

## **Blunder down under: Southern Cross Publishing Melbourne, Australia**

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### **ABSTRACT**

Southern Cross Publishing, located in Melbourne Australia, is a producer of high-quality children's books. The firm was established in 1972 and has since expanded to numerous other countries in the region. The company posted sales of AUD \$12 million and profits of AUD \$1.7 million last year. Today, book publishing is a low margin business, and increases in costs can be very damaging to the company. In an effort to lower their manufacturing cost, Southern Cross transferred printing production from Australia to China, and has found itself in a profoundly serious ethical dilemma. Extremely important decisions must be made quickly, or the company may find itself in bankruptcy.

Keywords: ethics, international, management, decision-making, manufacturing

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## INTRODUCTION

Qantas flight 151 from Melbourne landed in Auckland on time at 12:30pm. Andrea Van Alsen was apprehensive and for the first time in her career, scared. Although Dimitri Papadopoulos, Southern Cross's New Zealand distributor, had insisted telling her about the details in person, he had hinted that what he had to share was urgent, and he preferred not to say anything via email or over the phone. Andrea had found this unusual on a number of fronts: first that Dimitri was not given to exaggeration or dramatics, second that they were a publishing company, not the CIA, and third that he had insisted she travel to Auckland, not the other way around. What could possibly require such urgency, concern, and secrecy?

## THE SECRET

Dimitri delivered the required niceties of how the trip and traffic had been, and how Andrea was, but with an obvious attempt to get it out of the way quickly. When Andrea admitted being concerned with the urgency and secrecy of Dimitri's request for her to fly to Auckland at the soonest opportunity, Dimitri took his cue and told Andrea that his 7-year-old daughter Anna had been ill three times in the last two months. An otherwise healthy child, Anna had been examined for a number of possible stomach problems. The doctors could not pinpoint anything in particular but the illness appears to have been triggered by some form of chemical poisoning. After ruling out household chemicals, food allergies, etc., Dimitri had asked a friend at the Auckland DHB LabPlus for advice during dinner at the Papadopoulos home one evening and the friend suggested they test bedsheets, toys, paint...and books. It didn't take long to find the culprit: the toxic, arsenic-laced green ink in *A Child's Fun Learning*, a flagship collection of twenty-five books for young children in Southern Cross' publishing list of books (Olson, 2009).

## THE SOURCE OF THE PROBLEM

Book publishing is a low margin business and the slightest increase in costs can doom a publisher and send it into bankruptcy. Although Southern Cross had early in the company's life-cycle printed books in Japan, the cost became prohibitive over time. An Australian printer in Ballarat had replaced the Japanese printer, at a 20% lower cost. The margins worked for a while, but as the e-book business took off, printed books became hard to sell at higher prices, forcing Southern Cross to go shopping once again for a cheaper printer since the Australian publisher could not lower their price. A thorough search led to the good fortune of finding The Prosperous Dragon, a low-cost printer in Shen Zhen, China, where all Southern Cross' books were printed from then on (Siriwardana, 2015). "The Dragon" as Andrea called them, were known for outstanding speed and customer service, even as a tour of their plant left one surprised as to the dirt and messiness of every square inch of space. As Vice President of Operations Woody Franklin had said: "while neatness is an important criterion for a roommate, it is not a prerequisite for a printer...and let's keep in mind that no other printer can match The Dragon's prices." Andrea had been concerned that Woody seemed to put price, and only price, as a criterion. On the other hand, she had herself given Woody strict goals and bonus targets tied to costs in his department, so Woody was after all, doing what she had asked, and what he was motivated and compensated to do.

## CONSULTING THE COMPANY'S ATTORNEY

Andrea returned to Melbourne and soon after landing in Tullamarine was phoning Todd Anderson, the company's attorney, asking him to meet her at the office within two hours. Andrea meticulously explained what Dimitri had uncovered, that it was indeed possible that The Prosperous Dragon had been using toxic ink and that thousands of books currently in children's and parent's hands could be contaminated and indeed, dangerous. "What do you think Todd?" Andrea asked after her long-winded explanation. Todd didn't mince words: "Andrea," Todd said in a low tone, "I think you're going to jail!"

"This green ink has probably poisoned many children already and could further harm many more region wide. It could spell immediate bankruptcy for Southern Cross and send you and others to jail if convicted of having foregone due diligence in your choice of suppliers and ignored safety risks for the sake of cost reductions."

## PRINCIPLES OF ETHICAL DECISION MAKING TO CONSIDER

### 1. What would you do if you were the CEO?

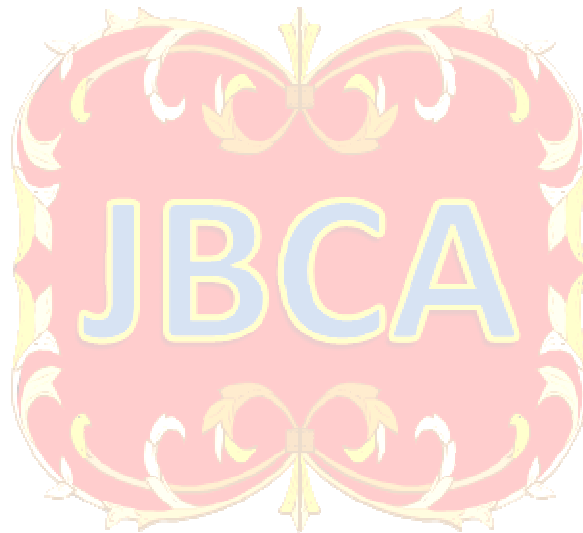
- Who do you involve in the situational analysis and decision making?
- Do you broadly acknowledge the problem, or do you try to keep it only within the small executive circle?
- Do you recall all, only unsold, or no inventory?
- Do you compensate customers with afflicted children? Which ones, how and how much?
- Do you terminate your current supplier, or give it a chance to quickly fix the problem, at their own cost, by replacing all books with new ones?
- Do you fire some management stakeholders, and under what rationale?
- What, if anything, do you change in the company's culture, governance, and operations?
- What is your communication strategy? To what stakeholders, how broad is the communication, how/what do you communicate and when?

### 2. Application of general model for ethical decision making

- Printing ink highly toxic to small children (licking pages and/or fingers)
- Lack of supplier quality control
- Decision to use a shady supplier
- Corporate social responsibility (CSR) failure to properly consider all stakeholders, under extreme financial pressure
- Cultural flaws: incongruencies against professed mission and core values
- Leadership failures: may not walk the talk

**3. Analyze key decision options against Hosmer's core ethical principles:**

- Long-term self interest
- Individual rights
- personal virtue
- Distributive justice
- Utilitarian benefits
- Religious injunctions
- Government requirements



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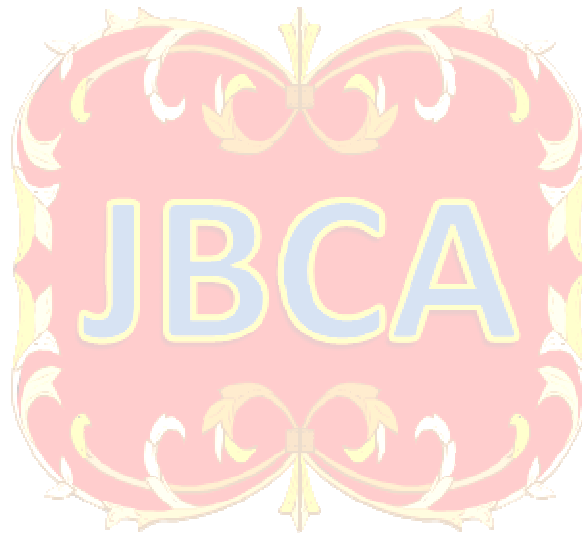
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## Teaching Notes to accompany Southern Cross Publishing

### 1. Corporate social responsibility

Instructors may want to ask students to explore the various levels of responsibility, such as responsibility to the children reading the books, and to the parents who purchased the books. Also, should the company simply refund the customer's purchase price, replace the books, or does the firm have any greater responsibility here?

### 2. Principles of ethical decision-making

Instructors may want to ask students to compare and contrast the various applicable decision-making principles, such as the utilitarian view or the justice view. Another question for students could revolve around how these principles apply when children are involved.

The case may be examined using LaRue Hosmer's Seven Core Ethical Principles (2010). They are:

1. Long-term Self-interest
2. Religious Injunctions
3. Government Requirements
4. Individual Rights
5. Personal Virtue
6. Distributive Justice
7. Utilitarian Benefits

The principles directly related to this case are Individual Rights, Personal Virtue, Distributive Justice, and Utilitarian Benefits.

Looking at the case from the view of the CEO, Andrea Van Alsen, she is most likely concerned about her Personal Virtue and Individual Rights. Having fully embraced and implemented the values of the founder, it is clear that she holds these values to be important. Ethics based on virtue focuses on what the person would like to be in areas such as happiness, well-being, truthfulness, and being of good character. It is likely that Van Alsen would want to take an ethical approach to this problem resulting in removing the books from the hands of customers and either replacing them or refunding the price. The Individual Rights principle recognizes that individuals do have rights in a fair and ethical world and that a customer has a reasonable expectation that the book they purchase is safe and that it is the responsibility of the company to ensure that (Principles of Management, 2020).

The company may want to focus on Distributive Justice and Utilitarian Benefits. Distributive Justice can be defined as: All persons in society are of equal moral worth and should be treated fairly (Ethical Principles, 2022). This suggests that the course of action

should be to recall all books and replace them. The utilitarianism principle basically holds that an action is morally right if it produces the greatest good for the greatest number of people. Since this will impact a small number of customers from a single small publisher, the greatest good is to not go bankrupt but to cease publication of the current books, remove them from shelves at bookstores, and to notify the customers to give them the option of having their copy replaced.

### **3. Leadership in times of crisis**

Instructors may bring up that transformational leaders create the right climate for staff to succeed and develop. In times of crisis, true leaders rise to the occasion without excuses or finger-pointing, but with a focus and a target for how to fix the problem, not just this time, but also by preventing something similar from happening again.

### **4. Losing one's job is not the worst thing that can happen. What is?**

Instructors may want to stress the example in business and government of otherwise experienced and intelligent people making unethical, illegal, or immoral decisions because of coercion from their boss, the company, or peers. The lessons could include: a lost job often results in a better one with more money, responsibility, and purpose. Worse than losing one's job is losing one's freedom (i.e., going to jail), self-esteem or moral compass.

The consequences to one's career, reputation, and prospects after committing illegal or unethical acts are often insurmountable.

### **5. Be the Manager**

Instructors may ask students to discuss what they might do if they were in Van Alsen's place. What are the critical factors? What matters most to each student?