

CONTROVERSIAL DISAPPEARANCE AND UNETHICAL BUSINESS PRACTICES: A CASE OF X-MOBILE

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Learning Outcomes

On completion of case reading the student will be able to: (1) To recognize the significance of business ethics on its market reputation; (2) To interpret the strategic implications of bad decisions on company reputation; (3) To identify the legal and administrative lapses in the governance system that fail to nip fraudulent operations as smuggling, and tax envisions in the bud; (4) To evaluate the professional and ethical attitude towards regulatory laws and corporate structures related to local and international business.

Case overview/synopsis

In this case, the unethical business practices, and decisions of X-Mobile company (distinguished name) are analyzed that led the emerging market leader among local mobile vendors to a bad reputation and loss of market shares in no time. In Pakistan, the smartphone penetration remained at 36% in the year 2021, almost 3 times higher compared to the year 2014 (PACRA, 2021). The global manufacturing companies are the key suppliers of mobile phones to the local market as the domestic mobile market is largely imported drive. The major suppliers include Apple, Samsung, Oppo, Huawei, Xiaomi, and other Chinese brands. X-Mobile took advantage of the gap and started its operations in Pakistan by establishing its mobile assembling unit and

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distribution network in the region. In less than a decade, the company grabbed a larger chunk of the market shares of rural Pakistan's smartphone industry. As the X-Mobile smartphone demand increased, the company was unable to cope with the supply of its products to the customer due to its unethical business practices of tax evasion (scandal of 2017), the bankruptcy of its vendor (ABC), over advertising budget, and mismanagement of its brand reputation. This resulted in the temporary ban of the company by the Pakistan Telecom Authority (PTA) from conducting its operations in Pakistan which pushed the company into shambles, tax shaming, reduction of market share, and the influx of several smartphone brands from China to fill in the market gap. Now outstanding smartphones from Xiaomi, Oppo, Vivo, and Infinix are easily available in the far-flung areas of the country. The case discusses the company's initial tactics to become a leading smartphone brand in a short span of ten years and its current struggle to reposition itself and reclaim its lost market shares subsequent to its involvement in unethical business practices and tax evasion.

Supplement materials

Supporting materials are available for the student (Teaching Notes).

Complexity/ Academic level

Undergraduate Level - This case is ideally suited for classroom discussions for students of management sciences undertaking courses on Business Ethics, Brand Management, Strategic Marketing, International Business, and Corporate Governance.

Subject

Marketing, International Business, Business Ethics, and Corporate Governance.

Keywords

Business Ethics, Brand Management, International Business, Corporate Governance.

Supporting materials

Teaching notes are available for the students.

Paper type: Case Study

INTRODUCTION

X-Mobile was launched in 2009, in the city of Karachi-a business hub of Pakistan. It positioned itself as a mobile retailer company that purchased mobiles from a Chinese vendor and sold them under their own brand name in Pakistan, contrary to their early claim of being manufacturers. X-Mobile spread a wide network of physical stores all over the country with an online presence. In a short span of few years, X-Mobile took the position of Pakistan's No. 1 smartphone selling brand by surpassing all international brands in Pakistan (Mustafa, 2017). The company provided four hundred and thirty-nine (439) mobile models (PTA, 2021), with stylish and innovative touch screens, tablets, and Android OS smartphones (Figure 1). The Chairman and

CEO of the company were known as the youngest entrepreneurs in the Pakistan mobile industry- who prioritized quality (given that X-Mobile stood for “Quality mobile”), affordability and massive marketing of its products- which contributed to the success of the brand. It was the largest importer of mobiles with a million units shipped every month (Khan, 2016). It had a vast range of affordable devices that suited the variety of needs of its customers. The company enjoys a large customer base from rural areas of Pakistan, which accounts for more than 65% of the population (Baloch, 2013). X-Mobiles was popularly known for their low- and mid-range smart mobile phones, affordable by medium-to-low income-level people (Mustafa, 2017). According to the Pakistan Telecommunication Authority (PTA), as of February 2024, there were 194,580,369 mobile cellular users in Pakistan (PTA, 2024). According to PTA (2024), this indicates a mobile teledensity of 79.51%, or roughly 79.51% of Pakistan's population is a mobile subscriber.

Once a renowned Pakistani mobile company of the decade, X-Mobile was caught in the act of smuggling mobile sets and tax evasion in November 2017 (RS News, 2018). A container of 63,000 mobiles and tablets worth PKR 280 million was seized by Customs Collectorate Karachi, causing a loss of billions of rupees to the national exchequer (92 News, 2017). The company fraudulently paid only PKR 94,311 as tax by falsely claiming them as LED lights, in at least four instances, as claimed by sources. Tightened in the grips of the Federal Board of Revenue, the controversy was declared to be Pakistan's first large-scale case of smuggled mobile sets imported illegally to avoid taxes. Consequently, the previously known market leader X-Mobile was halted temporarily by the authorities from conducting its operations in the country. The company guilty of being involved in the fraud worth billions of Rupees remained under severe investigation for several months. The case was dismissed after a few months based on the evidence of misdeclaration as a shipper error with a heavy penalty (ptProfit, 2018). The banning of the company's operations in Pakistan by the authorities was a plausible explanation for X-Mobile's disappearance from TV commercials or any kind of advertisement related activities.

X-Mobile's indulgence in these corrupt and unethical practices of smuggling and tax evasion brought it under fire, especially by the media and the public. The company which embarked on the revenues of millions of rupees soon after starting its operations in the Pakistani market (The Express Tribune, 2013), dropped its market share enormously, as the story went public. As the youth is well-informed now about corporate tax corruption and how immense size businesses get away with it, there was a clear sense of outrage and response from its consumers. Tax shaming faced by X-Mobile had severe impact on its brand image and reputation, which impacted directly on its sales and profits from here onto. As put well by the marketing expert at Warwick Business School, that people have long memories and their emotional tie to the brand can be damaged based on bad memories, which can eventually damage brand's financial value as well (BBC, 2013).

Currently, X-Mobile is struggling to rebuild its brand image and reclaim its lost market position in Pakistan, which deteriorated due to its involvement in smuggling and tax evasion scandals. The tax shaming by the media, the bankruptcy of sole supplier ABC, the thrust of competing Chinese smartphone brands in the market, several lawsuits over obscene advertisements, lost market shares, and tarnished brand reputation were a few of the prime issues faced by the management of X-Mobile to be considered while planning its re-positioning strategy in the Pakistani market. The functional network of offices and customer service centers of the company indicated that it plans to get back and re-build its brand in the market. However, the management needs to revisit its strategic decisions pertaining to the market positioning, product utility, and brand building techniques to win-back the trust of its customers, earlier tarnished by its unethical business practices.

Along with a brand strategy, the managers need to develop a fool-proof corporate governance structure by 1) revisiting the internal audit process, 2) enhancing the in-house financial management practices, 3) addressing the succession and “key-person” risk, 4) improving the reporting and analytics, and 5) dealing with governance issues of the company.

Industry Overview

The worldwide mobile industry has transformed ever since the internet and smartphone revolution took over the entire world. According to Statista (2021), the number of mobile connections is predicted to reach around 5.68 billion worldwide with global penetration rate of 73% by year 2025. Millions of people are expected to become mobile service subscribers soon, with half of them from Asia-Pacific and another quarter from Sub-Saharan Africa (GSMA, 2019). Since 2013, an additional one billion subscriber base has emerged with a growth rate of 5% per year. However, recently, the growth seems to be slowing down mobile phones have contributed tremendously to the world’s social and economic growth. Presently, the prominent names in the global mobile vendors dominating the industry are Samsung, Apple, Huawei, Xiaomi, Oppo and Mobicel. After 3g and 4g services, the International Telecommunication Union (ITU) will soon be launching 5g services which will take the global mobile industry up to a whole new level (Fazl-E-Haider, 2019).

As far as the Pakistani Mobile Industry is concerned, there is fierce competition among the existing mobile companies. Dominated by international brands, the major players in the Pakistani mobile phone industry are Samsung, Huawei, Oppo, Q-Mobile and Apple; Samsung is the market leader with a 24.5% market share followed by Oppo and Huawei with 13% and 11% market shares respectively (figure 2). X-Mobile, which rigorously grabbed 8% of the market in 2017 is now holding only 4% of the Pakistan market (Statcounter, 2021). The four mobile network players in the market are Jazz, Ufone, Telenor, and Zong. Several international firms have entered and made heavy investments in Pakistan’s telecom sector over the past decade, namely, Orascom, Etisalat, Telenor, Warid Telecom, Nortel Networks, ZTE Corporation and China Mobile (Table 1).

ABC: X-Mobile’s Vendor

One of the major manufacturers of X-Mobile was ABC, a leading Chinese smartphone manufacturer company that started its operations in 2002 from Shenzhen Guangdong in China. ABC operated as a high-tech enterprise with a prime focus on the research and development, production, and marketing of smartphone devices. The company made its way into the global market by expanding into India, Taiwan, Bangladesh, Nigeria, Vietnam, Myanmar, Nepal, Thailand, the Philippines, and Algeria (<https://gionee.co.in/>). X-Mobile imported ABC's smartphones and sold them under their brand name since the inception of its operations in Pakistan. Whether high-end phones or low-end phones, every new product launch from X-Mobile was sourced from ABC. Unfortunately, this relationship could not last long when ABC announced its bankruptcy after being heavily indebted by its creditors in 2018 (ProPakistani, 2019).

Competitor Analysis

X-Mobile stepped its foot in the Pakistani mobile market in the year 2009, when the Pakistani mobile market was home to number of international mobile companies, such as Blackberry, iPhone, Motorola, Nokia, Samsung, to name few. Among these, Nokia, Motorola, and Samsung captured most of the market since the smartphone experience surged among the masses in the late ninety's (Khan, News Pakistan, 2011). X-Mobile replicated what its competitors were producing and started offering them at affordable prices, becoming cost leaders in the market. The brand efficiently segmented the target market and launched mobiles catering to the demands and needs of each segment. For example, X-Mobile started offering smartphones with 'Qwerty keypads' for customers who prioritized hard touch keypads for communication (initially launched by Blackberry) and 'touch phones' for customers who wanted the ease of touch experience in their smartphones (Inspired by iPhone). With their E-series, X-Mobile laid the foundation for being one of the most pursued mobile brands in the Pakistani mobile industry (News Pakistan, 2011). The Wi-Fi feature made the E-series successful and favourite of the masses in no time. X-Mobile is equipped with the latest features in the smartphone sets, available to customers as low as PKR 6,500 (almost 40 USD) for branded Android smartphones. Another breakthrough feature that made X-Mobile stay ahead of its competitors was its high-quality cameras, even in their lowest-quality smartphone sets, capitalizing on the craze of selfies amongst the youth in the market.

To retain its market position, X-Mobile capitalized on a new market segment, otherwise neglected by all of its competitors: the female users! X55, known well as 'SHE' (Figure 3) was introduced by X-Mobile as a one-of-a-kind phone for the female market segment, alongside the E-series. X55 stood out mainly due to its body design and look. Its square shape and use of stone as a main manure, forward and backward buttons made it unique compared to conventional rectangular smartphone sets. 'SHE' soon became very popular among female consumers and was heralded as a breakthrough in the company's product line and earnings (The News Pakistan, 2011). To compete with the high-end smartphones launched by the company's competitors such as the Note Series by Samsung with its built-in processors and the latest

technology, X-Mobile launched its prestigious Noir and Z series - equipped with every feature that a premium competitor's phone provided. Furthermore, by adding an aluminum body a premium feel was added to the mobile sets (phoneworld.com.pk, 2015).

X-Mobile further outran its competitors by spending heavily on their marketing campaigns. X-Mobile partnered with global and local celebrities to build its brand image and increase its brand awareness. Another distinguished factor that gave an edge to X-Mobile among its competitors was the after-sales services. The company set up various customer service outlets at prime locations to provide extended services to its customers resulting in increased brand equity and customer loyalty. Despite of losing contract with its major supplier and tax evasion scandal, X-Mobile still held its share in the Pakistani mobile market, due to its wide-distribution network in the rural areas of the country.

Other reasons behind an apparent decline in X-Mobile's market share were the shift in customer spending patterns, higher incomes, and consumer preferences. The potential consumers were attracted to premium phones adding to their status symbol. Social media played a dominant role in creating awareness among the youth regarding the new mobile features and obsolete technology, where X-Mobile lagged enormously. They continued spending heavily on celebrity endorsements and paid little attention to the changing consumer needs and preferences. As a result, their competitors took over their market share, notably Huawei.

X-Mobile's Advertising Strategy

Up to date features, affordable prices, increased battery life and a fast-paced processor paired with a celebrity were the major constituents of the advertising strategy of the once most pursued smartphone brand in Pakistan, X-Mobile. The company spent a greater portion of their revenues on celebrity endorsements. According to a source, X-Mobile had even surpassed Nokia's advertising budgets to mark its position in the market. It was the first local mobile company that partnered with Bollywood celebrities to market their brand in Pakistan. One such partnership was with Kareena Kapoor Khan (a top-rated artist from the film industry) who took the mobile market by storm, followed by several other notable artists from the Bollywood film industry. The main purpose of these endorsements was to position X-Mobile as a star brand, desired not only by the public but also by their idolized celebrities.

Moreover, X-Mobile's strategy of engaging Pakistan's 'A' rated celebrities in its advertising campaigns, like Atif Aslam and Abrar ul Haq (singers), Shaan Shahid (actor), Iman Ali (model), Fawad Khan and Fahad Mustafa (Television celebrities) and Shahid Afridi (Athlete celebrity) -who promoted their top-tier Noir smartphones, helped X-Mobile in positioning itself in a league of popular handsets available in the market despite of being less expensive. It also sponsored a popular game show among the public: Jeeto Pakistan, giving away cars sponsored by X-Mobile, and their smartphone sets on guessing the right answers (Baloch, The Express Tribune, 2013). X-Mobile also teamed up with the most lovable comedy sitcom in Pakistan, named 'Bulbulay' to influence customers' emotions. Though aggressive marketing

campaigns increased the company's sales, it also earned a bad reputation when it became a victim of obscene advertising. Many lawsuits were filed against X-Mobile for using obscene language in their advertisements causing a negative effect on the minds of the audience.

Pakistan Electronic Media Regulatory Authority (PEMRA) took the notice and imposed ban on one of the X-Mobile's tv commercial that featured popular game show host Fahad Mustafa. The notice issued stated that the advertisement carried contents inappropriate for the Pakistani audience (The News, 2017). Another backlash was faced by X-Mobile when it aired Indian TV commercial made by ABC for its Z series. The company was accused of violating intellectual property rights leading to tough questions if ABC's S5.1 and X-Mobile noir are the same smartphones. This event brought into the limelight that X-Mobile and similar brands in other countries were simply buying phones from manufacturers in China and working as distributors in the local market. For the first time, it was revealed to the public that X-Mobile did not manufacture its mobile sets, rather it was primarily a distributor of the products from ABC Chinese smartphone manufacturing company- under its brand name (ProPakistani.Pk, 2015). This was considered as an offensive act by the leading mobile brand. Horrific indeed!

ABC's File for Bankruptcy

The only vendor of the X-Mobile filed for liquidation bankruptcy at Huaxing Bank, submitting its application to a court in Shenzhen, which was later accepted. ABC owed CNY 20.2 billion (around \$3 billion) to a total of 648 creditors in China, mostly banks. It was not able to pay back to its suppliers and advertisers. The bankruptcy application further deteriorated ABC's financial and operational conditions. The company's founder lost a massive CNY 1 billion while losing a bet at a casino. When inquired about the source of his gambled money, he claimed that he had not used the company's money but might have "borrowed company's funds". Liu also added that ABC had been circled in debt since 2013 and they had been losing CNY 100 million per month, double over the past 2 years.

Impact on X-Mobile

ABC's file for bankruptcy put X-Mobile's future at stake as it was the company's sole supplier of smartphones. X-Mobile imported complete smartphone sets from its suppliers and falsely claimed that they only imported mobile parts and manufactured them in its assembly line in Pakistan. The prime motive behind this false claim was to claim grants and get easy loans. The money injected through these grants was large enough to finance X-Mobile's aggressive marketing campaigns and high-budget celebrity endorsements. Unfortunately, due to the heavy reliance on a sole supplier, its bankruptcy caused a backlash on X-Mobile's position in the Pakistani mobile market.

Caught in the Act.

As per the native news channel, X-Mobile was found guilty of smuggling a total of 63000 smartphones and tablets to Karachi. The company falsely claimed that it was

importing LED lights for its brand called X-lights and passed through the green light from where the consignments of the smuggled phones could freely enter the country. The company tried to deceive the Karachi Customs Collector by claiming that the container of phones and tablets was LED lights, so it could dodge taxes like they had been doing previously. Earlier, X-Mobile had smuggled smart devices successfully several times without being caught (RS News, 2018). As per the sources of RS News, X-Mobile was deceiving the authorities for the past few years setting a serious dent in National Exchequer. Despite the regulations imposed by the Pakistan Telecom Authority (PTA) and Federal Board of Revenue (FBR), the company broke the rule of law knowing political chicanery and corruption in the country.

According to Business Recorder (2017), the company was also guilty of selling illegal phones without an International Mobile Equipment Identity (IMEI) number. No record of IMEI numbers of these smartphone sets was available with the Pakistan Telecom Authority (PTA). The smartphone sets without the IMEI numbers cannot be traced and therefore can prove instrumental in terrorist activities. This grave crime put the lives and safety of millions of people at stake.

Business Recorder (2017) also stated that hundreds of thousands of smartphone sets of X-Mobile were recovered from a secret Bungalow in the residential area of DHA Karachi by a team of investigators. The CIF value of those phones was said to be 662 million PKR. Another similar event took place in Lahore and as per Director General Shaukat Ali, a total of 10,000 phones of X-Mobile alongside a large number of mobile accessories worth 350 million PKR were captured from a godown during a raid in a mall in the city of Lahore. Another big batch of smuggled mobile phones worth 26 million PKR was recovered by the Directorate General of Customs Intelligence in Faisalabad. The confiscation of huge quantities of illegally imported phones raised several eyebrows and led Customs and Intelligence to initiate a widespread investigation to track the criminals behind it (Business Recorder, 2017). All the above-mentioned unethical and illegal practices and decisions by the company became the reason for its demise.

The Future of X-Mobile

Though X-Mobile is still functional in Pakistani market, it is yet to be established if the company can make an aggressive comeback in the market and rebuild their brand image, deteriorated due to its unethical and illegal business practices. Currently, the future of X-Mobile in Pakistani smartphone industry seems hazy. Before the unfortunate scandal, X-Mobile was among the top five smartphone brands in Pakistan with a 5.2% market share, following Samsung (33.37%), Apple, Huawei (16.3%), and Oppo (11.34%). However, after a bad market reputation, the company lost most of its market shares to its competitors mainly from China (Statcounter, 2021).

Still functional offices of the company in the country and the banner on its official website indicate that the company plans to get back in the market. The question is with bad-reputation baggage will the company be able to win back the lost trust of its consumers that too with the same brand identity? Food for thought!

Discussion Questions

1. Suggest different strategies useful for X-Mobile to re-enter into the mobile market of Pakistan. Also, discuss the role of corporate governance in improving company image.
2. X-Mobile lost its image due to the smuggling and tax evasion scandal. Recommend the strategies useful for restoring its image using appropriate marketing theories.
3. What risks associated with international trade were faced by the X-Mobile after the scandal?
4. What ethical, social, legal and governance issues did the X-Mobile scandal raise in the business world?
5. What measures should X-Mobile adopt to avoid such crises in the future?

Author Contributions:

Shahid Rasool "Wrote Introduction, the background of the case and Conceptualize the Case study"

Erum Shaikh "Wrote the teaching notes and Literature"

Iffat Sabir Chaudhry "Conceived, edited the case study"

Muhammad Nawaz Tunio "Wrote the strategies, Discussion Questions and Proofreading"

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Appendix Table 1

A comparison of X-mobile with competitors

Feature	X-Mobile	Samsung	Nokia	Oppo	Apple	Motorola	LG	Lenovo	Others
Price Range	Budget to Mid-range	Mid-range to Premium	Budget to Mid-range	Mid-range to Premium	Premium	Budget to Mid-range	Mid-range to Premium	Budget to Mid-range	Varies
Design	Varied designs, often functional	Premium materials, sleek designs	Durable, simplistic	Stylish, sleek	Premium materials, minimalist design	Simple, functional	Innovative, stylish	Varies	Varies
Operating System	Android	Android	Android	Android	iOS	Android	Android	Android	Varies
Features	Basic to Mid-level features	Advanced features, innovative technologies	Reliable, long-lasting features	Innovative features, AI-driven technology	Ecosystem integration, seamless experience	Basic to Mid-level features	Innovative features, cutting-edge tech	Diverse range of features	Varies
Camera	Basic to Mid-level camera setups	High-quality cameras, advanced imaging	Reliable cameras	Innovative camera technology	High-quality cameras, computational photography	Good quality cameras	Advanced camera capabilities	Varies	Varies
Brand Reputation	Regional presence, varying reputation	Global presence, strong reputation	Resurgent reputation, reliability	Growing reputation	Strong global brand, high customer satisfaction	Respected, declining reputation	Varied reputation	Varied reputation	Varied
After-sales Support	Limited support, varying quality	Extensive support, reliable service	Good support, regular updates	Varied support, depending on region	Excellent support, long-term service	Varied support, depending on region	Varied support, depending on region	Varied support, depending on region	Varied support, depending on region

Source: Author owns compilation

Figure 1. X-Mobile product line

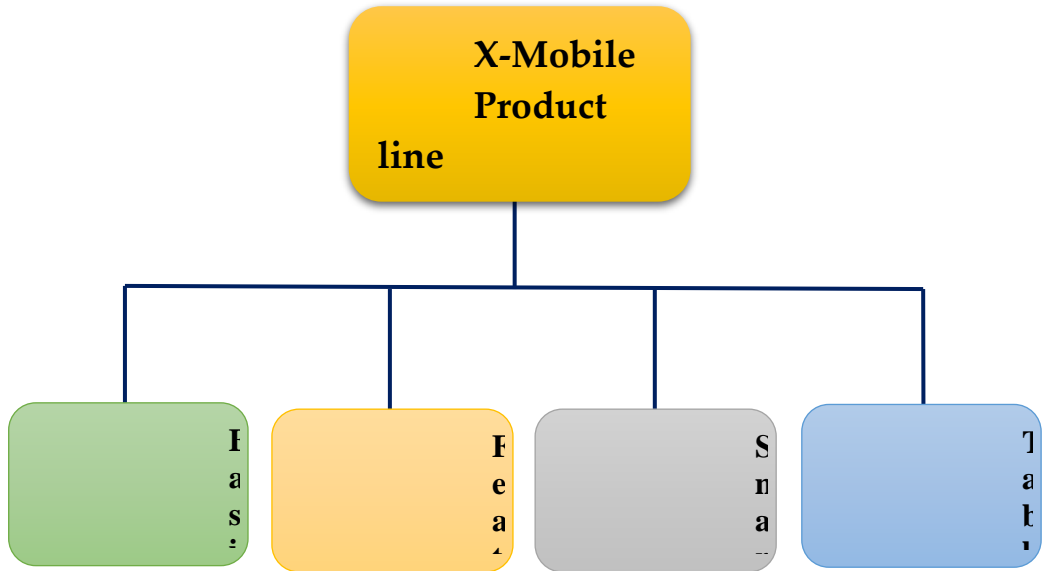


Figure 2. Mobile Brands Market Share in Pakistan (2016-2021)

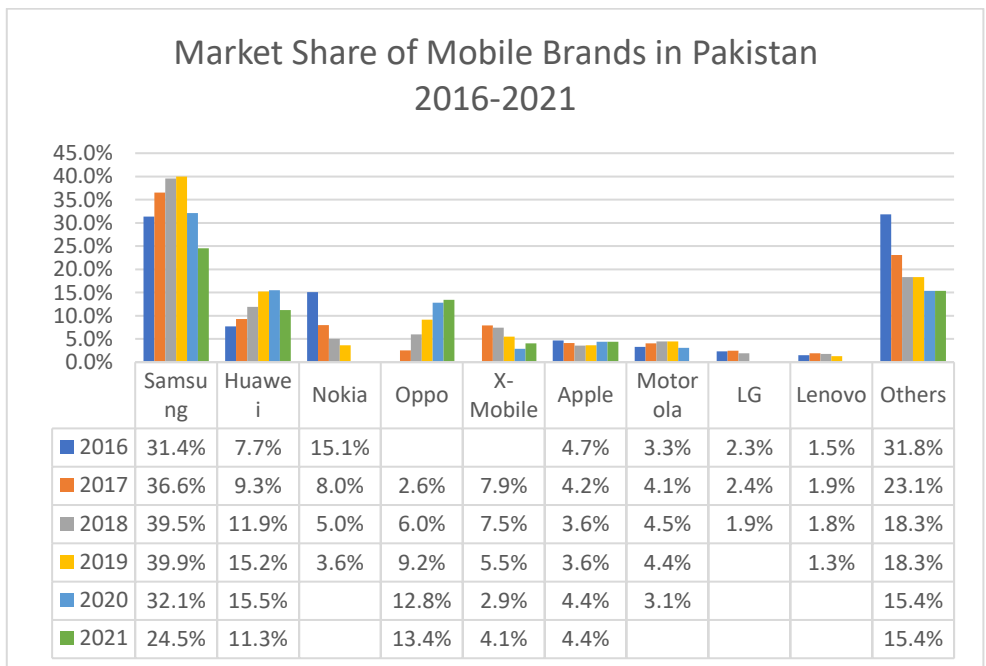


Figure 3. Model X55 - 'She' Mobile



Teaching Notes

In this case, the unethical business practices, and decisions of X-Mobile company (distinguished name) are analyzed that led the emerging market leader among local mobile vendors to bad reputation and loss of market shares in no time. In Pakistan, the smartphone penetration remained 36% in year 2021, almost 3 times higher compared in year 2014 (PACRA, 2021). The global manufacturing companies are the key suppliers of mobile phones to the local market as domestic mobile market is largely import drive. The major suppliers include Apple, Samsung, Oppo, Huawei, Xioami and other Chinese brands. X-Mobile took advantage of the gap and started its operations in Pakistan by establishing its mobile assembling unit and distribution

network in the region. In less than a decade, the company grabbed a larger chunk of the market shares of rural Pakistan's smartphone industry. As the X-Mobile smartphone demand increased, the company was unable to cope with the supply of its products to the customers due to its unethical business practices of tax evasion (scandal of 2017), bankruptcy of its vendor (ABC), over advertising budget and mismanagement of its brand reputation. Resulting in the temporary ban of the company by Pakistan Telecom Authority (PTA) from conducting its operations in Pakistan which pushed the company in shambles, tax shaming, reduction of market share and influx of several smartphone brands from China to fill in the market gap. Now outstanding smartphones from Xiaomi, Oppo, Vivo, Infinix are easily available in the far-flung areas of the country. The case discusses the company's initial tactics to become a leading smartphone brand in a short span of ten years and its current struggle to reposition itself and reclaim its lost market shares subsequent to its involvement in unethical business practices and tax evasion.

Learning Objectives

The expected learning objectives of the case study are: (1) To recognize the significance of business ethics on its market reputation; (2) To interpret the strategic implications of bad decisions on company reputation; (3) To identify the legal and administrative lapses in the governance system that fail to nip fraudulent operations as smuggling, and tax envisions in the bud; (4) To evaluate the professional and ethical attitude towards regulatory laws and corporate structures related to local and international business.

Methodology

To achieve the study objectives, secondary sources were utilized encompassing, including newspapers, industry news, regulatory agencies, government records, journal articles, and web data, covering the time period since the company's initiation of its activities in the country to date. The existing data was used keeping in view its cost-effectiveness and ease of access, unlike primary research. The authenticity of the data was confirmed by using trusted websites of government bodies to collect first-hand information, further against duplicate data from newspapers and industry news to accommodate updates in recent timelines.

Theoretical Framework

Three theoretical frameworks were utilized to demonstrate the case. In the context of the company crisis i) Situational Crises Communication Theory, ii) Image Restoration Theory, and iii) Corporate Governance Model were utilized to guide appropriate strategies for re-entering the Pakistani smartphone market. The Situational Crises Communication Theory (Coombs, 2007) identified response strategies that company can use to handle crisis. The Image Restoration Theory (Benoit, 1995) outlined strategies that can be used to restore damaged image and reputation. The Corporate Governance model (Tuan, 2014) delved on the role of trust and ethics as bases for brand performance with the mediating role of corporate governance.

Target Audience

This case study is geared towards undergraduates who are introduced to concepts like business ethics, brand reputation and corporate governance issues. This case is ideally suited for classroom discussions for students of management sciences undertaking courses on Business Ethics, Brand Management, Strategic Marketing, and International Business.

Subject

Marketing, International Business, Business Ethics, and Corporate Governance.

Suggested Teaching Plan & Student Assignment

The case is well suited for undergraduates in Marketing Management, studying the topics related to Business Ethics, Product and Pricing Strategy, Advertising and Sales Promotion, Brand Management, Strategic Marketing, and International Business. The discussion can be started by narrating the case in the class which can be done by the student or the instructor. After this, assignment questions can be allocated to the students, who may work on it individually or as a group. 90 min can be devoted to the case, assigned as follows:

15min	Introduction to the Case & key learning objective
10 min	The Rise of X-Mobile & Its Competitive Strategies
15 min	X-Mobile indulgence in unethical business practices
10 min	The crisis faced due to only suppliers: ABC
15 min	The crisis faced due to advertising strategies
15 min	The future strategies of X-Mobile to reclaim its lost market position
10 min	Case wraps up
Total 90 min	

Case Discussion Questions & Sample Answers

Q1. Suggest different strategies useful for X-Mobile to re-enter the mobile market of Pakistan. Also, discuss the role of corporate governance in improving company image.

X-Mobile must redefine and formulate adequate strategies to come back into the mobile market of Pakistan after all the controversies. Strategies about the product features, the market entry, the price of the product, and fool-proof corporate

governance need to be revisited. To start with, it is recommended that management of the X-Mobile must conduct a comprehensive SWOT analysis of the market and design their comeback strategies accordingly.

The managers/owners of the X-Mobile must focus on gathering high-end industry data while analyzing the conditions and demands of the industry and the market. Without wasting any time, X-Mobile should re-enter and focus on the market segments otherwise neglected by the existing competitors, to achieve the first-mover advantage in the niche market. However, reliable research approach needs to be undertaken for conducting market analysis (Fischer et al., 2008).

According to Andre Palko (2021), different diverse ways can be adopted to revive a failing business. A few are discussed below:

1. Change the messaging and sales strategy of the product: describe the product in a meaningful way that matches the relevance and shows the value of the product. The management needs to formally document their strategic plans regarding their positioning in the target market.
2. Change the price of the product: The price of the X-Mobile was already cheap but after the case of smuggling and the controversies, they may revisit their pricing strategies.
3. Product launch and advertisement strategy: previously X-Mobile spent a great amount of its financial resources on celebrity endorsements, which being costly added to the financial burden on the company. Therefore, X-Mobile in their re-launch campaigns must opt for less expensive marketing techniques by engaging social media and so on.

Alongside advertising and pricing strategies, ethical corporate governance can also help to create a positive image in the minds of consumers by ensuring high integrity thresholds for protecting the interests of the company's stakeholders. Corporate governance is based on the concepts of accountability, openness, fairness, and responsibility (Ehikioya, 2009). Nonetheless, these principles focus on the expectations of all stakeholders' interactions from the perspective of "absolute regard" for ethical care (Starratt, 2003, p. 145). Tuan (2014) proposed that brand performance is based on corporate governance which is dependent on organization trust and ethics as shown in the given model (Figure. 1). Following this model X-Mobile first needs to create trust with three factors, 1) Identification-based trust, 2) Knowledge-based trust, and 3) Calculation-based trust. Alongside, X-Mobile should engage in ethical practices of customer care and justice, which in turn will influence corporate governance leading to improved brand performance. Ultimately, ethical corporate governance practices will lead to positive brand image. In nutshell, ethical corporate governance will increase the positive word of mouth (WoM) for X-mobile.

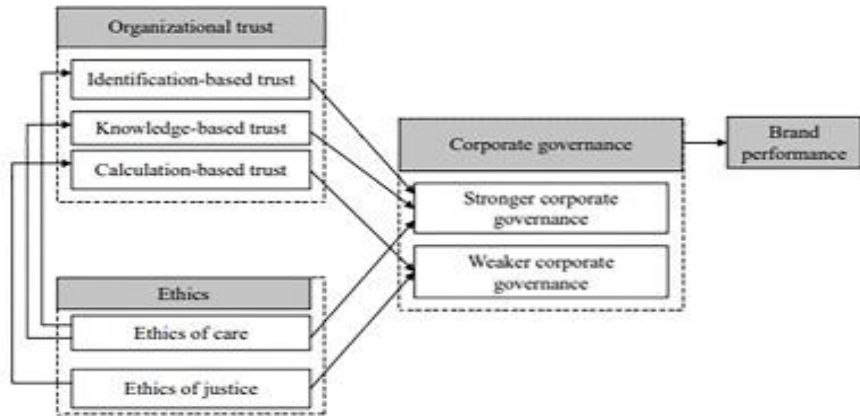


Figure No. 1: Ethics-Based Corporate Governance Model for Brand Performance
(Source: Tuan, 2014)

A growing body of literature supports the role of trust and ethics in building effective corporate governance contributing to enhanced brand performance. Similarly, ethics (justice and care) and trust are also correlated and influence one another. For example, ethics of justice impact calculation-based trust whereas ethics of care tend to influence knowledge-based and identification-based trust, impacting corporate governance and brand performance. It is imperative to acknowledge that corporate governance cannot contribute to the business or brand image unless it is laid on trust and ethics. Trust and ethics of care unite organizational members' interests with the interests of stakeholders and the organization's long-term growth (Kyereboah-Coleman and Amidu, 2008), allowing them to see corporate governance as a value driver rather than a set of rigid rules and policies (Stiglbauer and Velte, 2012).

Q2. X-Mobile lost its image due to the smuggling and tax evasion scandal. Recommend the strategies useful for restoring its image using appropriate marketing theories.

1. Based on Situational Crisis Communication Theory (Coombs, 2007) and Image Restoration Theory (Benoit, 1995), X-Mobile can develop appropriate strategies to restore its image, as discussed below. Situational Crises Communication Theory

There are three types of crises that can damage the image of the organization or a brand:

a) Victim: in this type of situation the organization is facing various kinds of natural disasters, rumors, and workplace violence which has a minor effect on the image of the organization.

b) Accidental: when a technical issue arises because of the organization's own actions which lead to medium level risk to the reputation of the organization.

c) Preventable: in such a situation, organizations take inappropriate actions willingly, resulting in preventable crises. As the organization itself engages in such a situation, it has to face strong reputational risk.

The primary strategy that can be adopted by the X-Mobile in response to the reputational crisis is either giving excuses, refusing the incident, or apologizing for what happened.

The secondary strategy that can be adopted by X-Mobile in response to a reputational crisis is to unfold and share the positive actions of the organization in front of its stakeholders and also to appreciate the stakeholders for their contributions and patience during the crisis.

After all this discussion, a teacher may ask the students to identify the kind and the causes of crises that sabotaged the image and market share of X-Mobile in Pakistan and how they can tackle the situation? What major changes should be made by the company's leadership in their brand management strategies?

2. Image Restoration Theory

William Benoit (2008) in his theory explained the diverse ways through which the organization can overcome reputational crises. An image of the brand conveys economic and symbolic value for the organization and guides them on how to deal with different kinds of losses and stay protected from different threats. Sometimes an offensive action can also contribute negatively to the image of the organization. Q-Mobile was not able to tackle the situation and failed to respond properly to its endangered image and reputation in the market.

There are two strategies at disposal that X-Mobile company may adopt in a time of crisis: (1) maintain its positive image and reputation and (2) use communication as a goal-directing movement. These two strategies can help the company in rebuilding a positive perception in the eyes of all the stakeholders during the crisis.

Moreover, there are five important techniques to improve and maintain good reputation and image of the organization: 1. Denial, 2. Evade the Responsibility, 3. Reduce the offensiveness, 4. Correct the action and 5. Mortification. The role of communication in all these techniques is significant from a stakeholder's perspective. Hence, X-Mobile needs to develop strong communication plan to restore its lost image.

Q3. What risks associated with international trade were faced by the X-Mobile after the scandal?

International trade risk exists objectively with global trading companies in the global market, often coupled with various threats. It is important for organizations to avoid such types of risks by following the ethical standards, rules, and regulations which can promote the positive image of the firm, beneficial for the progress of global international trade. X-Mobile faced all these risks in doing international trade.

There are four distinct types of risks associated with International Trade:

1. Financial Risk

The financial risks mean the loss of financial assets. Such types of risk are caused because of changes made in currencies, interest rates, and stock prices in the financial markets.

2. Commercial Risk

Such type of a risk arises because of the transaction or market partners. Therefore, it is important to deal with trustworthy and reliable partners. It is also necessary to consider the partner's potential bankruptcy or inability to pay.

3. Cross-cultural Risk

It is an event or situation in which a cultural misunderstanding jeopardizes the firm value.

4. Country Risk

It is caused because of the fluctuations in the business environment of the host country, negatively affecting its operations or payment for goods, resulting in an economic loss. It includes sovereign risk, which is a type of risk associated with the government or one of its entities failing to meet the provisions of a credit agreement.

X-Mobile primarily failed due to a miscalculation of commercial risk involved in having a sole international supplier, whose bankruptcy contributed further in reducing already starved market shares and revenues of the company.

Q4. What ethical, social, legal, and governance issues did the X-Mobile scandal raise in the business world?

The application of universally acceptable behaviors and standards in the business operations and interactions of persons and corporations is referred to as ethics. Business ethics refers to all elements of ethical business conduct, from strategic choices to customer and supplier behavior, along with the moral principles and values that guide individual and group behavior inside the company. There are three sorts of activities in the organization that focus on ethical concerns of particular acts (Cho, 2020):

- (1) The actions which are good and lawful, but do not represent a legal requirement.
- (2) The actions which are legal but not required and correct.
- (3) The actions which are incorrect and illegal.

Keeping in view prior experiences, X-Mobile needs to watch its business practices, processes and decisions to ensure that they are legal as well as ethical so that in the future they do not end up in any unethical or unlawful activities again.

Bhagwati and Hansen (1973) stated that legal and illegal business can be conducted at the same time in the business world. Although illegal traders circumvent tariffs, they have a lower transformation of the favorable rate due to the actual costs of smuggling and they verified that unethical trade does not increase the health of the business and organization.

According to the economic theory of smuggling, it has become a significant issue in foreign affairs. The usual method of smuggling involves sneaking goods across a border to avoid paying high taxes or complying with other regulations. Individuals and organizations involved in smuggling have different motives. Some are motivated by greed, others by a need to help their relatives, and some by a sense of tradition or animosity towards the state apparatus. Contrary to this, Pitt (1981) proposed that

smuggling would improve welfare despite being a stringent paradigm. Smuggling is welfare-increasing if the cost of smuggling is penalties and confiscation, and the penalties are not equal to tariffs. Above all, it is important to follow all legal requirements as well as ethical standards to maintain a good reputation in the market. On the other hand, corporate governance also needs to be revisited to assess its role in the improvement of brand performance. Corporate governance can be defined as, “the legal control of the actions of voluntary groups of persons and legal organizations such as corporations, joint-stock companies, associated duties to create economic businesses, and the organization of their operations” (Lebedeva et al., 2016). The board of directors of any organization plays a crucial role solves agency issues and making ethical and legal decisions while steering the company towards its official goals. There are four major issues confronting ethical and effective corporate governance in the firms (Najaf, chin & Najaf, 2021): (1) Inadequate anti-misconduct policies, (2) CEO duality, (3) over-boarded boards, and (4) audit firms' failure to identify fraud. X-Mobile must have been a victim of the above-mentioned corporate governance issues which led the firm in crisis. These issues must be addressed simultaneously with its brand image restoration plans. X-Mobile should reclaim its lost market shares along with economic gains by adopting ethical corporate governance and ensuring practices, providing value to its shareholders not only financially, but also socially and ecologically. Furthermore, auditable, and measurable policies and procedures must be adopted as part of strategic plans to evaluate their effectiveness. Also, a revisit to the organization’s structural design might facilitate the effective implementation of the new strategies along with goal achievement.

Q5. What measures should X-Mobile adopt to avoid such crises in the future?

The following measures are recommended to X-Mobile to avoid such crises in the future:

For managing reputation, it is important for the organization to take the following steps and evaluate the effectiveness of its strategies regularly:

- a) Monitor: The organization must listen to the voice of the customers and respond accordingly.
- b) Measure: The organization must measure the outcomes to evaluate the outcomes and take appropriate actions timely if changes are required.
- c) Manage: the organization must keep track of opportunities and threats in the environment to stay proactive in dealing with different situations.
- d) Maximize: The management can find the optimum solution by adopting the above-mentioned measures.

Either in the local or international market, organization may face unexpected challenges due to changes in technology, economic fluctuations, natural disaster, or social challenges. However, to deal with such challenges, the organization should adopt an incremental change approach, along with the capacity development of the technical and managerial staff. In this competitive age, organizations need to focus on

the customers' needs and their satisfaction. to thrive in the market. Organization must keep track of customers' pulse as the customer is the king of the market.

Transparency is crucial not only to satisfy customers but also to retain them for the long term by winning their loyalty. They should be well-informed about the product which may include information regarding production, transportation, supply, and final destination. The customers should also be facilitated with after-sales services as it can create attraction for the potential customers and develop a strong bond with existing customers. Markets are dynamic and volatile where the entry and exit of the organizations is a normal affair. New organizations planning to enter a new market or existing organizations planning to reposition themselves with new product lines, new brand identities, or capabilities must stay updated with the market's upheavals (Alzoubi et al., 2022).

It is important to keep track of important market events, prominent actors, and industry regulations in the market. In order to stay viable and ensure growth, ethical business practices must be adopted to capture the opportunities timely and cope with the challenges with integrity to avoid crises in the future that may pose threats to the survival of the organization.

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