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Asia Case  
Research Centre  
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ACCUFORM: ETHICAL LEADERSHIP AND  
ITS CHALLENGES IN  
THE ERA OF GLOBALISATION  
  
October 25" 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  
  
Claudia Woo prepared this case under the supervision of Professor Amy Lau and Dr Raymond Wong for class discussion. This  
case is not intended to show effective or ineffective handling of decision or business processes.  
  
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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.' 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  
  
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wearing in order to improve skin tolerance”.  
  
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.\* 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  
(Bedarfsgegenstandeverordnung, 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 Bedarfsgegenstaindegesetz, 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.\* 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  
  
' Pressler, Margaret Webb, “The Emperor’s New-Tech Clothes”, Washington Post, September 19" 2004.  
  
2 Platzek, Thomas (2002) “Textile Garments”, Bg VV [German Federal Institute for Health Protection of Consumers and  
Veterinary Medicine].  
  
\* 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.  
  
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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.° 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. °  
  
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.’ Most of the market players\* 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.’  
  
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%)."° 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 17" 2005  
[www document] http://www.nanotechwire.com/news.asp?nid=1627 (accessed August 15" 2006).  
  
® «39% of Americans Looking for Hassle-Free Clothes That Go the Extra Mile”, AZoNanotechnology News Item, April 26"  
2004.  
  
7 “Report Summary: Profile of Bemis—A Leader in Bonded Seam Technology Stich-Free Aparrel”, Textile Intelligence:  
Performance Apparel Market, Iss. 16, 1" Quarter 2006.  
  
§ 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.  
  
° “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.  
  
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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  
  
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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  
  
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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  
  
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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  
  
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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 guwanxi-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  
  
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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 20" 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  
  
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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  
  
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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  
  
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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.  
  
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EXHIBIT 1: FLOW OF MONEY LAUNDERING  
  
—‘ Accomplice Q  
(1) referral =  
\* money in cash AccuForm’s .  
| Supeliay (2) over-stated  
43 » invoices  
; (6) rebate payment  
\ / v (5) rebate payment  
in cash = RMBX ;  
Purchasing  
Department,  
, « (4) invoice payment AccuForm  
(7) personal cheque payments  
totalling (RMBX -  
reward money for accomplice) (8) dividends  
and salary  
Account & (3) purchasing  
Finance manager approval  
y| CoralWear Department, | ¥  
‘AccuForm  
  
EXHIBIT 2: TRADEMARKS USED BY ACCUFORM AND CORALWEAR  
  
AccuForm’s registered trademark  
  
Mark used by CoralWear  
  
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