

Jextra in malaysia assignment

Business



For the exclusive use of M. Hosing robber Andrew Inept extra Neighborhood Stores in Malaysia In October 2010, Tom Chon was on his way to his office and thinking about several issues he would have to deal with in the coming weeks. Chon was Extra Stores Extra) country manager for the Neighborhood Markets Division in Malaysia. One issue involved a conversation with the mayor of Klan, a town near Malaysia's capital city of Koala Lump. Chon had been seeking to expand to Klan for some time.

The mayor surprised Chon with an offer to help with land zoning if Extra would help enhance a new primary school (or at least Chon thought that was what he had been asked for). Rhea second issue involved the Job performance of Raff Lam, Jester's top-performing buyer. Lam, a buyer of fresh fruit and vegetables, consistently negotiated better contracts than Jester's fifteen other buyers and, Chon believed, better than Jester's competitors. The contracts negotiated by Lam certainly contributed to the excellent financial performance of Extra Malaysia.

Nevertheless, Chon could not help Enduring if there was more to the picture than he was aware of. The retail industry n Malaysia was notorious for buyers accepting money and gifts from suppliers. A few days ago, Chon had accidentally overheard two of his accounting employees speculating that Lam must be accepting gifts, or even taking bribes? how else could he get such good contracts? Chon was not sure what to do. Should he confront Lam? Or, to use one of his English colleague's favorite expressions, should he let sleeping dogs lie?

Chon knew that his boss expected him to aggressively grow the business, so perhaps it would be best to accept the mayor's offer and deal with Lam later. Extra Malaysia extra Stores, a large Asian retailer, was based in Hong Kong and was owned by Simi Limit Holdings, a large publicly traded industrial group. Simi Limit Holdings was traded on the Hong Kong and London stock exchanges. Extra operated retail stores in Hong Kong, China, Philippines, Viet Name, Malaysia, Thailand, and Singapore. The company operated supermarkets, hypermarkets, and convenience stores. Extra entered Malaysia, a stable and prosperous nation of 28 million multi-ethnic people, in 2005 and was very successful. The company operated supermarkets in Malaysia using the name Neighborhood Markets. There were now ten Neighborhood Markets, and breakable had been reached quickly. Extra was planning to enter the Malaysian convenience store sector in a few years. Although other Asian and European retailers were entering Malaysia, Tom Chon saw plenty of growth opportunities for supermarkets, and his boss in Hong Kong had approved an aggressive five-year investment strategy. Mom Chon room Chon, a Hong Kong native, had been in his position for eight months, and expected to remain there for another two to three years. Malaysia was Chosen first assignment as country manager. Prior to moving to Malaysia, Chon held various positions in corporate headquarters in Hong Kong, and then moved to Malaysia as finance director. After two years in finance, he moved into his current role as country manager for Neighborhood Markets. His new assignment in Malaysia was his first experience with real operational issues and profit and loss responsibilities. Copyright 0 2010 Thunderbird School of Global Management.

All rights reserved. This case was prepared by Professor Andrew Inept for the purpose of classroom discussion only, and not to indicate either effective or ineffective management. This document is authorized for educator review use only by Md Safety Hosing University of Dacha until July 2015. Copying or posting is an infringement of copyright.Harvard. Du or 617. 783. 7860 Chon reported to a Regional Operating Officer responsible for Singapore, Malaysia, and Thailand, and was in constant contact with the CEO and the SCOFF of the Supermarket and Hypermarket Divisions to Extra in Hong Kong.

Chon was evaluated based on various financial measures, including Economic Value Added. As a country manager in a young market, the number of new stores opened was an important element in his overall evaluation, and a factor in determining his career prospects. In fast-growing market like Malaysia, a failure to open new stores would be viewed negatively at corporate headquarters. The number of new stores opened would also be a factor in determining his discretionary bonus. In recent years, Chosen performance had been among the best for Extra managers of his age and experience.

A New Store in Klan extra was doing well in Malaysia and actively seeking to expand. Chon and his team had identified a potential site in Klan for a new Neighborhood Market. Klan, a own located about 30 km west of Malaysia's capital, Koala Lump, was growing and Nas viewed as an attractive location for a new store. Although the potential site was not zoned for retail and commercial purposes, it had good road access and plenty of space for parking. Chon knew that several other retailers were also interested in <https://assignbuster.com/jextra-in-malaysia-assignment/>

expansion in Klan, especially with the opening of a new highway connecting Klan to the southeastern edge of Koala Lump.

At a recent meeting between Chon and the mayor of Klan: Chon: As you know, we have identified Klan as one of the most attractive cities in Malaysia for Extra investment. We are interested in opening a Extra Neighborhood Market there. Mayor: We are pleased that you are considering our city for your next investment. Klan is a growing community, and the new highway makes our city much more attractive as a place for families to live and commute to the capital. “ here does your investment analysis stand? Chon: We have done some preliminary work. We have identified some potential sites.

There is one site of interest near the new sports arena, and we have had some conversations with your officials since the land is currently not zoned for commercial use. Unfortunately, our previous investments in Malaysia have all encountered difficulty with land development. Our newest store was delayed by more than eight months because of zoning issues. We hope that will not be a problem in Klan. Mayor: We have a unique community in Klan, and want to protect our cultural heritage. We scrutinize all proposed real estate developments very carefully. With [Our store, perhaps we can help each other Chon: Can you be more specific?

Mayor: Our community is growing quite rapidly, and we have a lot of young families moving in. We desperately need a new primary school. Without it, families may hose to live elsewhere. People do not want to live in a city with inadequate school facilities. Unfortunately, our school budget is quite tight,

and we may not be able to build the school for at least two years. If Extra were willing to consider supporting a primary school development fund, I am sure I could speed up the land zoning process. Chon: Interesting.... Can you tell me a bit more about the primary school project? Do [o have any preliminary estimates of the cost?

Mayor: My Director of Schools has told me that we need about 350, 000 ringing to make up a budget shortfall for a new primary school. Jester's support would greatly help the community. Also, if you were to build your store on the proposed site, road and electricity developments would be necessary. A flyover at the intersection of Allan Maintain and Clan Cubans on the east side of the site would be necessary to ensure smooth traffic flow. We would, of course, expect Electra to help pay for the flyover. I understand one of your competitors in Shah Lam [a community close to Klan] helped pay for a new fire truck when they entered the market.

This is quite normal for new investment in Malaysia. Chon: Well, Mr.. Mayor, thank you for your time. We will continue with our analysis, and certainly hope that we can do something that is good for Klan and good for extra. Ninth that, Chon left the meeting. The conversation with the mayor had caught him by surprise. The mayor's zoning proposal was unexpected, but could certainly speed Jp development. However, Chon was not sure what he asked for. Was he being asked to pay the entire 5 million ringing or just a part to the cost? Would en pay tort it before the primary school was built, or after?

Would he pay the city or a contractor? If he said no, would that mean a denial of the zoning change? Chon made a few calls, and learned that the mayor's sister was on the school board and was one of the major supporters of a new primary school. Chon also learned that planning for the flyover had started several months before Extra had ever expressed an interest in the nearby site. In addition, Extra had already determined that traffic to and from the store parking lot would be routed through the west side of the lot, using a lightly used commercial street and not on either of the roads close to the planned flyover.

Chon wondered about the mayor's motives in asking Extra to pay for the flyover. Extra Business Conduct Code extras Business Conduct Code was very clear: employees could not offer benefits to third parties in connection with business matters (see the Appendix for excerpts from the Code). If Extra were to contribute to a primary school, the benefit would be contribution to a school development fund, and the benefit would go to the school and the community, not individuals. Chon had discussed a hypothetical situation Ninth a Malaysian friend who was also a lawyer (he did not reveal the specifics of the mayor's request).

He was told that Malaysian law was unclear in the area of business aments for social purposes made specifically for regulatory approval. He was also told that although not widespread in Malaysia, the practice of businesses contributing to city projects was common in Klan and other areas around Koala Lump, and the local mayor prided himself on being able to obtain these payments for schools and roads in particular. Leaser's corporate office in Hong Kong had a small group of employees that managed the Extra Social <https://assignbuster.com/jextra-in-malaysia-assignment/>

Fund. The Extra Social Fund provided funding for various social and educational programs, mainly in Hong Kong.

One of the fund's specific initiatives was roving university scholarships in Hong Kong for children of lower-income families. As Extra expanded in Asia, the fund was slowly looking at ways to contribute to more local programs. However, Chon knew that recently there had been some concerns in the Philippines involving the Extra Social Fund and some funds for a community center in a city in Inch Extra planned to build a store. Chon did not know the details, but the rumors Nerve that much of the money went to local politicians instead of the community center.

Not long tater the incident, Jester's country manager in the Philippines was rendered back to Hong Kong to a position that looked like a demotion. Legal in Malaysia? Chon thought that the primary school contribution could be illegal in Hong Kong if it circumvented the Extra Social Fund. But, perhaps this was normal practice in Malaysia. Chosen friend said that some local lawyers would probably advise him to make the payments, but to keep the school and flyover payments independent, which Mould blur the line as to whether the behavior was indeed illegal.

Complicating the issue was the question of the expected outcome from the primary school payment. If he school payment speeded up the development process, it could be legal; if it was necessary to make the payment solely as a prerequisite to obtaining the permit, it could be considered a bribe. If the payment was made after the store was built and . NET directly to a school board budget for future operating expenses, would that be illegal? Chon did

not know the answer to these questions. Various scandals involving alleged bribes and corporate contributions had contributed to the recent “retirement” of various elected officials in Malaysia.

Both state and federal politicians were using “clean government” as part of their political littorals. The State Investment, Trade and Industry Committee Chairman said that his government would separate itself from the historically tight ties between business, government, and political campaign contributions. At the federal level, the government had promised that foreign direct investment in Malaysia would become transparent, and that giveaways to foreign investors would stop (exactly what giveaways he meant were never specifically identified).

Chon knew that, in the last year, there had been several tottering investors who were rumored to have helped fund different government programs in exchange for favorable treatment. So far, there was no evidence that any of these efforts were illegal or even of much interest to voters and legislators. When a European electronics company opened a new plant in Malaysia, there were many rumors that the company paid a substantial amount of money to a government “education fund.” Chon’s teammate from his football club told him confidentially that the company had paid 2. Million ringgit to the fund, and that the fund was controlled personally by the Industry and Development Minister, a well-known businessman turned politician, whose wife was dean of the Communications School at the Malaysian Institute of Technology. Strata’s Competitors and the Mayor’s Offer Chon was aware that Super-value, one of Jester’s competitors, was also actively looking at Klan for a new store. Would the mayor make the same

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offer to Super- Value as he had made to Extra? If so, when would the offer be made, and would Super-Value be willing to accept it? Perhaps Super-Value was interested in the same site as Extra.

Before Chon could even consider agreeing to the mayor's primary school request, he needed to think through the details. How would he get the money for the school? Would he identify it in the investment proposal, or try to hide it with there items? Should he get legal advice on his possible criminal liability in Hong Kong? What if he went ahead with the payment, and the money ended up not going to the school? If the press found out, Extra and Chon could be in big trouble. Perhaps the best approach would be to decline the mayor's offer and work through regular channels to get the zoning approval.

If that was successful, he would worry about the flyover request later. On the other hand, he did not want to lose access to a prime retail site, and his boss, who was aware of the Klan site, wanted an update on the project next week. Category Management A very simplified view of Jester's category management and buying process is as follows. Category managers (SMS) were responsible for driving category direction and leading an operationally efficient category team to deliver the budget within the framework of the corporate goals.

A key area of responsibility for category managers Nas working with suppliers to determine the products to order, together with their negotiating prices. For a new supplier, establishing a relationship with a category manager was crucial in getting its products listed by Neighborhood Markets.

Category managers negotiated contracts, rebates, equipment, placement, incentives, and other financial and logistical arrangement for their category. Neighborhood Markets in Malaysia had category managers for product lines such as fruits and detestable, meat, frozen foods, and beverages.

Product buyers managed the bundling of orders and actual buying from suppliers at the negotiated prices. Over and above this organizational setup, there were few defined processes, leaving a fair amount of leeway to the category managers because they decided what to order and Nat not to order. Raff Lam Raff Lam was 32 years old, and had been with Extra in Malaysia since the company entered the market. He had worked his way up from a sales apprentice position to category manager for fruits and vegetables.

His responsibilities included building and managing contacts with suppliers, listing suppliers and products, negotiating prices, and working closely with buyers to ensure that the supplier relationship was smoothly managed. As Lam's boss, Chon had a reasonable understanding of how the Malaysian buying process worked, but he did not know all the details, and certainly was not involved in ay-to-day activities. What Chon had learned over the past few months was that there were ample opportunities for SMS to exploit the system for personal gain.

One typical scheme involved company samples and rewards. Most suppliers provided SMS with a large supply of product samples that could be sold on the grey market. SMS and their spouses often traveled extensively to product presentations of certain suppliers. These events usually took place

at luxury hotels, and often in resort settings. Since Lam was a CM for fruits and vegetables, he might be provided with these products, such as small appliances like toasters or coffeemakers. Another typical scheme was for suppliers to provide rewards tied to performance and sales.

These could range from household appliances to expensive jewelry and watches. These rewards could be kept or sold. There were even cases where companies owned by relatives to SMS and to be paid by suppliers in order to get the suppliers to get their products sold by Extra. Besides his suspicions that Lam was accepting gifts, or even taking bribes, Chon had heard rumors about a scheme between Lam and his father-in-law. Lam offered suppliers willing to be listed for a new product to his father-in-law who, as a side job, ran a trading agency that "established contact to Extra Stores. The agency received a commission of 0.5 percent for all goods covered by the agency agreement. It was rumored that Lam rarely listed suppliers and products not covered by the agency. Robbery Rhea bribery issue was particularly troubling. Bribery of retail buyers was as old as the retail industry itself. The bribery process works as shown in the following example. A buyer who paid 50 ringgit for a pair of blue jeans the previous year negotiates a 45 ringgit price based on a larger order. Another clotheshorse offers the same pants for 42 ringgit each.

In order to retain the big order, the first vendor matches the 42 ringgit price and gives the buyer 2 ringgit for each pair of blue jeans. The bribe is undetectable, because the buyer sets up a phony company that serves as a middleman in the transaction. The vendor bills the retailer for 42 ringgit a pair and funnels the 2 ringgit to the buyer through the dummy corporation,

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calling it “ an agency commission. ” After the deal is done, the vendor keeps the order and the retailer pays less for the pants than a year ago. The buyer looks good because the price paid was lower than a year ago.

The buyer believes, “ I deserve the money because I am helping the company. ” For a few years, the retailer may benefit by having lower costs. Longer term, the retailer’s costs may increase because the buyer has an obligation to the vendor and may end up paying less-competitive prices. The retailer may also end up with merchandise that is inferior in quality and difficult to sell because it was purchased by a corrupt buyer. Chosen Decision Chon had a dilemma. Although he suspected that Lam was involved in “ dirty’ eying, how could he find out?

His colleagues might know, but they could be involved in the same activities. Extra was doing well and, as far as Chon knew, except for bribery, most of the behaviors were not criminal in Malaysia. What if he set up an investigation? If he found nothing, he could alienate his people and lose personal He might tint that large parts to his product category management were engaged in similar actions. What should he do then? The whole business might be at risk if he were to shut it down. He could lose his top SMS and disrupt supplier relationships.

Plus, how would he actually investigate the SMS? hire an outside investigator? Talk with suppliers? Find a disgruntled employee? Spy on his employees? This was all new to him. Proving any of his suspicions would be difficult. Lam was a respected member of the team. Aside from rumors and hearsay, Chon had no real evidence of bribery or kickbacks. Lam’s lifestyle

did not seem out of the ordinary. Chon would need clear evidence, and an outside investigator would mean added cost. The investigation could take months, or even years, and Chon might be gone from Malaysia by the time the process was completed.

In addition, this would take a lot of his time, and he has already working almost 60 hours a week. Chon needed to keep growing the business and meet his financial targets. It was critical for him to deal with the mayor's proposal appropriately and ensure that Jester's chosen site did not end up being one of his competitors. Maybe he should wait before doing anything about Lam. TABLET Appendix: Excerpts from Jester's Business Conduct Code Summary Electra is an international company with a strong reputation for providing quality products.

We continually seek to deliver the best results for the Company, the highest return to our shareholders, and the most beneficial service to our customers. Ethical conduct is defined as conduct that is morally correct and honorable. To maintain our valuable reputation and to build on our success, we must conduct our business in a manner that is ethical as well as legal. This Business Conduct Code establishes Electra's commitment to following ethical business practices. It details the fundamental principles of ethical business behavior, and defines the responsibilities of all directors, officers, associates, and Company representatives.