invited him to lunch and then took him to a small, back street restaurant that looked only one level up from a street stall, though the food was excellent. The incongruity of Goh, his aide and himself in such a setting whilst outside Roni, the waiting driver, leaned against the BMW eating a bowl of noodles, had struck McLeod forcefully. It was a memorable introduction to the cultural dissonances of this new world.

Goh's latest project was to build a rayon mill on the AAP site. Although the later chemical processes were different, pulp and rayon used the same wood and shared the initial production stages, so the synergies were obvious. To build the rayon mill, Goh had entered into a 50-50 joint venture with a Chicago-based US company whose representative, Dan Bailey, was permanently on site. McLeod was pleased to learn that he would find a fellow westerner at AAP. Most of the workers on the site, said Li, were locals led by expatriate managers, mainly

from the region.

Fired by his meeting with Goh, McLeod had gone to AAP full of energy and enthusiasm. His first sight of the mill was a rude shock. To his experienced eye, the five year old infant looked more like a battered old lady. On closer inspection it was clear that although the mill was indeed equipped with the most modern technology, its maintenance had been dangerously neglected. A dozen urgent repairs leapt to McLeod's eye following his first tour of the mill, and every succeeding day he discovered more. In the first few months, McLeod worked 18 hours a day, often being called out in the middle of the night to deal with some urgent breakdown. The local employees he found willing, but completely untrained. Safety precautions were rudimentary, and McLeod was undecided about whether or not to try and impose western standards. However, in a preliminary effort to raise standards he had regularly toured the site and pointed out the most glaring breaches of safety regulations to the offending superintendents.

Until today McLeod had felt that, with effort and organisation, he could get the mill into shape and reach Goh's target. Then, at ten o'clock that morning, he had received a visit from Mr Lai, a government official from the Ministry of Safety and Environmental Control. McLeod knew that Lai had been inspecting the site for the past three days and had anticipated a reprimand from him as, judged by western environmental standards, the mill had several defects. On the other hand, thought McLeod, no accidents had occurred whilst Lai was on site which was a good sign, and perhaps an indication that his emphasis on obeying safety rules was having an effect. So he was relieved when a beaming Mr Lai said how pleased he was with his inspection and invited McLeod to walk with him down to the river into which waste water from the mill was emptied after passing through the two-level treatment plant. Goh had been very proud of this feature of the mill which, he had told McLeod, made environmental standards at AAP "the equal of those prevailing in Oregon". After primary treatment in a settling basin, the water passed through to a lagoon for secondary, bacteriological treatment in accordance with government standards. Only after two days of treatment in the lagoon was the water let out into the river.

As they walked along the muddy bank and discussed Lai's findings only minor infringements were mentioned, from which McLeod inferred that local enforcement of environmental regulations was indeed less stringent than in the west. "So all in all," Lai concluded, "I would say that I could put in a favourable A1 report on environmental standards at the mill except," he paused, "for two small problems that I'm sure can be easily resolved given goodwill on both sides. The first concerns the broken filter in the waste water unit which, I understand from your foreman, should be fixed in the near future. However in the meantime, as I saw for myself, the water coming through the outlet pipe is quite polluted. Such a pity for the villagers who live on the other bank and fish in the river, especially coming after the unfortunate incident last year when, as I understand it, the lagoon dam collapsed and untreated waste water poured into the river, just at this very bend. I hear that several shacks were washed away, and that the river was poisoned. The villagers have told me how angry they were when they found dead fish floating in the river. They say the compensation they received was very small, hardly anything in fact and now, seeing the brown water coming out of the outlet pipe, they greatly fear a repeat of this shocking incident".

"Just imagine, Mr McLeod, if one of the local newspapers decided to write about their fears, about how the poor villagers and their simple fishing life were threatened by a rich and

powerful company. Such publicity would be most unwelcome to AAP, not to mention Mr Goh. It might even harm his plans for future projects involving government concessions. How angry he would be in such a case - and I hear that his anger can be terrible indeed for those around him. You would have my very great sympathy". And the smooth brown face of Mr Lai had looked anxiously up at McLeod, apparently in genuine concern.

"My other small concern", continued Mr Lai, "is the mill's long term safety record. Really, I am sorry to see that so many grave accidents have occurred; two deaths by falling from a height, and another from being caught and mangled by machinery in motion. Then there are several reports of serious burns and blisters to people working in the lime kiln, an operator blinded in one eye after iron chips flew out of the spinning tank and another who lost an arm when he slipped onto the roller conveyor. Plus many other small accidents such as people being struck by falling objects or stepping onto nails with their bare feet. When you add up the number, Mr McLeod, the safety record does not look very harmonious.

"But do not look so worried, Mr McLeod," continued Lai. "I am sure we can find a solution if we put our heads together. I am returning to my hotel room in the village now, to write my report. It is my last task before I go on leave for a week. My wife has won money on a lottery ticket and is going to use it to make a pilgrimage to Lourdes. As Christians, it has always been our dearest wish to visit Lourdes together one day. It would have meant so much to us. But sad to say this will not be. I cannot accompany her as the lottery money will only pay for one person. So I must stay at home and look after our children". Lai sighed. "For someone like me on the salary of a humble government official, to visit Lourdes with my wife must remain just a dream. I was only just thinking to myself how wonderful it would be if I had a fairy godfather who could wave his wand, and make my dream come true."

McLeod felt sweat trickle down his back, not wholly because of the humid heat of the morning. The collapse of the lagoon dam, which had happened long before his arrival, he knew about. According to Goh, the contractors building the dam had cheated by using poor quality cement. As a result, the dam had burst after a season of exceptionally heavy rains, with the consequences as recounted by Lai. However, Goh had assured McLeod that since then the lagoon had been rebuilt using the best quality materials, and thoroughly tested. There was absolutely no possibility of such an incident being repeated. As for the filter, although it had been faulty for some time the pollution that resulted from it was very really minor, as proved by the fact that the daily effluent readings of the water passing through the pipe still fell within the safety range specified by the Ministry. A new filter had been ordered but unfortunately, not yet arrived. With so many other things on his mind, it had not occurred to McLeod to associate the past lagoon collapse with the present fault in the waste unit and Lai's official inspection. Now, he cursed himself for not having seen the potential danger of their being connected. As was only too well aware, if the incident was resurrected by Lai and the gossip he had picked up, exaggerated by stories of the present pollution, was repeated into the wrong ears then the effects could be catastrophic both for AAP and for the Changmai group. Inevitably, Goh had business rivals who would be only too pleased to have ammunition with which to attack him.

As for the safety record, McLeod wondered where Lai had got his information, as not all the examples he gave were familiar to him. McLeod had been strictly monitoring the accident figures since his arrival and although there had been the usual crop of minor injuries inevitably associated with high tech machinery and an unskilled workforce, nothing major had

occurred. Again, Lai must be using past history for as McLeod knew, in the early years of operations the mill's safety record had been very poor. As he tried vainly to think of a suitable reply, Lai turned to leave.

"You know where to find me," said Lai. "I will return to the Ministry tomorrow at nine thirty with my report, which I'm sure will be positive now we have had this little chat. I must say, I will be glad to get back to my family. We are quite worried about my eldest son. He has recently graduated from a small technical college in the south of England. It was a great sacrifice to send him, but we hoped that it would open up many opportunities for him. He is now a qualified mechanical engineer but so far, has not been able to find a job that suited his talents. You know, it has occurred to me while touring this mill that here would be an ideal opening for my son. He would be very interested to work with your Control Distribution System. Computers have always fascinated him, and I'm sure he could very quickly learn to manage the system. What a good start it would be for him. Perhaps you have a suitable vacancy? If so, let me know tomorrow. Good day, Mr McLeod."

With a final beaming smile, Lai got into the company car that had been arranged for his use during his stay, and was driven off. His mind whirling, McLeod drove back to the office. This was the last thing he had expected. As he thought about what had passed, his shock was replaced by anger. How dare Lai try to blackmail him in this way? He would never give in to such demands. The thought of an inexperienced, unqualified person meddling in the computerised Control Distribution Centre, one of the mills's most advanced features, made his hair stand on end. It was AAP's nerve centre, monitoring operations in all parts of the mill. Any breakdown there would be disastrous. Then he remembered Lai's comments about the damage that would be caused by a negative report that dug up the old scandal of the lagoon and hinted that history might repeat itself, or that highlighted AAP's early safety record, and the effects of all this on the villagers and on Goh. What was he going to do?

Just then, his thoughts were interrupted by a knock and his secretary, Anna, rushed into the room. "Quick," she said, "accident in the chemical area. Many people hurt." Grabbing his hard hat, McLeod rushed from the room and drove over to the plant where a crowd was gathering. He cursed. The chemical plant had been one of the worst maintained areas and he had been renovating it as fast as he could.

The supervisor, Mr Budi, met him. "It's not as bad as we first thought," said Budi, "there was a loose valve and some of the chlorine leaked. But one of the workers panicked and started shouting, and then everyone began rushing about yelling it was "another Bhopal". Only one person has been hurt because of the leak - he inhaled the gas and so burned his throat. His hands and eyes also need medical attention. Two others were trampled in the rush to get out, but I think that the guards are getting things under control". McLeod looked out of the window. The security guards were trying to disperse the crowd, with some success. "Luckily, it's nearly lunch time," continued Budi. "That should help." McLeod inspected the leak. As Budi said, it was minor. But given the lack of training among the staff and the reluctance to wear safety clothing, any incident could fast become a full scale disaster. "I'll go and see the injured men in the clinic," said McLeod, "and then get back to the office. Let me know if you need me."

Back in his office, McLeod added "safety drill" to the long list of jobs he had to tackle in the very near future. He knew he should phone Goh and tell him what had happened, but he didn't

yet feel strong enough. On impulse, he decided to go over to see Dan Bailey on the rayon site. He needed to talk to someone, a fellow westerner. As he drove up, however, he saw that Dan, too, was having problems. He was arguing with a man McLeod recognised as one of the local contractors whose gang was part of the construction team. As McLeod arrived, the contractor shrugged and walked off.

"What's up, Dan?" said McLeod, seeing the anger in Dan's face, "We've just had another man killed in a fall from the scaffolding," Bailey replied. "That makes ten since we started eight months ago. The man wasn't wearing boots, safety harness or a hard hat. I've told the contractors over and over again that they must provide the right equipment; it's even written into their contract. But they say "yes, boss" and do nothing. They say they can't afford to, as Goh has negotiated such a tight contract. I spoke to Goh about it, but he says the workers don't belong to him, and that he cannot be held responsible for what the contractors do in his plant. His main concern is to get the mill finished fast and start production. Everyone squeezes everyone else, corners get cut and as usual, it's the poor bastards at the bottom who pay for it. Have you seen the way they are living? There is no more room in the dormitories, so some containers have been temporarily converted by putting in wooden bunks. They have no running water, no electricity, they work up to their knees in mud in bare feet, and no-one thinks anything of it. What a country!"

McLeod nodded in agreement, "The working conditions were the first thing that shocked me when I came to the site. I mentioned it to Goh, but he got really mad and told me the west had a nerve to try and interfere with other countries. He said to me; "Look at your own history and see how you treated your workers in the past. Did any outsider tell you it was wicked? Look at conditions in your cities today - the drugs and violence, the crime and the homelessness - and then decide if you have a right to preach to others. I can't stand this western pressure for labour rights in Asia, and your arguments about "social dumping". It's the same in China, where the Americans are always moaning about human rights. To us, trying to impose western values seems just a dirty trick to protect your inefficient businesses. Don't condemn us before you take the beam out of your own eye". McLeod paused, "Goh must have learned that at mission school," he said with a smile. Then he went on to describe his encounter with Mr Lai.

Dan's reply was not comforting, "Sounds like you've got no choice, old buddy," he said. "But it just shows you how the attitude towards the enforcement of environmental standards, which is being monitored by powerful pressure groups, differs from the way safety legislation, which does not attract the same level of interest in the outside world, is more or less ignored. But if you think you've got problems, listen to this." Bailey lowered his voice, "You know that our CEO, Howard Hartford, is visiting from Chicago on his annual tour of our operations in the region. I spent yesterday morning with him in a meeting with Goh - it was quite a combat. Anyway, that evening, as I was leaving the office, Benny Burdman, who's heading procurement for the rayon project, poked his head round the door, apologised for disturbing me and asked me to sign a form so he could go to town next day and clear the new power boiler we've been expecting through customs. The form, from accounts, was a bill for "R.S. Tax: US \$35,000". I was puzzled, as I thought everything had been paid for. I remembered authorising a cheque for the vendors a week ago. I hadn't a clue what this was for."

Bailey continued, "Well, you know what Benny is like. He has been with Goh from the beginning and is the sharpest negotiator in the region. He treated me like I was a backward child, and explained that the boiler was now in a bonded warehouse at the port. To get it, he

had to give the director of customs a little present. He said it was quite normal, and that US \$35,000 was the going rate. Apparently "R.S. Tax" is a local joke - it stands for "Reliable service tax". Accounts keeps a special budget to pay it. "You'll get used to it," Benny said. Wanted me to sign at once but I said now hold on, I'll have to think about this. Let me get back to you tomorrow."

"So what did you do?" asked McLeod. "I dumped it straight in the CEO's lap," said Bailey, with some satisfaction. "You know how outspoken he has always been in the press about the decline of moral values in business. Well, I told him the whole story last night over dinner and said that obviously, in the light of the circular he sent round to all operations six months ago, stating the company's commitment to conducting business round the world in a totally clean way and in the best traditions of US ethical business practice, backed by the threat of legal prosecution and instant dismissal for anyone contravening these standards etc. etc., there was no way I could do what Benny wanted. Then I also reminded him how vital the boiler was for the plant, and how far we already are behind schedule, and how there are half a dozen other important items to be delivered in the very near future. He looked quite dazed."

"So what did he decide?" asked McLeod. "Haven't heard from him yet," said Bailey. "But he promised to call me before he left this evening". McLeod turned to go, "See you in the bar after work then, Dan. Can't wait to hear how it ends". He returned to the office and to his relief, the rest of the afternoon passed without incident. Standing at the guest house bar later he reviewed his day; a near riot and an attempt to blackmail him. Not quite what he had anticipated on taking the job. Still pondering his problems, McLeod took to his drink over to a quiet corner but within a few minutes, he was joined by Hari Tung, Financial Director of the Changmai Corp., and a Frenchman, Thierry Dupont.

Born locally, Harvard-trained Hari Tung was a very smart young man who worked closely with Goh. Thierry Dupont, who worked for a French multinational, was one of the many vendors to the rayon project, on site to check the machinery his company had supplied. He was holding a bottle of champagne. "Come, my friends," said Thierry, "celebrate with me. I just heard that I have won a very lucrative contract for my firm with, let's say, a large conglomerate in a country not far from here. And you know what? I got it because of my "corruption skills". I outbid and outdid German and US, even Japanese competition to get it. It was hard work requiring a lot of creativity, but it was worth it and tonight, I am so proud".

"Proud!" exclaimed McLeod, You can't be serious! You are corrupt, and you have corrupted someone else. What is there to be proud of in that?"

"My friend," said Thierry, "thanks to this contract, my company back home will have work for the next two years. With 9% unemployment in France, anyone who creates jobs is a hero. In my opinion, corruption is a small price to pay to give work to Europeans. And of course, there will be a nice little promotion in it for me. Now, stop making a fuss and have a drink."

"But David has a point," said Hari in his perfect English. "By your actions you are corrupting others. And if you think about it, that is not the only way that you in the west are helping to corrupt the people of this region. It is something that I and my friends, who are the fathers of young children, often argue about. Look at the western values the young are absorbing while watching your films, full of sex and violence. What sort of heroes are they going to copy? I have always been glad to be part of a culture with such a strong sense of family. Take Mr

Goh, whose family is extended to include all those who work for him. They know that the next generation will also find a place with him and so, secure in their "iron rice bowl", they work together for the good of the group, not for the individual as I have seen people do in the west. But this sense of community is beginning to break down, and we Asians are allowing it to happen."

Hari continued, "Although we welcome the transfer of western technological progress, we do not feel the same about your moral standards. As we see it, western values are poisoning the local people who in the end, we fear, will be as morally bankrupt as people in your part of the world. You cannot stop the poison spreading. In every hotel, there is CNN showing the same images, encouraging the same materialist attitudes of want, want, want. Global products for global consumers, they claim. But where will it all end? Imagine, if each and every one of the 1.2 billion Chinese were to consume as much as Americans, it would mean "good-bye planet earth". It could not support that degree of consumption and the pollution that would go with it. And we would all be responsible."

"What absolute rubbish," said Thierry. "It will never happen. Come on, let's talk about something more cheerful. Leave morality to the professors. While there's business to be done and a buck to be made, why should we worry?"

### **Questions to consider:**

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?