

The Man in the Mirror (A)

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This case was written by Erin McCormick, INSEAD Case Writer, and Ian Foxley, an independent defence expert, under the supervision of N. Craig Smith, the INSEAD Chaired Professor of Ethics and Social Responsibility. The case describes real events but with some elements disguised for confidentiality and teaching purposes. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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Sebastian flipped through the pages of the \$15 million defence procurement document on his desk one last time and decisively put down his pen. He knew he couldn't sign it. The plan in front of him – for building a key piece of the military telecommunications system in the Middle Eastern Kingdom of Sumeria – was the culmination of months of his own leadership work in what had only recently seemed a promising new job at a multinational defence firm. But when he looked at the budget numbers added to the plan by other members of the company's senior management team, he knew something was amiss. In addition to the costs the team was planning to bill the government for – for buying high-tech equipment and putting it in place – there were strange additional charges totalling \$2.5 million listed under a vague heading – one sixth of the project's value. As Programme Director, he could not figure out what legitimate purpose these charges could possibly serve. His questions to other senior managers had been brusquely swept aside. He knew he was in trouble. Pushing the issue further would jeopardize his new job, and in the political climate of Sumeria, asking too many questions might even put him in personal danger.

A Promising Job

It had started innocently enough, with a job ad Sebastian had seen in a British newspaper some months back. He had been a military communications officer with the British Army for 24 years, with command and technical procurement training and experience in the building of large-scale telecommunications programmes. He had also commanded an airborne unit, served overseas and seen active service on two occasions, so was used to extreme conditions and finding himself on the wrong end of a gun. After leaving the army, Sebastian had progressed through various management positions in the telecoms sector. To each job he had applied the core values that emanated from his Catholic upbringing and were engrained in his training at the nation's foremost military academy, with its emphasis on integrity, courage under fire and strength of moral fibre; it held to an ethos of 'doing the right thing – even if it costs you your life'.

Answering the ad, in 2010, had eventually landed him a leadership position with MidCo, a subsidiary of EuroCorp, a large, multinational defence manufacturer. He was made Programme Director on MidCo's new \$3.5 billion telecommunications project in the Kingdom of Sumeria. The appointment suited Sebastian well: it was a fully-funded 10-year programme, working as prime contractor hand-in-hand with the British military to upgrade the telecommunications system of the Sumerian National Guard. The job was well within his comfort zone and offered a generous tax-free compensation package that included free housing and travel, plus the opportunity to show his family another part of the world. He relished the challenge to plan and implement a wide range of telecommunications projects, ranging from a country-wide 3,000-mile fibre-based intranet to the building and implementation of a National Technical Defence Academy. What a legacy that would be to leave – changing the communication capabilities in this part of the Middle East.

An Unfamiliar Country

With a wealth of energy resources, the Kingdom of Sumeria had a booming modern economy with many contracting and investment opportunities for European and American firms. But its mode of government harked back to a bygone age. Throughout its history, it had been

governed by a powerful royal family, which largely eschewed western norms for preventing corruption. With hundreds of princes and princesses involved in government at all levels, the line between state assets and the wealth of the royal family was often blurred, and accusations of bribery and corruption in contracting and procurement were common. The conservative country was known for its harsh legal system, which meted out punishments such as beheading, stoning and flogging for “transgressions” like witchcraft, homosexuality and failing to uphold the tenets of the Islamic religion, meanwhile overlooking widespread corruption and abuses of power.

As a close ally of the United Kingdom, Sumeria had long depended on the British for guidance in highly technical military matters. The job of keeping its military communications systems up to date had been delegated to the UK Ministry of Defence for the last 32 years. Previous contracts had been smaller, but Sumeria now wanted a major upgrade to its systems, complete with a massive intranet system and electronic warfare capability with mobile units for detecting, listening to and jamming enemy signals.

Under the contracting process, the Sumerian government gave funds for the project to the UK Ministry of Defence. The UK Defence Department then acted as the customer and selected the prime contractor – in this case MidCo, which had served in this capacity on prior Sumerian telecommunications projects. As the pieces of the project were put together, the Ministry of Defence administered the funds to MidCo to pay subcontractors for the development and procurement costs of the project. All this was to be done under British Defence Department contracting procedures, with the requisite competitive bidding and transparency at each step of the process.

Red Flags

Soon after Sebastian moved into his office on the upper floors of a glittering high-rise in the centre of Sumeria’s capital, he began to notice small but disturbing differences in the way things were done at MidCo compared with his prior business experience. He learnt that he was the third program director to lead the project in six months and he noticed that other members of the senior management team treated him and each other in a brusque fashion that bordered on rudeness. He was surprised to find that the MidCo Human Resources Director who had hired him was a Sumerian princess.

Given the newness of the job and the culture, Sebastian initially assumed that some of the anomalies might be down to his lack of familiarity with corporate processes or linguistic and cultural differences. But some differences were so fundamental that he began to have misgivings about what was really going on. The misgivings turned into red flags, which due to their number and potential gravity set off alarm bells that could not be ignored. Nonetheless, each of the individual red flags could be ‘explained away’. When asked, his senior management colleagues were adept at producing acceptable reasons for each of the anomalies as they arose over the ensuing six-month period.

Sebastian started his new role by trawling for information about what had been done to date on the programme. The customer’s requirements were well documented in the ‘Green Book’ which defined the end-user’s needs and the overall capabilities that the programme needed to achieve. However, when he asked to see a copy of the company’s plan for satisfying those

requirements, he was told that there wasn't one – production of the plan was his responsibility. Sebastian was a little surprised – after all, the company had hired an initial programme team and several support teams some months earlier, so someone must have at least started putting a plan together.

He then asked about the budget. The Chief Financial Officer told him there wasn't one and that part of Sebastian's job was to run the programme on a cost basis for the first year so that management could create an on-going annual budget. Surely, Sebastian insisted, there must have been a budget created as part of the bidding process for the contract? The CFO informed him that the contract had not been put out to tender – it had been awarded to MidCo as a sole source contract.

This seemed strange. Sebastian knew that major British defence procurement contracts over a few hundred thousand dollars had to be run competitively unless there was a very good reason for not doing so. A contract this size, which would have attracted the attention of all the major defence manufacturers if put out to tender, must have been authorized by the UK Secretary of State for Defence.

Next he asked the Operations Director to talk him through the specifics of the programme's financial management spreadsheet and to give him a snapshot copy so he could use it in his planning. Sebastian was astounded when the Operations Director not only refused to allow any copies but would only discuss the project at the highest level of detail. There seemed to be a shroud of secrecy around the financial details – even to the exclusion of the Programme Director.

Sebastian set out to build a strong relationship with Brigadier Jones, a former colleague in the British Army, now in Sumeria overseeing the telecommunications contract for the UK military. This was in stark contrast to his fellow directors, who had a frosty relationship with the British team. Sebastian also wanted to build good relations with subcontractors. However, when he told his fellow directors that he planned to visit several key suppliers to discuss their roles in the programme, he was informed that it was not to be discussed with anyone without their prior approval and the presence of another director.

It seemed that MidCo and its European parent company (EuroCorp) did not want anybody to know that it had just landed a \$3.5 billion order in a major world market. This was out of keeping with corporate marketing norms – especially in the highly competitive international defence procurement sector.

Sebastian also noticed anomalies in how his unit dealt with parts of the programme that were being put out to tender. He questioned some of the workings and conclusions of the competitive analysis applied to the bids that had already been done when he took on the role. He wondered if the directors were trying to bias the process in favour of the parent company, to the detriment of other bidders. When Sebastian proposed to start the telecommunications expansion programme with the logical, low-cost step of preparing the needed infrastructure, including running fibre-optic cables for the military intranet and building garages to store the high-tech military communications vehicles, he was sternly rebuked by the other senior managers. "How strange," he thought. "Why are they reacting like this? What have I missed or not understood?" Was it the fact that his proposal did not serve the interests of EuroCorp? While MidCo had been hired as the prime contractor for implementation of the programme,

EuroCorp was a defence equipment manufacturer and most of the early parts of Sebastian's proposed plan were for infrastructure rather than equipment.

The Big Ben of Alarm Bells

Six months into the job, a critical moment arrived for Sebastian with the completion of the project implementation documents for the first major part of the programme, a mobile defence headquarters stored on trucks that could be quickly erected in the desert in the event of warfare. Smaller projects had crossed his desk before, but this was the first piece of the project to be put forward for sign-off that was worth more than a million dollars.

It consisted of two important documents: a 74-page technical proposal, which described the 'requirement' and the proposed solution from the selected sub-contractor, and a commercial proposal which described the costs. Sebastian noticed that in addition to the expected charges, the commercial proposal included a subtotal line listing \$2.5 million in spending for 'Bought In Services' – out of a total budget of \$15 million. Similar charges had appeared in much smaller amounts on previous smaller projects, and the Managing Director had explained the money was to purchase items which were provided from outside the company's own resources, like cleaning contracts and minor supplies. Those smaller amounts had seemed reasonable, but he could not accept such an explanation for costs that ran to millions of dollars without being able to fathom what the money was to be spent on. When he asked the CFO who the sub-contractors were, he was firmly told that the invoicing of particular sub-contractors was no concern of his – his job was to deliver the programme.

When the day came, Sebastian refused to sign the documentation. Now he knew he had a major problem. He felt sure the money was some form of corruption but he couldn't say exactly what.

An Escalation in Force

Sebastian did not sleep that night. He tossed and turned physically, mentally and spiritually. Whichever way he looked at it, he was being offered a choice – to act or not.

To an extent, the timeline for action was out of his hands. His refusal to sign off on the project had precipitated a meeting with the Managing Director, who informed him that his employment contract, still in probationary phase, would not be confirmed and would be terminated in a month's time. He also offered Sebastian the opportunity to resign – on the grounds of ill health, for personal reasons or lack of compatibility with the unusual culture and circumstances of Sumeria – rather than face an ignominious return home "with the stain of disgrace and failure" as he put it. Sebastian requested a few days to think about it.

He decided to approach, in confidence, Brigadier Jones, who was overseeing the contract for the British military, and apprise him of his concerns. Being a government servant, he felt, the Brigadier would be trustworthy. Besides, Sebastian knew him personally and had served with him in the same branch of the army for 20 years. He figured that the Brigadier did not know what was going on and might be able to advise Sebastian on what to do.

Brigadier Jones listened to Sebastian's concerns and told him that there was nothing he could do. Unless he had hard evidence of corruption, Sebastian would simply be regarded as a disgruntled employee who had not been able to cope with the complex environment of Sumeria and the pressures of the job. But, the Brigadier added, if Sebastian could provide evidence, then the military would have to treat it officially.

Sebastian left the military liaison compound and headed to the British Embassy to attend mass in the community hall at the rear of the main building. He was struggling with his conviction that something wrong was being done but felt unable to find a way of proving it, and providing the authorities with the evidence they needed to be able to act.

On his way back to the housing compound, Sebastian suddenly remembered an offhand remark that the Managing Director had made three months earlier about a "mad rogue employee" called Martin, who was "making wild accusations about the company" – even that someone had threatened to kill him. The Managing Director had told Sebastian not to worry about it, since it was a sensitive matter and was already being handled by senior management.

After 30 minutes' detective work, Sebastian discovered that Martin lived on the opposite side of the same compound. Martin agreed to drop across to Sebastian's apartment for a quiet chat that evening.

With little prompting, he spilled out the story of what was going on. Martin told Sebastian that he had previously been the CFO of the company and had come across the same "Bought In Services" payments that had disturbed Sebastian. He had been asked to make the millions of dollars in payments to two offshore companies in the Cayman Islands as bribes. Hundreds of thousands of dollars more in luxury cars and jewellery had been given as bribes to Sumerian public officials and royalty who were involved in the programme procurement process. When he had tried to blow the whistle on these activities, he had been removed from his post and given a worthless job under the new (and current) CFO. He had a major problem: his passport was being retained by the company's HR department. Recently married and (unlike Sebastian) with a wife and young child living in Sumeria, Martin seemed vulnerable to pressure and coercion.

When Sebastian asked Martin if he could give him any documentary evidence, Martin refused, saying he had just returned from group headquarters in Europe where he had negotiated a compromise with the parent company's HR and Compliance departments. Supplying any documentary proof would negate the negotiated agreement. However, he had scanned and emailed a complete set of relevant documents and, for his personal security, had provided a copy to his lawyers back home. Martin warned Sebastian that he had come under tremendous pressure since he had discovered the corrupt payments three years previously and that he had been informed by somebody in the European headquarters that he and his wife should "be careful while travelling and especially when driving". He felt that his life and liberty were threatened.

The talk ended amicably. As Sebastian cleared away the homemade 'dark lemonade' refreshments, his mind was buzzing with what he had just heard. No longer were his worries and observations just suspicions. What were his options? If he chose to do nothing, he could just see out the next month in relative peace, get a decent reference from a well-respected defence manufacturer, and fly home and get on with finding a new job. Or should he exploit

the situation? Potentially, he could confront the other senior managers with what he knew and then offer to keep his mouth shut in exchange for a promotion or, perhaps, a hefty severance package?

Sebastian faced another sleepless night. For the rest of his life, every time he looked in the mirror, he would ask himself “Did you do the right thing?” Yet if he wanted to take action, he had to find a way to get some hard evidence. How could he do that?