

## The Ethical Temperature in Arcticview

Mary Benninger had sought out her old friend, Tom Chu, to discuss her employment situation. Mary and Tom had both graduated in 1985 from Mackenzie King University, and then studied together to attain their CMA designations in 1988. Soon thereafter, Tom was promoted quickly within his division of a large multi-national auto supply company, and now held the position of vice-president/controller. Mary, on the other hand, had temporarily removed herself from full-time employment in 1990 to raise her young daughter. She kept herself up-to-date professionally and handled the occasional short-term consulting assignment. Six months ago, Mary had re-entered the workforce, her return accelerated by the fact that her husband, Frank, had been stricken by a debilitating illness.

It had surprised Mary somewhat that she was able to land a position quickly as controller and office manager for Hewsen Chemical Inc., a small, privately-held producer of specialty chemicals used in testing labs and other manufacturing firms. Hewsen was a relatively new and growing company with innovative ideas, and Mary was pleased and excited to have had the good fortune to join its management team. Today, however, meeting with her CMA colleague and trusted friend, Mary was troubled.

"I don't know what to do, Tom. I thought I was taking on an ideal position, an emerging company, with flexible working hours, decent pay and a good benefits package to help with Frank's medical expenses. But the situation sure turned sour quickly. I really don't know who to talk to. In fact, Tom, I'm not sure that I should be talking to you."

"Nonsense," said Tom, "You know you can count on me after all we've been through together. Tell me what's going on."

"Well," said Mary, "Initially, things were going very well for Hewsen Chemical. None of the larger companies were interested in the small niche market that Hewsen had carved out. Sales grew rapidly and, because of our success, Dusque, the big integrated chemical conglomerate, set up a subsidiary to compete with us. Since then, we've taken a real hit in sales and profits. Our business is down 30 per cent, and the new plant that we built in Brampton three years ago is operating at 50 per cent of capacity."

"That's certainly not good news," said Tom, "Have you got your expenditures under control?"

"I gather we were never very good at cost control and internal controls were virtually non-existent. When we were growing so quickly, sales were

more important than costs. When things got tough, they dismissed my predecessor and hired me. They told me that I could have free rein to implement whatever I thought was necessary. And boy, are some changes ever necessary! Our senior staff really don't know the difference between personal and corporate spending, and I think our sales and marketing expenses are double what they should be. It will be a challenge to sort that out, but I'm pretty sure I can get this under control. The really big problem that has me worried is our northern development grant."

"I don't know a lot about government grant programs," cautioned Tom, "but tell me more."

"When business fell off, Brian Hewsen, our president, attended a seminar on how to get government grants. He discovered that a matching program was available for firms to establish northern manufacturing facilities. So, Brian and our V.P. of operations submitted a grant proposal for us to manufacture chemicals in Arcticview, a remote village with about 2500 people, where the mines have been phasing out. The proposal was simply an adaptation of an earlier unsuccessful grant application for our Brampton operations. The government must have been real anxious for someone to locate in Arcticview, because the new proposal was accepted in a wink this time. Moreover, both levels of government have provided matching funds of \$750,000, a total of one and a half million in government money. They also guaranteed a bank loan for us of \$750,000, and we used the loan proceeds as our contribution."

"Well, that sounds great, Mary. What's the problem?"

"After the funds were provided, we rented a temporary facility in Arcticview and we hired a few staff there to maintain the building. However, we told the Ministry of Northern Development that the new equipment needed to be tested and the manufacturing process needed to be developed further. So the equipment was delivered to our Brampton facility. The equipment is currently being used there to streamline our manufacturing of a new line of chemicals that should allow us to regain much of the market share we lost to Dusque. The problem is that the grant requires us to use the funds in Arcticview."

Tom jumped in, "But will anybody check on how the funds are really being used?"

"That's what I'm worried about, Tom. At the present time, one of my tasks is to ensure that optimistic reports are sent about how the development work is coming. In the short run, I could handle this because there was a real need to shake down this new equipment. The supplier had suggested

two months, but we have already been 'testing' the equipment for six months in Brampton, and Brian is hoping that we can continue to 'test' it for a full year."

"Well, after the year, they'll simply move the equipment up to Arcticview and your problems will be over!"

"No, Tom, that's when my problems will really start. You see, there is absolutely no way that we can turn a profit up in Arcticview. We would have to transport all the raw materials up there, and then ship the finished product back here. Dusque will soon be competing in our new line of chemicals and, even though they don't have our advanced technology as yet, they will be able to beat us on cost because of the transportation factor."

"I see. Then you'll have to shut down operations and return the funds?"

Mary's reply was terse. "We can't. If we shut down operations here, we don't have enough funds to repay the loan and, apart from Dusque, I doubt we could find a buyer for the equipment. Besides, we would be operating below break-even on the balance of our operations."

"Wow! Major problems. Does management have any ideas on how to work things out?"

"Well, the size of this new equipment is quite portable as only small quantities of the chemicals are produced in each batch. Brian would like to ship the equipment to Arcticview for a startup phase, and temporarily move workers up there from the Brampton plant, while the government publicity photos are being taken. After a discreet period of time, he'll return the equipment to Brampton, and bring the workers back down. We'll continue to 'produce' chemicals in Arcticview with a few local workers, but the real operations will be here in Brampton. The grant contract states that the company is obligated to produce in Arcticview for a minimum of three years. So, Brian figures that if we can last for two years past the testing period, we will be able to keep the equipment and keep the company viable."

"But surely some government audits are necessary, Mary. What will you do then?"

"Believe it or not, Tom, the only audited statements the government requires are our financial statements from our external auditors. Brian figures that the auditors aren't particularly concerned about where we manufacture but, to give the impression of a high level of activity in

Arcticview during the audit, he'll temporarily ship some people and equipment up there. Our auditors don't really know the technical aspects of our business and, as long as we can document all the equipment, labour and inventory, we'll probably be okay with them. One of the things I could do as well, is to bill as much of our supplies as possible to the Arcticview plant and minimize the amount billed through to Brampton. Some of our labour costs down here might even be billed through to Arcticview when you consider that a few of our Brampton workers will, in effect, serve as consultants to the northern facility."

"Brian and our V.P. of operations will have to submit an annual written report on how the grant is being used, but for my part, all I have to do is contribute a brief statement on the 'testing and setup' along with the financials. I'm hoping that I won't even have to see their finished report!"

"Gee, Mary, I can see why you've got a bit of a worry here," Tom injected.

Mary continued, "Brian and the other senior managers tell me not to worry. They say that everybody does this for tax reasons. They also figure that nobody could really operate a manufacturing facility in Arcticview anyway, because suppliers and markets are just too far away. They speculate that training costs alone up there could blow our grant budgets and, you know, I agree with them that the government just wants to wave the flag a little bit for votes. Besides, we are giving a few local people employment as custodians of the northern plant, and we are managing to keep Hewsen Chemical afloat during this tough time. Brian is also particularly miffed that Dusque got a major government supply contract away from us, and argues that this government grant merely puts us back on a level playing field."

"Tom, I'm really bewildered here. On the one hand, as I think about it, the financial statements will be perfectly accurate and consistent with previous years, so I don't believe that anyone could nail me on an ethics question there. But I did sign a very restrictive employment contract (see insert) that states that I can't talk to anyone. I've violated it already by talking to you, and of course Frank. And I'd surely be violating it, and perhaps my professional code of ethics, if I talked with the government. Heaven knows that Frank and I need the money and Hewson's health care package, and there are 60 other employees in Brampton that need their jobs too. I'm having difficulty sleeping at night, but Frank keeps telling me to simply ignore the issue and do what I'm told. In all other aspects, this could be a great job and, if we pull this off, Brian says he'll cut me in for equity participation. If I quit, it won't be easy to get another job and you can be sure that Brian would not be helpful in getting me placed."

Employment contract, Hewson Chemical Inc.

The Employee expressly covenants and agrees that he/she will not, at any time during or after his/her employment with the Company:

a) reveal, divulge or make known to any person, firm or corporation, the contents of any formula, chemical compound, product or other substance owned or developed by the Company; or the method, process or manner of manufacturing, compounding or preparing any such formulae, compounds, products or substances; or sell, exchange or give away, or otherwise dispose of any formula, compound, product or substance now or hereafter owned by the Company, whether the same shall or may have been originated, discovered or invented by the Employee or otherwise;

b) reveal, divulge or make known to any person, firm or corporation, any secret or confidential information whatsoever, in connection with the Company or its business; or anything connected therewith; or the name of any other information pertaining to its customers or suppliers;

c) solicit, interfere with or endeavour to entice away from the Company, any customer or supplier or any other person, firm or corporation having dealings with the Company; or interfere with or entice away any other officer or employee of the Company.

If you were Mary, what would you do?