

Case analysis – everyone does it

Business



The purpose of the report is firstly, to give an introduction of the satellite company described in the case and the concept of business ethics which are of great importance in today's business world. Secondly, we will analyze the case presenting two alternatives which could lead to different behaviors and outcomes. Finally, we will provide a recommendation how the key person should act in the described situation from our point of view.

Analysis summary of the case The ethical problem is caused by various factors. On the one hand, the satellite imagery industry is a highly attractive and fast-growing market, so all participating companies heavily rely on acquiring and keeping their clients to be able to compete.

On the other hand, all companies depend on venture capitalists who provide the financial means for the companies' projects. Due to current negotiations with a Japanese client, Jim has to decide of whether to act ethically correct or rather in favor of the company. According to scenario 1, Jim discloses the information about the delayed completion date. Consequently, further negotiations with the Japanese would be cancelled and the advance contract would be made with a competitive company. The second alternative, described as scenario 2, would be to withhold the information from the customer.

As a major consequence, ISI would probably get the contract and the financial future of company would be secured for the moment. As possible negative consequences, the company's reputation could be damaged and possible contract conditions could result in compensation claims of the Japanese company. However, the company is prepared to take this risk than to lose the contract to one of ISI's competitors. In the best case, the contract

will be signed and the delay will be tolerated. Recommendation It is recommended that ISI should conceal the delay of the launch date and to use the published one.

By doing so, the company will be secured at the moment, which is the most important thing as far as we concerned. 1. Introduction 1. 1Company profile As to better understand the role of ethical values in today's business world, a fictitious company serves as an example to illustrate the ethical dilemma in the presented case study. International Satellite Images (ISI) is an internationally operating company, which has its headquarters in the United States.

The company produces various types of commercial satellites and is primarily specializing in building satellites with a highly fine resolution. A new satellite which is able to image the world at a resolution of one meter will soon be built and launched. The satellite imaging industry is dominated by only few companies from four nations, the United States, Russia, France and Israel. Within the United States, ISI is one of the leading firms, besides its national competitors Lockart and Global Sciences. Each of the US companies had received a license from the US government to produce and launch satellites. For the last six months, ISI had been negotiating with a Japanese company an annual imagery purchase of ten million dollars for five years and ISI is currently close to get the contract.

However, the two competitors had also shown interest to do business with the Japanese and therefore put the expected deal to risk. 1. 2Parties involved Jim Willis, the Vice President of Marketing and Sales for ISI, is the

key person in the ethical dilemma described in the case study. He is responsible for the code of conduct applicable for the negotiations with the Japanese company HTC (see below). Withholding negative information from business partners, for instance publishing an incorrect launch date to increase the probability to make a successful deal, seems highly unethical to Jim.

He feels that this behavior is not complying with his ethical values and he is worried about the consequences this practice could have on his personal reputation and the one of the company. Fred Ballard is the President of ISI and he is Jim's boss. He has a different view about ethical behavior than his subordinate. When Jim asked him for advice concerning the issue about which launch date to put in the proposal, Fred insisted to use the published date as the official launch date although it was obvious this date could not be met. He tries to justify his position by referring to the aggressive launch dates of the competitors and common methods of not on time delivery used in this kind of highly competitive industry. It seems that achieving business objectives and closing lucrative business deals are more important to him than acting ethically correct.

Venture capitalists play an important role for ISI and its competitors, because the construction of the satellites and ongoing operations are solely financed by them. To insure the success of their investment, venture capitalists demand for sufficient advanced contracts. An advance contract is written like a franchise licensing agreement and a common contract target is 150 % of the cost of manufacturing and launching a satellite. Due to the fact that there are only few companies which are financially able to become a

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successful franchisee, ISI in this case heavily relies on an advance contract with the Japanese company as a franchise partner. If any of the competing US companies will not be able to get a sufficient number of advance contracts, it is likely that the venture capitalists will stop investing in the companies' future projects.

This would possibly result in a forced stop of production and even bankruptcy for the losing firms. The Higashi Trading Company (HTC), a Japanese company, provides satellite imagery for military and civilian use to the Japanese government. HTC is currently the main business partner whom ISI is negotiating with for an advance contract. To evaluate the building progress and the satellite itself, HTC had commissioned several engineers to the company. Apparently, HTC had also contacted representatives from the two competitors Lockart and Global Sciences.

If the company knew that the launch date had to be revised, it probably would delay the signing of the contract or even terminate all ongoing negotiations and business cooperation with ISI. Furthermore, HTC would begin negotiating with one of ISI's competitors. 1. 3The role of business ethicsThe ethical conflict presented in the case is not uncommon in today's business world. Salespersons are often asked to withhold relevant information from their clients concerning product quality issues, production or shipping delays.

The pressure to succeed and the fear of losing business contracts, income and job status have great influence on subordinates and decision makers who therefore often tend to practice unethical behavior. These ethically

unacceptable actions are great threats to an employee's personal integrity and long-term relationships with customers. Business ethics have become a global issue and a widely-discussed topic over the past years. Ethics can be generally defined as “ a system of deciding what is right or wrong in a reasoned and impartial manner”. They are a significant part of sound business decisions which should be conducted with integrity, fairness and trust. Ethical behavior is based on principles which are standards of rules and guidelines in personal and business life.

People who act in an ethical manner consider the results and effects on others before making a decision or take an action. Making profit is a legitimate goal for a business, but it cannot be used as an excuse for unfair business practices. Business people can freely decide what to do and say and should always be responsible for their actions and the consequences. A great influence on ethical practices has the corporate culture of a company. Corporate culture is “ a set of values, ideas, and attitudes that is learned and shared among the members of an organization”.

Culture is also apparent in formal codes of ethics, which are formal statements of moral and ethical rules and guidelines of conduct. An estimated 80 % of all companies in the US have already implemented some type of ethics code. The lack of specificity and the perceived behavior of top management and co-workers are major reasons for the violation of ethic codes. 2. Analysis of the case 2. 1External and internal market analysis To understand the major issue and all consequences of the case, it is important to analyze external (customers and competitors) and internal variables

(economic situation of the company), which could have an influence on the company.

In this market analysis we assume that ISI real is equal to the ImageSat International company. External market The commercial utilization of satellite imagery began in the 90? s. In the year 1994 the former US-president Bill Clinton supported the granting of a license for the private selling of satellite images. This has been an economic advantage for US companies in a growing market. To date the American companies are ranking among the technological leaders.

And the market is still growing (see Table 1): Study from:| Market| Year| Revenue(in billion \$)| Growth per year| BCC Research| satellite-based Earth observation| 2012| 9, 9| 6, 30 %| Chesapeake Analytics| High-resolution satellite imagery| 2013| 2, 5| 16, 5 %| Table 1: Market growth of satellite imagery Competitors Worldwide three other countries have equivalent standards of technology: Russia, Israel and France (within the European Union). System| Operator| Country| QuickBird 2| DigitalGlobe| United States| Ikonos-2| Space Imaging| United States| Space Imaging| Sovinformsputnik| Russia| Spot 1, 2 and 4| Spot Image| France| Table 2: Competitors of ISI worldwide Within the US, ISI has to share the market with two competitors who are also producing high-resolution satellite images. The competitor Space Imaging builds the Ikonos satellite whereas Digital Globe produces a satellite called QuickBird (see Table 2). Both companies have got a special contract with the US-government. These contracts assure the companies several billion dollars of the military budget and the budget of defense. Thereby their competitive capacity is secured and could be expanded.

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Customers ISI has governmental and non-governmental institutions as customers. Most governments are using satellite images for educational or military purposes whereas for private customers these images serve as data for planning cities and observing changes in climate, for instance. The duration of an advanced contract depends on the life time cycle of a satellite which usually is five years. The potential for success after having closed a deal successfully depends on the market size, the amount of competitors and the overall demand for images from local, civil and military institutions. The EU and the US represent the largest markets worldwide. After the EU and the US, Japan has the third largest market in satellite imagery.

A probable market volume is assumed to range from 20 to 30 million dollars per year. Financing One of the biggest problems for companies operating in this kind of industry is the dependent relationship to investors. The provision of financial means for producing and launching a satellite by venture capitalists require a sufficient amount of advance contracts, as mentioned above. Without these advance contracts financial help from venture capitalists would be no longer guaranteed, so that the production would have to be stopped and the company probably would have to declare bankruptcy. Summing up we can point out that this industry is a very attractive market. Nevertheless, all market actors are exposed to a harsh competition, not only for customers, but also for investors of potential projects.

These are the reasons which have created such a difficult situation in which Jim has to take a path breaking decision for the whole company. 2. 2Current problem ISI is currently dealing with the Japanese company HTC. The company's objective is a contract period of five years with annual earnings of <https://assignbuster.com/case-analysis-everyone-does-it/>

10 million dollars. Jim is informed by his boss Fred about a significant delay of the new satellite's launch. Withholding this negative information from the Japanese client could lead to a delay in signing the contract, or even worse a conclusion of a contract between the Japanese and one of ISI's competitors.

According to Fred, the delay of the satellite's launch should be withheld from the customer what Jim thinks it would be an unethical business practice and not fair. Now Jim has to take a careful decision: 1. Should he tell the customer about the delay by accepting all negative consequences or 2. should he not inform the customer about the delayed launch date to not endanger further negotiations with the Japanese and to not risk his job and a great future financial loss or even bankruptcy of the company? Briefly said, Jim can either choose to act in an ethical manner or to behave unethically. The two alternatives he can choose from and the consequences will be discussed in the following chapter. 2.

3Analysis of the scenariosFirst of all, the various factors, which have created the ethical dilemma, should be clarified. There are both internal and external forces which have influenced the situation. Fred, as Jim's boss, has given him the clear instruction not to withhold the information that ISI will not be able to deliver on time. Not only could the financial situation of the company be negatively affected, but also Jim's personal reputation and the company's one. Moreover, Jim's employment contract does not permit a disclosure of company proprietary information without prior authorization.

Concerning the external forces, it is quite common in this kind of industry to publish optimistic launch dates which are rarely met. Furthermore, venture

capitalists have profitability expectations which cannot be met if realistic dates would be provided. There are two possible scenarios which are to be analyzed: Scenario 1 In scenario 1, as shown in Chart 1, Jim's ethical action could have a positive influence (grey arrow) on his personal situation, but lead to negative consequences (red arrow) for the company and its economic situation. According to the first scenario, Jim discloses the information about the delayed completion date. Consequently, further negotiations with the Japanese would be cancelled and the advance contract would be made with a competitive company. The financial aspect could be very drastic and may bring ISI into bankruptcy.

But even if that will not happen, the reputation of the company would be badly affected, which could jeopardize long-term projects. Jim's future in the company would be uncertain and finding a new job will be difficult for him in case of a dismissal. Scenario 2 The second alternative, described as scenario 2, would be to withhold the information from the customer. As a major consequence, ISI would probably get the contract and the financial future of company would be secured for the moment. Furthermore, Jim would have followed the instructions of his boss and he would also avoid being dismissed. Completion delays are common in this industry, so contractors could have expected this type of delay.

As possible negative consequences, the company's reputation could be damaged and possible contract conditions could result in compensation claims of the Japanese company. However, the company is prepared to rather take this risk than to lose the contract to one of ISI's competitors. In the best case, the contract will be signed and the delay will be tolerated. 3.

Recommendation After having analyzed advantages and disadvantages of both scenarios, our recommendation will be presented in the following.

We would recommend that Jim should behave unethically according to scenario 2. As for scenario 2, the company's well-being is of greater relevance than Jim's personal reputation and his feelings. In this case, we agree that the profit of the company outweighs the business ethics.

Ultimately, the contract will be signed, the financial future would be secured and the company will not have to declare bankruptcy. Concerning Jim's professional career, he will be able to keep his job.

Even if the Japanese are possibly not satisfied with the delay of the launch date, ISI will agree to adjust all damages caused. To conclude, based on what we have analyzed and stated previously, we highly recommend that ISI should conceal the delay of the launch date and use the published one in the proposal.