

# Japanese bribe case study

[Education](#)



**ASSIGN  
BUSTER**

## THE CASE OF THE JAPANESE BRIBE I. BACKGROUND OF THE CASE 1976:

Former Japanese Prime Minister Kakuei Tanaka was arrested on charges of taking bribes amounting to \$1.8 Million Dollars from Lockheed Aircraft Company. Tanaka's secretary and several other government officials were arrested together with former Prime Minister Tanaka. Takeo Miki was ousted from office on suspicion of concealing Tanaka's dealings with Lockheed Aircraft Company. In Holland, Prince Bernhard resigned from 300 government positions held for allegedly having received \$1. Million in bribes from Lockheed Aircraft Company in connection with the purchase of 138 F-104 Starfighter Jets. In Italy, Giovanni Leone, the Italian President in 1970 together with Prime Ministers Aldo Moro and Mariano Rumor were also accused of accepting bribes from Lockheed in connection with the purchase of \$100 Million worth of aircraft during the late 1960s. Scandinavia, South Africa, Turkey, Greece and Nigeria were also among the 15 countries in which Lockheed admitted to having handed out payments and that at least \$202 Million in commissions were made by the company since 1970.

Lockheed started using bribes since 1958 in order to outsell Grumman Aircraft, a competitor, for the Japanese Air Force contract. As per his testimony, William Findley of Arthur Young & Co. the auditors for Lockheed, engaged the services of Yoshio Kodama to act as middleman between Lockheed and the Japanese Government in order to secure the government contract for the purchase of military aircrafts. Several bribes were made by the company to ensure the contract in its favour.

In 1972, Lockheed rehired Kodama as consultant to sell its aircraft to Japan. Lockheed was in dire need to sell its aircraft owing to a series of financial

disasters, cost overruns, pushing the company to the brink of bankruptcy in 1970. A controversial loan guarantee awarded the company amounting to \$250 Million helped the aircraft company in averting the bankruptcy. Lockheed President, Mr. Carl Kotchian anxiously anticipated making the sales since the company has not been making its projected sales of aircraft worldwide.

Mr. Kotchian believed that Japan is a largely-untapped market and if Lockheed penetrates the Japanese market, the company can generate \$400 Million and thus, improve the company's financial status and ensure the jobs of thousands of the firm's employees. Kodama eventually succeeded in engineering a contract for Lockheed with the All Nippon Airways, beating McDonnell Douglas, its active competitor. For the sale, Kodama asked and received \$9 Million as pay-off money from 1972 to 1975.

Allegedly, much of the money went to then Prime Minister Tanaka and other government officials for interceding with All Nippon Airways on behalf of Lockheed Aircraft Company. Mr. Kotchian admitted full knowledge about where the money was going and that he was persuaded by the assurance that in making the payoff, Lockheed was sure to get the contract with All Nippon Airways. Subsequently, Lockheed netted \$1.3 Billion from the contract. Mr.

Kotchian defended the payoff as "in keeping with Japanese business practices", meaning that in order to do business in Japan, one has to make payoffs, further, Kotchian reiterated that the transaction did not violate any American Laws and that Lockheed needed to adjust to the existing "functioning systems" in order to be competitive and guarantee the jobs of

thousands of its employees, as well as ensure continuing profitability. Otherwise, the company would be bankrupt and thousands will lose their jobs. In August 1975, after investigations conducted by the U. S.

Government, Lockheed admitted to making \$22 Million in secret payoffs and in subsequent Senate investigations in 1976, the deals were made public, causing Japan to cancel the billion dollar contract with Lockheed. In 1979, Lockheed pleaded guilty to concealing the bribes by writing them off as "marketing costs". Lockheed was not charged with bribery since the law took effect only in 1978. Mr. Kotchian was not indicted but was forced to resign from his office while in Japan, Kodama was arrested together with Tanaka. II.

STATEMENT OF THE PROBLEM 1. What were the moral and legal implications of the actions of the Lockheed management? . What is the effect of the transaction with respect to fair competition in business? III. AREAS OF

CONSIDERATION 1. The need to ensure the profitability of the company. 2. The need to ensure the welfare and well-being of thousands of employees of the company. 3. The ethical and legal standpoint that binds entities in the conduct of their business. IV. ANALYSIS OF THE CASE The case revolves around several issues that confront today's modern business practice/s; basically, every company aspires to achieve continuing growth and profitability as its major policy.

Secondly, the company as an organization is augmented and composed by people who are performing each of their respective tasks in order to achieve the goals and objectives of the firm. In the case of Lockheed Aircraft Company, there is a dire need to rebound from near bankruptcy and the means by which it can be achieved is to get hold of the contracts for the

company to build and supply aircrafts to their intended buyers. The Japanese market offers a potential target for the aircraft company, much as the other companies are likewise aware of.

The airline and aircraft industry is a highly competitive industry. Each company needs to update its existing technology, requiring continuous investments in retooling and research. Such an activity requires continuous flow of funds considering the immense requirement for funding the expenditures. Should the company let up on continually improving its product and technology, the result would be disastrous for the company since competitors could easily overtake the company and its market. All of these predicaments compounded the financial woes of Lockheed Aircraft Company during the 70's.

It is under this duress that management was forced to find a means by which the company can stay afloat, make profit and support its large workforce. The decision to make extraordinary means to ensure sales was at the moment, imperative for management. Using the argument that during those days, a business sub-culture existed in Japan, that is, that the company needed to abide by the "functioning system" to get the All Nippon Air Contract. In simple terms, payoffs are needed to facilitate the sale of the company's aircraft to the Japanese airline company.

Ethically, a payoff to facilitate a contract at the expense of other competitors deviates from existing moral values that should govern the conduct of business. However, assuming that a system of patronage existed in Japan during the time; such a system constrained the management of Lockheed to use extraordinary means to go through channels as conduits to their

<https://assignbuster.com/japanese-bribe-case-study/>

intended client in order to seal the contract. Prior to investigations conducted and the subsequent admission of the company regarding the payoffs, landing the contract with All Nippon

Airways, did not only guarantee profits for Lockheed but also, a continuing support for its thousands of employees. V. CONCLUSION Based on the foregoing, it is established that Lockheed acted within the sphere of corporate culture prevalent of the times. From a business man's point of view, the payoffs could indeed be classified as marketing costs since from the point of view of the company, the money that was used was partly in promotion of its product, by today's standards. However, the crux of the problem was that those who received the payoffs were government officials who had control of the affairs of their country.

As such, these officials were in a position to exert undue influence on the airline company to purchase the aircraft from Lockheed. It is this undue influence that made the act unethical and from a legal standpoint, criminal in nature since, the resulting transaction is now a case of bribery on the part of Lockheed and extortion on the part of the government officials who received the payoff. As for Mr. Kotchian, I believe that as CEO of Lockheed Aircraft Company, he acted in the best interest of the company and for everyone who are immediately involved with the company (employees, technicians, management, etc. As CEO, he is tasked with ensuring a profitable direction for the company and provide a continuing means of livelihood for all those employed by the company. Likewise, it is his duty to ensure the competitiveness of the company. VI. RECOMMENDATION Despite the arguments of utilitarianism in this case, wherein the interest of the majority

is deemed primordial over the interests of the few, I/We believe that Mr. Kotchian, in behalf of the management of Lockheed Aircraft Company acted within the bounds of corporate culture prevalent of the time.

Arguably, using ethics and morality as a gauge, I/We perceive that Lockheed and Mr. Kotchian were guilty of unfair competition as they undermined their competitors through the use undue influence instead of marketing a superior product. Although the immediate results could have benefitted all those concerned within the sphere of the company, the means by which it was achieved were tainted with fraud and the wilful distortion of facts (reporting payoffs as marketing costs), hence, providing the other stakeholders such as its investors and stockholders a false representation of the financial affairs of the company.

Although, bribery was not yet classified as corporate crime prior to 1978, the act of Lockheed Aircraft Company and Mr. Kotchian should be regarded as unethical, immoral and illegal; as well as promoting unfair competition with respect to other aircraft manufacturers in the industry. The decision of the Board of Directors to force the resignation of Mr. Kotchian as CEO of Lockheed Aircraft Company is deemed proper herein and the subsequent arrest of Mr. Kodama and former Prime Minister Tanaka is likewise appropriate under the circumstances.