Good People Seminar Scenario

Scenario Script

Background

C&MA is a leading consumer health and pharmaceutical company. It is known for strong financial return and it trades as a very safe company because of significant brand recognition and trust in all key markets. It is known to have a commitment to ethical practice, which has been clearly evidenced by company leaders in the past. With change of corporate management style the company is on a strategic drive to increase sales and market share in order to directly impact on shareholder return from all subsidiaries and new ventures.

The risks outlined in this case study, of the subsidiary NMAC, mirror risks of the “sale” of any product – whether it is a bank driven to create high returns on its financial products and services in the short-term to keep their perceived standing in the market, or a retail company relying on their supply chain to cut costs in order to increase margins without considering potential risks such as reputation.

We look at a situation between two members of staff after they watch an online broadcast from their CEO.

Facilitator (full script in Facilitator's Notes document):

To give us the highlights of our annual results and our success let us give a warm welcome to our global CEO in his monthly message:

[We hear end of CEO online speech to staff…]

CEO: “So as we have seen our results speak for themselves, and as your CEO I wish you all the very best in continuing to achieve great results for our company, our customers and the public. Our heritage is peerless and we should all feel very proud. The foundation of all our past success and future growth is formed by our core values. They must always drive our decisions and they must never be sacrificed in the pursuit of business objectives. They are central to our business model, and our ethics code is more than something that tells us what to do. It is a statement of our living heritage that tells us who we are. We live our values.”

[CEO walks off]

[Jo, looks up, and closes the laptop]

AI: So Jo, summarise again - what’s the story.
Jo: Well, Al - here’s the data. As you know the medicine doesn’t dissolve properly – this batch includes one million units. Max blocked the distribution according to procedures. I’ve run the numbers - these are the costs of destroying the batch, the cost of late shipping and the new production. We’ll be out by a few weeks but at least we won’t have any risk to the wider business. It’s clear cut. Costs can be written off. Lucky we caught it before it was shipped.

Al: Thanks Jo. (Flicks through the papers – spreadsheets) That’s very comprehensive. (Flicks, pauses, looks up) Jo, you’ve been with the business team here - what seven, eight years? You know we have a different strategy now. As a new team we have a focus on our commercial success and stock price. You want that right?

Jo: Obviously. I know we’re a subsidiary, but as the old group CEO always said – “we’re going to conduct business the right way or we exit”. I know things have changed a bit, well to be frank, weakened in our quality process to speed things. But you know the stance from corporate HQ – only today we had Sheldon on his webcast reiterate the importance of our values right across the group. The importance of living them. That helps our success. Right?

Al: Right. (Smirks) Jo, we need to succeed. I’m sure Sheldon feels the values are important. They’re nice values. (Pauses, then smiles) But I bet you, what is more on his mind are our overall numbers. The banking analysts are watching us having had such a successful year and we want that to continue. Delivering sales. That’s what keeps our divisional president awake at night. How we rank. How the market sees us. Finance must get that. (Pauses) You’re the one who ran the numbers on the cost of our quality control, couple years back, correct? Just after I joined. (Jo nods) So you know what quality does to the margin. That’s why we changed staffing in quality audit. I don’t need to tell you the financial benefits and flexibility of using contract workers. Competition’s fierce right now. And we need to fly high. Let’s keep it that way.

Jo: But Al… the risks...

Al: (Firmly) We’re done Jo, (Passes paper back) I want you to arrange for the quality guys to retest the batch. And let’s see how the average scores come out second time around. I’m sure they’ll be better. Yes? You understand. And then see how the numbers come out. No red. (Stands up, smiles and leaves stage)

[Jo sighs and opens his laptop and starts typing]

[Back to facilitator questions]

Discuss

Imagine you are Jo:

- What is it you are you facing?
What are the broader ethical issues?

From a management accountant’s view what ethical principles are at risk and why?

What might be the consequences, of either action – destroying the batch or taking it to market?

What next steps would you take?

**Fundamental Principles of the CIMA Code of Ethics**

100.5 A professional accountant shall comply with the following fundamental principles:

(a) **Integrity** – to be straightforward and honest in all professional and business relationships.

(b) **Objectivity** – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.

(c) **Professional Competence and Due Care** – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.

(d) **Confidentiality** – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.

(e) **Professional Behavior** – to comply with relevant laws and regulations and avoid any action that discredits the profession.

* The CIMA code of ethics is based on the IFAC (International Federation of Accountants) handbook of the code of ethics for professional accountants, of the International Ethics Standards Board of Accountants (IESBA), published by IFAC in April 2010 and is used with permission by IFAC.