UNIVERSAL SILICON INC. (USI)[1]

James Heathrow gazed out over the Pacific Ocean from his office on the tenth floor of the USI complex in Northern British Columbia and reflected on the beauty of the surrounding natural environment. Only three years before his 'office environment' was quite different – a skyscraper in downtown Toronto that certainly had a view but nothing like this. A chemical engineer by profession with a master degree in business, Heathrow had considerable experience in both innovation and management have worked for three Fortune 500 companies (in Canada, the United States and Japan) in very senior executive positions over the past 25 years. Since joining USI as its Chief Executive Officer three years ago Heathrow reflected on how this most recent 'rodeo' had required that he use every bit of his experience to manage USI successfully.

Company Background

USI was a relatively new leading-edge manufacturer of silicone chips used in personal computers, automobiles, and commercial aircraft. It was established initially as a private corporation with venture funding from two angel investors who recognized the incredible potential value of the intellectual property rights contained in both the manufacturing process and unique materials. Within two years USI 'went public' meaning that it transformed from a private corporation to a public corporation selling its shares to the public on the Toronto Stock Exchange. That was five years ago – today USI is a highly successful corporation providing its shareholders with a return on investment that greatly exceeds the industry standard, with financial statements that are the envy of its competitors. USI is primarily an export business and services markets the United States, the United Kingdom, China, and Japan where offices are maintained.

At its inception USI started literally in a garage in Mississauga with two computer engineers developing a prototype of a "smart chip". Venture capitalists backed the engineers to form "Smart Chip Inc." that relocated to its current site in Northern British Columbia. Attracted by the abundant supply of very high quality fresh water from the mountain streams and underground water table (fresh water is essential for silicon chip manufacturing) Smart Chip found the perfect "building" – a government-owned but abandoned former railway station with operational railroad tracks. The company timing was perfect. The federal government, interested in stimulating economic activity in the region, was willing to entertain a public-private partnership through which the government would "sell" the location to the company for a very good price and provide the financing for the purchase at a very low interest rate. In return the company would develop the chip manufacturing site. During the time that the

[1] Delcorde, David H J: The Art of Business & Management Case Analysis, Kendall Hunt 2019

current complex was being built, Smart Chip Inc. became Universal Silicone Incorporated and went public. The facility was completed within the third year of operations *and* the government was completely paid back. Now everything was owned by USI. Of course the "fairy tale" maturity of USI was not without its challenges and even now the challenges continue.

Growing Pains

Heathrow vividly recalled arriving at USI three years ago. It was only the second year of operations as a publicly traded company and this of course greatly increased the reporting complexities. Fortunately the company had excellent lawyers and accountants so it was able to master the intricacies of "public ownership" in terms of financial reporting but there were other serious "challenges". Notwithstanding the support received from the government in the public-private partnership arrangement Heathrow felt that the actual costs went a bit beyond interest to include what he referred to as the *frustration factor*. Countless meetings were held with government officials to discuss progress. In meeting the environmental laws associated with "water" what seemed a perfectly logical way to Heathrow in meeting the stringent demands was a complete non-starter with the government. What they proposed was ridiculous in the view of USI. It sometimes appeared as though neither side shared any common ground with the other and the relationship was frequently adversarial!

During this time Heathrow reflected on attempting to get the Cabinet involved to move the development of the project forward. What difference did it make that Europe was having a financial crisis! USI was bringing jobs to B.C. All that was required was a simple change to the interpretation of a regulation, but no one in government seemed to be interested. What USI proposed would have been great for USI and its key stakeholders and this was clearly articulated in the 300 page report commissioned by the company with a leading consultancy firm.

Then of course there was the backlash created by "interest groups" in Northern B.C. who claimed that this company was completely socially irresponsible and unethical since its activities would deplete all underground freshwater within two years and that the effluent (the by-product or waste resulting from the manufacturing process) would cause severe air pollution through the incineration process leading to grave consequences for people and animals living near the facility. They mounted an on-line campaign that resulted in participation and commentaries of so-called stakeholders from as far away as Hawaii! This mess didn't settle down until Heathrow met with representatives of these interest groups, shared his data with them, and promised to work with them – even agreeing to have USI contribute to their foundation to further their work on environmental protection in British Columbia.

What amazed Heathrow on reflection was how the competition seized every moment to publicly, through the internet mostly, make a "big deal" out of how USI was attempting to manipulate the government and "buy off" civic activists – none of which was true, however it did provoke some questions from both USI suppliers and its customers.

Hiring staff was a bit challenging in those early days as well. Recruiting top graduates from top universities to "come North" (actually, considerably North!) was not an easy undertaking as the "great outdoors" was not always perceived as an advantage. It was not until USI invested in parks and recreational facilities, subsidized upscale housing within walking distance of the facility, and funded an entire research program at the local university that things began to change. Today USI is the place to work and the company has no problem attracting talent from around the world.

But Heathrow's fondest memory was setting up the foreign offices which he did in his first 18 months as CEO. He vividly recalled what a dismal failure the individual remuneration "bonus" was in China, how risk averse USI's Japanese manager was in Tokyo and how the previous female Japanese manager in the Tokyo office had had very little success meeting her targets, despite having graduated from a top Canadian university and working 15 hour days. He also recalled the dismal failure of his British manager he transferred to China; he could never manage to deliver anything on time in part because, according to him, his Chinese subordinates would always assure him that things were on target when they rarely were. He was always amazed on how the concept of "urgent" and "now" differed between the countries in which USI had offices.

The Challenges of Maturity

For the most part the growing pains had passed, but the challenges persisted and are growing in complexity. Recently the government has launched a consultation on proposed changes to the tax regulations that would make research and development costs in any manufacturing process that did not directly result in improvements in the environment ineligible for deductions against income. The idea was to force companies to ensure that the environment was always taken into account – if your manufacturing process was improved but the effect of this process on the environment could not be demonstrated as improved as a result of the process, then all the research and development invested in improving the process could not be written off as an expense. This was potentially disastrous for USI since it could mean that unless USI could reduce the toxicity level of its incineration process (already well below industry average) the company would not be able to "write-off" the costs of its research and development activities. The result would be the company would pay considerably more taxes resulting in less return on investments to shareholders. Heathrow pondered what to do about this.

Another issue confronting USI had to do with corporate social responsibility. For Heathrow, corporate social responsibility, or CSR, was the manner in which a corporation achieves a balance among its economic, social, and environmental responsibilities in its operations so as to address shareholder and other stakeholder expectations. This was complicated. He knew from experience it was impossible to satisfy every stakeholder and their "stakes". On the other hand, key stakeholders needed to be satisfied to the extent possible. The challenge he was having was the more successful USI became, the more stakeholders came forward, frequently with only vague notions of what their "stake" in the company was. USI was already heavily involved in corporate giving, volunteerism, sponsorship and philanthropy, and Heathrow believed the investments made through these initiatives resulted in longer term gains to USI. He was also aware that such investments were made at the expense of the shareholders.

His contemplations were interrupted by his intercom. The Chairman of USI's board of directors was on the telephone.

Questions

1. What errors in dealing with the government have been demonstrated by USI?
2. Which roles of civil society were demonstrated by the "interest groups"?
3. In your view, how should USI respond to the proposed tax changes?
4. In your view, how would you resolve the stakeholder management challenges?