

## ***Archibald Incorporated<sup>1</sup>***

The auditor's report arrived today and its contents were troubling to say the least. The report was commissioned after some concerns were noted following a visit to check on Archibald Incorporated's joint venture operations in China.

Because of the low cost of labor, Archibald Incorporated decided it would be a good idea to start operations in Shenyang, China, by forming a joint venture with a local company. Archie, C.E.O. of Archibald Incorporated, was hesitant at first because he had heard troubling stories about the labor conditions in some of the overseas-funded facilities. He felt that these working conditions would not align with the company's core values and strongly opposed the idea from the beginning.

That said, Archie felt somewhat reassured after initial forecasting figures showed that the firm could afford to pay workers well above the minimum wage and still achieve significant labor cost savings. Based on this information, Archibald Incorporated proceeded with forming the joint venture, but under the strict condition that workers would be paid above the minimum wage and would work a minimal amount of overtime.

Several months later, during his first tour of the new Chinese facilities, Archie noticed working schedules that showed employees working up to fourteen hours a day. Upon arriving back in Canada, Archie immediately called upon a consulting firm that specialized in ethical audits to investigate. Their findings were summarized in the auditor's report and confirmed his initial suspicions.

The auditing firm had obtained the company's payroll records and at first glance it seemed as though the firm was paying workers well above the minimum wage. But, after an in-depth review, it was clear that workers only appeared to be earning this amount because of creative payroll records. Workers received 350 Yuan (approximately US\$56) per month. From that amount, the firm deducted a flat fee of 100 Yuan for food and living expenses. These expenses were not optional. After deductions, workers were still left with 250 Yuan, which was above the minimum wage of 240 Yuan. The problem was that the overtime was being added on before the deductions, so workers were, in fact, making well below the minimum wage. Furthermore, the overtime was found to be a significant amount, especially considering the repetitive tasks and work area set-up. However, the overtime employees were doing was much less compared to other similar firms in the area.

Archie realized that these operations were much too profitable to give up, but if the auditor's report was somehow leaked to the media, it would be a public relations nightmare. Archibald Incorporated is renowned for its high ethical standards and belongs to a number of associations that promote ethical behavior in business. This report could jeopardize its reputation and turn off both potential investors and existing

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<sup>1</sup> Archibald Incorporated, *Introduction to Business Management Case*, 2014.

clients. On behalf of Archibald Incorporated, Archie has hired you to address his current dilemma.