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ACCUFORM: ETHICAL LEADERSHIP AND ITS CHALLENGES IN THE ERA OF GLOBALISATION

October 25th 2005. It had been another long and sleepless night for Raymond Kim after a series of news reports were made public five days ago about children in China being hospitalised for a rash caused by clothes which had used his company's coating material. An unauthorised manufacturer in China had illegally obtained the experimental coating from Kim's company to produce their garments and had used his company's trademark to promote their products.

Kim, the general manager of a German–Hong Kong joint venture company, was pondering what actions needed to be taken and how he should confront the senior management staff in the upcoming board meeting. Consumer groups and international media had piled in to begin extensive coverage on the allergic reactions of the affected children. Further investigations by Kim and revelations by a whistleblower had unveiled that money laundering, misappropriation of company assets, illegitimate rebates, and bribes had taken place within the company. A few of these incidents had also caused Kim to reflect upon his frustrations with reconciling the differences in business practices between Dynacoat, the German company that he had worked with for 25 years, and CreaseFree, the Hong Kong-based joint venture partner.

The Fabric Coating Industry

What is Fabric Coating?

High-tech coating technology for garments involved attaching a layer of protective coating on the surface of fabrics and also around the fibres so as to enhance the functional value of garments, such as wrinkle resistance, soil release, stain repellence, flame retardance, fade resistance, and moisture and odour control. The developments in this technology were the

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result of chemists and engineers who were involved in fabric treatment at the molecular level using several combinations of carefully selected chemical substances to transform the molecular structures of fibres.[1] For example, making a stain-repellent shirt meant fusing molecules of water-resistant chemicals to the actual fibres of the fabric so that they would deflect liquid of all forms.

The use of precise quantities and mixtures of chemical properties in the coating production was important as the smallest changes could lead to health risks such as allergies which would result from skin contact. The residue of chemical substances could irritate skin, especially in warm moist areas where the residue was activated and the skin was more permeable. For example, formaldehyde was regarded as a significant contact allergen. This substance, in the form of synthetic resins, was usually used to resist creasing and shrinking so as to enhance a garment's shape stability. German legislation, under the Textile Labelling Act, required textiles which contained more than 0.15% of free formaldehyde to be labelled with the following: "Contains formaldehyde. It is recommended to wash this garment first before wearing in order to improve skin tolerance".[2]

Industry Standards

The standard for application of substances to fabric and fibre varied between countries. For example, in the UK, flame-retardant coating was often applied to nightwear and mattresses for children.[3] It has since been speculated that there was a possible association between the use of antimony trioxide as a flame retardant and the sudden infant death syndrome. Although such an association was not confirmed, it was suggested by senior toxicologists in Germany that no flame retardants be applied to textiles for private use, such as for clothing, home fabrics and toys. Indeed, some of the substances used in flame retardant coatings that involved health risks were banned by the German Consumer Goods Regulation (Bedarfsgegenständeverordnung, BGVO). Additionally, other legislation on garments, their impregnation and other finishing substances were commodities within the control of the Food and Other Commodities Act (Lebensmittel- und Bedarfsgegenständegesetz, LMBG).

Furthermore, several industry standards had been introduced by non-profit associations as guidelines for textile and related industry practice. An example of these organisations is the American Association of Textile Chemists and Colorists which also worked with the International Organization for Standardization ("ISO") in developing testing methods to be adopted by manufacturers. Since residue of chemical substances could harm the environment if left untreated, the coating production in some countries was subject to legislative control. For instance, in the US, under Section 112(d) of the Clean Air Act, the US Environmental Protection Agency had developed national emission standards for hazardous air pollutants (NESHAP) for fabric printing, coating and dyeing.[4] Great concerns on the handling or treatment of manufacturing waste had also been highlighted where an international benchmark for the introduction of voluntary environmental management systems had been developed under ISO 14001 standards. Moreover, the growing concern that substances used in finished garments could give rise to skin allergies and other health risks for consumers, especially children, had constantly been put forward by consumer organisations and media in North America and Europe. Such concern over human risks also increased environmental consciousness among manufacturers of fabric coating. The harm to the environment caused

[1] Pressler, Margaret Webb, "The Emperor's New-Tech Clothes", Washington Post, September 19th 2004.
[2] Platzek, Thomas (2002) "Textile Garments", BgVV [German Federal Institute for Health Protection of Consumers and Veterinary Medicine].
[3] Ibid.
[4] "Preliminary Industry Characterization: Fabric Printing, Coating, and Dyeing", United States Environmental Protection Agency, Office of Air Quality Planning and Standards RTP, NC 27711, July 1998.

by the irresponsible handling of chemical waste was something that the industry took very seriously.

Industry Growth and Global Trends

The use of high-end technology to make garments was gaining wider popularity globally. Apart from developing high-performance occupational attires—for example, for doctors, firemen and some industrial workers—the market was also being boosted by changes in consumer lifestyles where people were spending more time on leisure activities. Therefore new high-tech coatings were also being developed for a wide range of active sports such as athletics, cycling, hiking and skiing. Increasingly, fabrics designed for extra performance wear were also crossing over into everyday fashion as consumers demanded more versatile clothes that had added values. In November 2004, the Wall Street Journal ranked garments with wrinkle-free and anti-stain properties as one of the top apparel trends for 2005.[5] The survey commissioned by Nano-Tex, a leading provider of textile-enhancing treatments to apparel companies, revealed that 82% of Americans wanted more performance features in their clothes.[6]

Fuelled by the emergence of new fibres, new fabrics and innovative technologies, performance apparel became one of the fastest growing sectors of the international textile and clothing industry.[7] Most of the market players[8] in North America and Europe were aggressively expanding their operations in Asia Pacific because of the region's exponential growth potential. The European chemical industry traditionally supplied the most chemicals to the rest of the world. A market analysis showed that European enterprises produced more than 31% of the world's chemicals, ahead of the 28% produced by the Americans.[9]

Global market players believed China's apparel market had a great potential in view of the growth in Chinese expenditures that was up 19.6% over 2004, which was nearly four times the growth in US expenditures (up 5%).[10] They predicted that the booming economy of China, coupled with its successful accession to the World Trade Organization, would lead to a growth in personal income and higher living standards in the country that in turn would accelerate the demand for high quality garments and materials with advanced features.

AccuForm

The Joint Venture Company

AccuForm, incorporated in June 2000, was an equal-share joint venture company between a German coatings producer, DynaCoat, and a Hong Kong OEM (original equipment manufacturer) of wrinkle-free clothing, CreaseFree. AccuForm specialised in the production of high-tech coatings for use on wrinkle-free fabrics and clothes. AccuForm's head office was

[5] "Nano-Tex Unveils Anti-Static, Stain Release, Moisture-Wicking Fabric Enhancements", Nonotechwire.com, Feb 17th 2005 [www document] http://www.nanotechwire.com/news.asp?nid=1627 (accessed August 15th 2006).
[6] "82% of Americans Looking for Hassle-Free Clothes That Go the Extra Mile", AZoNanotechnology News Item, April 26th 2004.
[7] "Report Summary: Profile of Bemis—A Leader in Bonded Seam Technology Stich-Free Aparrel", Textile Intelligence: Performance Apparel Market, Iss. 16, 1st Quarter 2006.
[8] Some of the major players in the high-end coating industry included NanoTexnology, AKZO Nobel, Outlast Technologies Inc., Invista Performance Technologies, Schoeller, Noveon, International Textile Group, Mircoban, Frisby Technologies Inc., Bemis, and W. L. Gore & Associates.
[9] "EU Chemical Industry: Vision 2005", Research and Consultancy Outsourcing Services, February 2005, p. 55
[10] "Chinese Shopping Fundamentals: 10 Things You Should Know", Cotton Incorporated: Textile Consumer, Vol. 38, Spring 2006.

based in Hong Kong, whereas its research and development (R&D) centre and production plant were set up in Shenzhen, China. In addition, its sales and supporting offices in China were largely located in cities along the coastline and the southern region. Apart from producing wrinkle-resistant coatings, manufacturing operations in AccuForm were also focused on other sophisticated and high-value-added coatings. The company eyed the huge market for children's apparel, especially in mainland China, and consequently its customer base was mainly manufacturers of children's clothes. One of the latest developments in AccuForm was the application of stain-resistant coatings on children's clothing. This technology was optimised for cotton and poly-cotton fabric to get rid of stains such as ketchup, mayonnaise, grass and oil. It was ideal for children's garments where clothing could be ruined by ground-in stains that were previously difficult to remove.

Although most of the high-tech coating technologies were originally developed in the US and Europe, textile manufacturers in Asia such as those in Japan, Taiwan and Korea were increasingly involved in technology innovation and R&D. Until 2003, AccuForm held 16% of the total market share of the garment coating industry within the Asia region and it was listed the second largest market player after its Taiwanese rival, which had 18% of the market share and was also a joint venture company. AccuForm identified the reasons for lagging behind as a lack of advantage in manufacturing costs, and poorly skilled local labour and R&D talent. In the beginning, AccuForm had sourced most of its raw material from Europe. Due to the higher cost of the raw materials in those countries and relatively expensive transportation cost and tariff incurred, the company had started to locate suppliers in Asia. CreaseFree, with its well established connections with manufacturers and suppliers in mainland China and other Asian countries, had offered great assistance in this aspect.

The joint venture was viewed by both CreaseFree and DynaCoat as a mutually beneficial and strategic move as it enabled DynaCoat to further penetrate into the Greater China market, whereas CreaseFree would gain access to technological know-how of advanced coatings and exercise indirect control over DynaCoat's clientele in Greater China. Since DynaCoat owned the patented "StainFree" technology among other advanced coating technologies, it was mutually agreed that AccuForm's general manager would be assigned by DynaCoat and would take care of the R&D and coating production in AccuForm and also control the overall management of the company; CreaseFree, on the other hand, would take responsibility for AccuForm's marketing and purchasing activities, given its familiarity with the Asian market.

CreaseFree

The Hong Kong company CreaseFree was one of the world's largest OEMs of wrinkle-free shirts and trousers. The company had more than 20 years of experience in producing wrinkle-free clothing and had been DynaCoat's customer since the late 1990s. The company's mission was to maintain its cost leadership position in the market. CreaseFree had its own design team. Its operation was mainly the manufacturing base for some famous brands in Hong Kong and mainland China, as well as in overseas markets such as Singapore, Malaysia, Thailand, Russia, US, Australia and Italy. CreaseFree had first started its operation in Hong Kong in late 1980s. In recent years, it had gradually shifted its production to Guangzhou, given the availability of cheaper labour in mainland China. CreaseFree had a total of 1,100 skilled workers and 120 technical talents and other experienced staff in production and management. All of them were local residents from Hong Kong and China.

The company had a traditional Chinese culture with informal control systems that made it suitably adaptable to China's business environment. Business was established on close and personal connections—*guanxi*—with governmental officials or business partners in mainland China through different informal methods. To maintain or improve *guanxi*, gifts in terms of money, luxury goods, job arrangements for children or relatives of officials, or exchange of

favours were offered and taken. It was not uncommon for those bidding to do business in the country to offer kickbacks to potential customers or suppliers. This was indeed a long-standing tacit rule of doing business in China which had posed a great challenge for existing legislators in the country to distinguish whether such practices were a form of commercial bribery or legitimate commission. Within this operating environment, the business culture in CreaseFree leaned towards doing what was obligatory to do and no more.

There was also a lower level of awareness of corporate social responsibility in CreaseFree. For instance, an ethical codes of conduct were not fully adopted in CreaseFree's production process and an effective waste treatment system was yet to be installed in the factory in Guangzhou, given looser legislative control of the environmental issues in mainland China compared to that in Hong Kong or elsewhere. Apart from donating money to charitable organisations every year, CreaseFree was not active in other voluntary social and environmental commitments, such as community projects, employees' training and energy conservation.

DynaCoat

DynaCoat, a German company, was a leading supplier of advanced high-tech coatings for the garment industry in Europe. It was a worldwide company, established in 1981, with 4,560 employees scattered over its production facilities and regional offices in 26 countries across five continents. Although technical support and application expertise were available in each country where it operated, its main R&D centres were located in Germany, UK, US and Canada. These centres housed more than 700 chemists and engineers worldwide who focused on developing high-tech coatings. By 2004, DynaCoat owned more than seven unique, pending or granted German patents, with corresponding patents in most of the countries where it had a business presence. The company's vision was to help its customers enhance their product performance and improve their manufacturing processes, while keeping industry safety standards and minimising the negative impact on the environment.

Given the pressure from stakeholders and scrutiny from media, environmental groups, consumer organisations and industry regulators, DynaCoat had in place a very strict quality assurance system to ensure that its products worldwide maintained a consistently high standard of safety and quality while protecting the natural environment. It had also standardised its production process globally. Most of its production facilities were ISO 9001 qualified to reflect its effective management system that was committed to quality, customers and a willingness to work towards improving efficiency. Its manufacturing process was also accredited with an ISO 14001 certification, which meant that the company was committed to environmental protection. Besides, stringent codes of conduct were strictly enforced at DynaCoat to ensure the professional integrity of the workforce. The company was renowned for quality and reliability through professionalism in its operations, and for its R&D achievements and its dedication towards giving back to the community and protecting the environment. This made DynaCoat one of the most reputable corporate citizens in Europe. Over the years, it had won the European Business Awards for the Environment and R&D several times.

The Joint Venture Operation

As proposed by CreaseFree, AccuForm had set up a small retail outlet in Hong Kong to sell children's garments under the brand name AccuForm. It was a test bed to study the feasibility of diversifying its business into high-quality garment designing to capture the retail market and gradually expand its retail network into mainland China. Apart from applying coating technologies on its own private labels, AccuForm also promoted the use of its technology on finished garments of other brand names. AccuForm's coatings were mainly distributed to

mainland China and South-East Asian countries through an extensive sales network. Its customers included manufacturers in Hong Kong, South-East Asia—for example, in Thailand, Burma, Malaysia, Singapore and Indonesia—and a large number in mainland China where many were based in the southern region of Guangzhou. All these manufacturers were required to obtain licences from AccuForm in order to use its coatings. Some of them would apply the coatings in their own manufacturing plants, whereas others would enter into an OEM contract with CreaseFree to produce their anti-wrinkle garments in their brand name using the coatings developed by AccuForm.

Every garment manufactured with AccuForm coating had the AccuForm label, which was a registered trademark in China, attached to the inside as a sign of quality assurance. This meant that these garments could be sold at a premium price. AccuForm's licensees would also benefit from a wide range of unique technical services, such as fabric testing, technology upgrades, latest market analysis reports and hands-on training. These were made available through its distinctive technical service program.

A sophisticated R&D laboratory and a coating production facility were built in Shenzhen with easy access to Guangzhou so as to facilitate co-operation between these two companies. Coating tests were run at the R&D centre. Experimental coatings which failed the test and other chemical wastes would be disposed of at a waste treatment centre set up by AccuForm. In contrast, experimental coatings which were successfully tested would be produced in bulk in the production facility before being delivered to CreaseFree's factories and other customers. There were several product lines in the plant based on the coatings specification or features. Since the R&D team worked closely with the coatings production team, processing times from the development of the specific coatings to their application would be recorded.

Some of CreaseFree's technicians were invited to AccuForm's coating production facility on a regular basis to learn the production process. Engineers in the R&D centre would also visit CreaseFree's factories to demonstrate the application of new coatings and gather information on CreaseFree's requirements and suggestions as well as insights of latest consumer trend that could inspire R&D. The R&D staff, together with CreaseFree's purchasing executives, would also visit suppliers' sites in Asia to maintain a close working relationship with them. Conscious efforts were made to optimise suppliers' performance so as to assure the quality of raw materials supplied to AccuForm.

Leadership

Due to the far-reaching implications associated with AccuForm's potential to further penetrate the Greater China garment market, DynaCoat had exercised utmost caution in the selection of AccuForm's head in Hong Kong. Raymond Kim, an American-born Korean who held a chemical engineering degree and an MBA degree, had been serving DynaCoat over the past 25 years. In the early 1980s, Kim had started as a junior chemical engineer in DynaCoat's research centre in California. Kim's excellent technical knowledge and managerial skills granted him the opportunity to receive extensive managerial training in DynaCoat's German headquarters in the late 1980s. He then shifted his base to Germany and steadily progressed up the management ladder.

In June 2000, Kim, 49, was appointed general manager for the company's Asia business. Besides running the entire AccuForm operation in Asia, Kim had been assigned two major responsibilities, one of which was to develop an AccuForm chemical supplier network in Asia to complement DynaCoat's existing European network, so as to reduce cost and dependency on a few large suppliers. In addition to widening the supplier network, Kim also had overall responsibility for AccuForm's R&D in Asia. A strategic development unit was formed by Kim to discuss strategies of AccuForm's operation in Asia. Members in the unit included

some of Kim's colleagues from DynaCoat's corporate planning office and R&D centre in Germany as well as senior managers from CreaseFree's production, marketing, purchasing, human resource and finance departments.

DynaCoat was eyeing Hong Kong to become its Asia headquarters to oversee the operations of its Asia offices and representatives covering areas such as logistics, sales, and support and servicing. Hong Kong was chosen because of its ideal geographic position close to mainland China. More importantly, Hong Kong provided a more stable political and financial environment which was protected by an independent and capable judiciary system, as well as comprehensive logistics infrastructure and facilities. Kim was strong-willed and determined to implement AccuForm's vision to push forward the company's position as a market pioneer in the advanced high-tech coatings industry in Asia Pacific. It was also agreed by CreaseFree that no less than 10% of AccuForm's total annual revenue would be invested in R&D so as to spearhead a number of new projects. These projects were aimed at modifying the chemical substances of existing coatings in order to multiply their applicability and functionality, and to invent brand new products to tap into new markets. For example, the company was studying the method of adding ultraviolet protection to garments since ultraviolet radiation from the sun could damage fabrics by degrading the strength of the fibre thus leading to colour fading. Besides, several other studies on the anti-bacterial ability of coatings, on flame-retardant coatings, and on the enhancement of existing stain-repellent coatings were undertaken.

Corporate Culture

Kim's charisma and excellent communication skills had allowed him to blend in harmoniously with the local staff, and his laissez-faire management style was generally well received. On the one hand, Kim expected staff to be highly self-disciplined and had in place a policy of "minimal critical specifications" under which staff were given clear goals to be achieved with only minimal explicit directions and supervision. On the other hand, Kim realised that staff transferred over from CreaseFree were unwilling to strictly follow the ethical code of conducts that had been developed for them. Some veteran managers from CreaseFree defended that they had been in the business for more than 20 years and they did not find problems with their business practices. They believed that they were doing well, otherwise they would have closed down years ago. Moreover, they disliked the idea of having to report on their social and environmental commitment as they perceived that their organisation did not have an environmental impact. They also commented that certificates of ISO standards were just window dressing as many companies in China could easily make a fake copy for display, or that they would return to their pre-existing operation methods after being issued the certificates. They in fact suggested that Kim adapt to the Chinese way of doing business and learn to be flexible when dealing with written rules. They pointed out that there was not always a right or wrong decision, instead the correct decision was usually the one selected according to the circumstances surrounding the incident. Kim found himself in disagreement with these informal practices. However, instead of seeking to resolve these differences in value perceptions, Kim stayed focused on assuring DynaCoat's senior management of his capability in generating visible results for AccuForm in terms of market share, patent ownership and sales revenues.

R&D Initiatives

Kim's first move was to form a strong R&D team within the company by recruiting more chemical engineers, application technicians and project managers. Kim had devoted much effort to support this initiative. In order to cut down staff costs, Kim advertised extensively in Hong Kong and mainland China to attract local talent. Candidates were personally interviewed by Kim and the personnel manager in the Hong Kong regional office to test their

technical and management competence. Over the course of one and a half years, he managed to hire employees who were highly qualified in terms of their academic achievement, innovativeness, technical experience and supervisory skills. The R&D centre and production plant had a good balance of employees from Hong Kong and mainland China.

Among the candidates, Albert Ching, son of one of CreaseFree's clients from Guangzhou, was referred by CreaseFree's purchasing manager to Kim. Under constant persuasion from the purchasing manager and following discussion with the local personnel manager, Ching, 36, was hired in November 2002 as the R&D manager. He had over eight years' experience in managing projects on fabric modification.

Kim's doubt of Ching's capability subsided over time as Ching proved himself to be a distinguished expert in coatings development. Furthermore, given his father's connections in the garment industry, Ching had established good relationships with many of AccuForm's clients and suppliers in China by adopting the traditional *guanxi*-building approach. This often brought new businesses to AccuForm although it was not his job responsibility to do so. He had also volunteered himself to oversee operations in chemical waste disposal. Since no expenditure was claimed by Ching from the company for entertaining those clients or suppliers or for the extra work, Kim found him to be a diligent, ambitious, and trustworthy employee. With the approval from Kim, Ching also introduced two of his ex-colleagues to AccuForm as production line supervisors.

Because of the weak performance of the R&D team, Kim's second move was to find ways to motivate the R&D workforce. He devised a performance bonus scheme with the support of the personnel manager. He figured that this system would be effective as it worked soundly back in his office in Germany. Kim first divided the R&D staff into small groups which were led by different team leaders. A clear target, in terms of the number of new experimental coatings to be expected every quarter, was set by Kim. Whichever team could achieve the target would be rewarded in cash and through incentive trips that would be paid for by AccuForm. Furthermore, quarterly competitions were also held to select the winning group whose newly developed product showed the greatest potential to generate significant profit for AccuForm. The best performing team members would be rewarded with bonuses at the end of the year. These initiatives were supported by Ching and other senior managers. Kim also thought that this would be a good way to motivate product improvement and boost sales at the same time. At times, competition became heated between the teams, but he felt that it was quite normal and within tolerable levels. He was further assured by local managers that the philosophy of "winning is everything" was common to most Chinese companies. Kim found that his motivational schemes seemed to work effectively as he noticed many of the staff had voluntarily chosen to work late and on weekends. Although long working hours were not recommended in his working environment in Europe, he was glad to see good progress being made at AccuForm.

Being an engineer himself, Kim believed that R&D staff should be given greater authority and flexibility to access corporate resources and information in order to come up with new ideas and develop new inventions. For example, all staff of supervisory or higher ranks were given free access to the research laboratory and production plant during non-office hours; chemical and product engineers had unrestricted access to chemical substances for use in experiments; they could also claim their expenses from AccuForm for work-related materials that they had bought; the R&D manager was given authority to approve or reject the expenditure claims by the staff, and he could also decide which chemical materials to be purchased and deal directly with the purchasing manager. The only progress-monitoring tool Kim employed was a summary report which team leaders were required to submit on a monthly basis. This report included information about the new experimental coatings

developed; the chemical properties used in the coatings; their effect on the different fabrics, skin and environment; the duration of time spent on developing the experimental coatings; what tests had been carried out; what experimental coatings had been sent to production facility; which were the experimental coatings that failed the test and why; the amount of chemical substances that were disposed of; and the problems encountered during the overall development process. Instead of checking for accuracy, this R&D summary report was used by Kim to gauge the progress of each research team, and to evaluate if the team was working according to plan. Kim would also keep these reports as reference for the selection of winners for the year-end performance bonus.

The Outbreak of Allergies

Early in the morning on October 20th 2005, Kim received an urgent call from one of his colleagues in the company's corporate communications department. He was told that eight children in Guangzhou were reported in the news to have developed rare skin rashes caused by the clothes that they newly bought. These clothes were found to be sold at some run-down retail outlets at much lower prices. The sellers claimed that they did not know the manufacturer as they bought their stock through a multi-layered wholesaler network. On the other hand, the spokesperson from the hospital where those children were treated had told the media that their laboratory test results had indicated the most likely cause of the allergic reaction was the improper use of chemical substances in the fabric coatings. They also identified AccuFrom's trademark on these children's clothes which were similar to those sold in AccuForm's retail outlet in Hong Kong. Shortly after the incidents were uncovered, the media from Hong Kong and China had piled in to report on these cases. Kim was surrounded by the media as he arrived at his office in Hong Kong and was bombarded with questions about AccuForm's action in response to the news. The media eventually agreed to leave after Kim requested for some time to investigate the incidents before any comment could be made.

Kim's relentless investigation with the help of a private investigator had somehow managed to unveil the manufacturer who made the garments. It was discovered that defective AccuForm coatings had been applied on these clothes. They were made by a manufacturing company named CoralWear, to whom AccuForm had never licensed the use of its coatings. While he was pondering how the company had got access to the coating, he stumbled upon reports on the productivity and downtime of the production facility submitted by the plant production manager. He spent hours poring over the reports and found that while the overall downtime for the production lines was within acceptable limits, two of them had recorded extraordinarily higher downtimes than the rest and the reason given was "machinery under repair".

Kim was doubtful of the reason given for the downtime because most of the machines used in AccuForm's production lines were less than four years old and they were regularly serviced. Therefore, under normal production capacity, machine downtime would be rare, or would not occur that frequently. This made Kim suspect over-utilisation of the machines in those two particular lines. He also noted that the two colleagues Ching had brought along from his previous employment were in charge of these very production lines.

Kim then referred to the monthly R&D summary reports placed on the other side of his table. One of the reports indicated that the team led by Ching had recorded a higher scrap rate than others. The unusually high scrap rate was most probably due to the R&D team having spent an excessive amount of time experimenting with different chemicals in an attempt to come up with new products for AccuForm, so as to secure the R&D performance bonus, Kim

conjectured. Nevertheless, the scrap rate was still unusually high, and Kim related that with the presence of Ching who was in charge of the waste disposal process.

That the two extraordinary phenomena existed in the production lines of that particular R&D team coincided with the fact that Ching was in charge of the R&D team and the disposal process and also had a close relationship with the two line supervisors. Kim was struck by this into deep contemplation. He was trying to make sense of and to find the connection between these coincidences.

Finally, Kim concluded that perhaps chemical wastes, which were mostly experimental chemicals, were collected by Ching for use in the production of those problematic coatings using the two production lines. Thus, the machines in those production lines easily broke down because of an over-utilisation to produce extra coatings. In other words, instead of disposing of those chemical wastes properly, they were used to make defective coatings which were then delivered elsewhere and sold off by Ching for personal gains. Kim knew he had to immediately gather all available facts and information to enable him to effectively respond to the crisis.

Gathering Evidence

As the first step of his investigation, Kim decided to call some close business allies to make inquiries about Ching's relationship with his previous company and the actual reason he left his job. He was completely dumbfounded when he discovered that Ching did not actually resign, as he had claimed in the interview, but rather was dismissed for having been involved in a few business fraud cases both within and outside the company. One of the cases involved Ching conspiring with the company's senior manager and others to smuggle the company's rejected garments to sell them off at a lower price. A lawsuit had not been filed against Ching and others because the company did not want to risk jeopardising their reputation as a result of the scandal.

Being increasingly suspicious of Ching's credibility, Kim decided to personally approach some of the plant staff to see if he could find anything that would suggest Ching's involvement in the incident. He spoke with some other R&D staff individually and hinted to them that if they knew anything he should have known about, they should tell him and he promised their identities would be kept confidential. He also warned them of the severe legal consequence of concealing facts. Being unable to immediately solicit any concrete evidence, Kim thought he would give the staff some time to think things through and to talk to them in a few days' time.

Another feedback from the private investigator a few days later revealed that CoralWear was a small manufacturing company in Guangzhou which had been registered under Albert Ching since April 2004. That was 15 months after Ching was recruited. A further probe into the matter also showed that Ching had indeed discreetly instructed some of his co-workers to ship untested coatings to CoralWear during weekends where they were applied to the finished garments. CoralWear promoted that their garments were manufactured with AccuForm branded coatings and sold them through a wholesaler for profit who in turn resold the products through its own distribution network. The transactions between CoralWear and the wholesaler were on a cash basis, so Ching could keep the money trail hidden and avoid paying taxes.

As Kim considered what step to take next, he eyed an unstamped but sealed envelop on his table. He tore it open and found a printed letter from an anonymous sender. The letter

confirmed his reading about the connection between Ching and CoralWear. The letter stated that the reason Ching was able to keep his actions undetected was because he had bribed his team members, the two line supervisors and other workers on the production lines in question to remain silent. It also stated that in addition to bribing the supervisors, Ching was also involved in money laundering and in accepting bribes himself. Ching had demanded money under the table from at least four recently recruited suppliers in the past year as a condition for being awarded an AccuForm supplier contract.

The successful suppliers would then slightly overstate the price of the materials supplied to AccuForm and in turn, Ching, who was given authority to decide which materials to use in R&D, would easily get approval from the purchasing manager whom he had a close relationship with. However, the purchasing manager was unaware of what was going on. Ching then received rebates from the suppliers as negotiated beforehand. Ching would spend part of the bribe money and rebates to bribe the employees in turn who worked for him to seal their lips. Following instructions from Ching, the two line supervisors would pay the other 13 accomplices in cash, and each of them would write a cheque to CoralWear for an amount equal to the originally accepted sum minus his/her reward, as payment for "merchandise" purchased that had never existed. In this way, Ching was able to keep the workers silent while at the same time use CoralWear to channel the bribe money he had received from the newly-recruited chemical suppliers [see **Exhibit 1**].

Judging from the tone of the letter, Kim suspected that it was one of the R&D workers under Ching's group who wrote it. The whistleblower admitted to having received bribes from Ching, as had two of the line supervisors. He regretted his misconduct but also stated that his superior, Ching, had several times threatened him with dismissal if he refused to accept the bribe money. He had been puzzling over ways to report this but he did not know who to turn to for help. Finally, he had to submit to the threat from his superior and peers who were involved.

Kim took a deep breath as he finished reading the letter. Alone in his office at 9 pm, he felt his headache coming back. He had to quickly decide how best to report this to DynaCoat's senior management, who had earlier called an urgent meeting to discuss the situation. Kim decided that the best way to prepare for the meeting was to gather as much evidence as possible to substantiate the claims made by the worker, so he made several phone calls to a few of his trusted department heads within AccuForm, and instructed them to gather the necessary information and to keep the operation confidential.

Confrontation

The next day, after a morning of co-ordinated work, Kim's department heads came back with the evidence confirming the worker's claims in the letter and Ching's other misconducts. The evidence included suspicious invoices issued by the recently recruited suppliers, accounting reports, production and productivity reports, reports from the waste treatment centre, comparison reports of the chemical waste collected and the recorded amount of unsuccessful coatings, the whistleblower's letter, as well as photos and documents related to CoralWear as submitted by the private investigator. Having secured substantial evidence against Ching, Kim went to Ching's office at the other side of the building in a rather disheartened mood. After all, Ching had been a talented employee whom he had once trusted.

He dropped the documents on Ching's table. Ching was shocked as he had not expected that Kim could uncover so much so quickly. With the evidence laid upon the table, Ching initially defended his actions of taking referral money from the suppliers. He denied that he had

demanded it from them, but instead they just gave the money to him without him asking. He argued that this was an accepted norm in China which had been practiced by businessmen even before Kim was born. He furthered his argument that raw materials provided by those suppliers were perfect, therefore they were not some irresponsible suppliers who simply offered low quality materials. He said that Kim should be thankful to him as he had helped in expanding the supplier network by selecting quality suppliers for AccuForm. He also told Kim that he would not have been able to bring in new business to AccuForm if he had not accepted referral money from the suppliers because those gifts and meals that he spent on some of AccuForm's new clients were from the referral money that he received. He claimed that offering "referral money" or expensive gifts was the most effective way to build relationships in China, especially when AccuForm was still a relatively new company in the country. Moreover, he argued that *guanxi* building was the same as relationship marketing in the West. Kim was dumbfounded by Ching's arguments.

He then accused Ching of using AccuForm's name to promote garments produced by his own company, CoralWear. Ching said that allergic reactions caused by garments were quite rare and skin rashes on those children were most probably caused by not having washed the clothes before wearing them. He defended that he had used other untested experimental coatings to produce garments in the past and they were fine. Besides, he claimed, the quality of the garments that CoralWear produced was still better than that of many ordinary garments in the market. Since what CoralWear produced was sold at a very low price in the market, Ching argued that poor children of some local communities in China who could not afford to buy clothing applied with genuine AccuForm coatings could still wear cheap but better performance garments. He finally asserted that if Kim looked close enough at the label of the garments that were produced by CoralWear, he would notice they were not exactly identical to AccuForm's trademark [see **Exhibit 2**]. Therefore, technically, he had not used AccuForm's branded coatings to promote the garments. He also pointed out that since the trademarks were not identical he had the right to register the trademark he produced himself.

Despite Ching's eloquence in defending himself, Kim pointed out that the various acts Ching had committed could put him in jail; for example, misappropriation of AccuForm's properties, forming corrupt networks within the company and blackmailing AccuForm's employees to cover his tracks. Ching finally confessed to his wrongdoings and pleaded Kim not to bring a lawsuit against him. As a pre-requisite for considering Ching's request, Kim asked him for a written statement admitting to the cover-up and made him list the names of those who were involved. Subsequently, all supervisors and workers involved were also required to provide written statements.

Aftermath

After collecting all the written statements, Kim went back to his office and called his DynaCoat colleague in Germany. He talked with the manager in the corporate communication department to discuss the matter. As Kim listened to his colleague's suggestions, he wondered how he could somehow strike a balance between safeguarding AccuForm's reputation as a supplier of quality coatings to garment makers, dealing with the staff cover-up and bribery situation in a sensible manner, minimising production disruption, and rebuilding staff morale and a corporate culture that was obviously in need of re-cultivation.

EXHIBIT 1: FLOW OF MONEY LAUNDERING

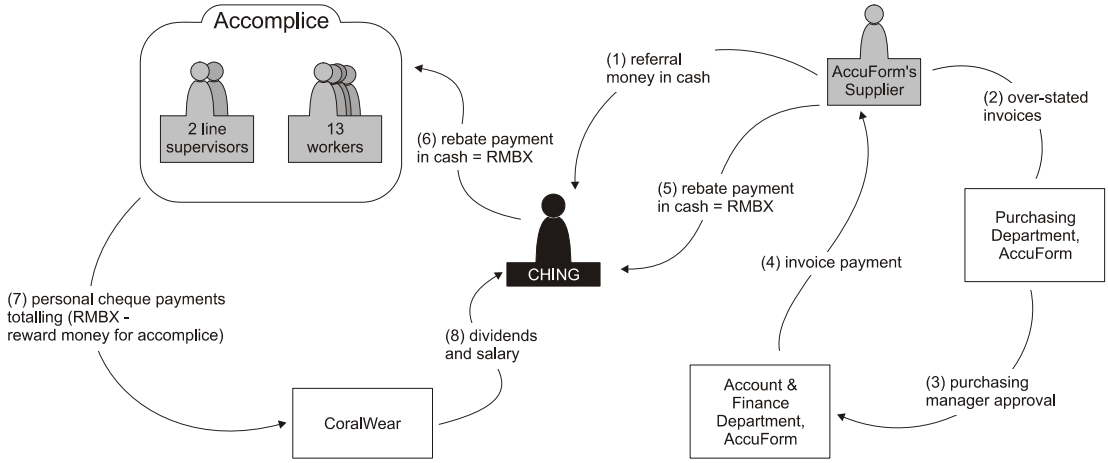

EXHIBIT 2: TRADEMARKS USED BY ACCUFORM AND CORALWEAR

AccuFórm™	AccuForm's registered trademark
AccuFórm™	Mark used by CoralWear