



CASE 13

Corporate Governance and Ethics: A Series of Decisions

The cases for this chapter differ from the other cases in this book. Each of those cases described a company, business issue, or decision in rich detail and invited you to focus on a number of complex elements in analyzing the case. This case, in contrast, presents you with four brief decision scenarios. Each vignette has been drawn from a real business situation and case, but you are not given much information about the company, or details about its operations. This may frustrate you, but the goal of these cases is to focus your attention and thinking on the ethical challenges each scenario represents and not on the details of each vignette. For each case, you need to answer the questions at the end of the vignette and come to class prepared to give and defend your answers. You may be asked to debate someone else in the class who takes the opposite position, and so, you should take time to justify the answers you arrive at.

SCENARIO 1: DISTRIBUTING CORPORATE PROFITS

You are a director of BIG Industries, a large, publicly held company. The company has been very successful selling durable consumer products, such as big ticket home appliances. The company has built up a large cash reserve. Although the company is publicly held, the CEO and Chairman of the Board is the founder and majority stakeholder. The CEO has proposed a plan to the Board to use the cash reserve in two ways. First, the company would expand its facilities to ramp up manufacturing capacity in order to expand the geographic and product markets it competes in. One key element of that strategy is to compete with a low-cost (and low price of the final product) focus. Some board members worry that the plan would, in essence, give a large part of the cash reserve to customers through lower prices. The second element of the strategy would be to increase the wages and benefits paid to workers, which are already well above industry averages. The CEO believes that workers should be paid more in order to build even better lives for themselves and their families.

A group of minority shareholders with significant holdings has contacted you to register their opposition to the plan. They argue that the company should use the cash reserve to increase dividends paid out to shareholders. Their analysis also suggests that implementing the plan may lead to a decline in the company's share price. You are a well-respected member of the Board, and your argument is likely to sway several directors, one way or the other.

Debate Preparation Questions.

1. Whose proposal would you support, the CEOs or the minority shareholders? Why?
2. Do you agree that the purpose of a corporation to maximize returns to shareholders, or do other stakeholders have a claim on corporate earnings?
3. What do you think are the benefits and risks to each proposal?

SCENARIO 2: STAYING OPEN LATE

You are a director of a publicly held company, Amalgamated Entertainment (AE). As in scenario 1, the ownership structure features a founding majority shareholder, but several shareholders hold significant (> 5%) positions. AE competes in several segments of the entertainment industry and operates a theme park that is very, very profitable. The park has traditionally closed at dusk to accommodate residents who live nearby. The owner has always paid close attention to the concerns of these local residents about the quality of their neighborhood. Many competitors remain open until late in the evening, sometimes close to midnight. A group of minority shareholders has put forward a proposal to upgrade the park, including improved lighting and sound equipment to remain open until late at night, potentially garnering greater sales and profit for the company. The CEO objects to the plan because she feels that changing the operating hours of the business will create several negative impacts, such as traffic, noise, and a different clientele, on the local neighborhood and its residents.

The facility has always been profitable, has a substantial market share already, and a loyal customer base. Continuing to operate only during daylight will not erode sales or reduce profits, and it would likely further the park's distinctiveness as a truly family-oriented park. Expanding the hours of operation would clearly increase financial returns to the company, but at the risk of changing the fundamental character of the neighborhood.

Debate Preparation Questions.

1. Which proposal do you support, the CEOs or the minority shareholders? Why?
2. How much attention should the needs of secondary stakeholders (e.g., communities, the natural environment, and future generations) receive as corporations formulate and implement strategy?
3. What are the benefits and risks of each proposal?

SCENARIO 3: THE PLANT LOCATION DECISION

You are a director of a publicly held company, Components Master. The company is an input component supplier in the electronics business and sells to several of the major players in the industry. Pressure to reduce costs is immense and constant. The component that your company produces requires each part to undergo a chemical bath as a part of the production process. Two chemicals can be used to perform this operation, with significant differences in cost. Chemical A is very low cost and produces acceptable levels of quality in the final product; however, chemical A has been implicated in some scientific studies as a carcinogen. Its use in the United States is prohibited, even though some scientists question the evidence about its harmfulness. Chemical B costs substantially more than Chemical A, but it yields levels of product quality that are above the Chemical A process. Chemical B has no known carcinogenic effects.

Your company can build one of two new production facilities, an offshore plant that uses Chemical A or a U.S. plant using Chemical B. The offshore location is supported by the local government, desperate to bring jobs and economic development to the region. That government has agreed to allow the use of the Chemical A process. Given the relentless pricing structure of the industry, the plant using Chemical B would only be profitable if certain price points hold in the industry, but the Chemical A plant would be profitable under all industry price scenarios.

Debate Preparation Questions.

1. Which proposal would you support? Why?
2. Is there another proposal you would introduce and/or consider?
3. When doing business abroad, should companies follow the host country's laws and regulations, or should they be bound by their home country's standards?
4. Who are the important stakeholders in this case, and what are their interests?
5. What are the benefits and risks of each proposal?

SCENARIO 4: USING PRODUCTS AS INTENDED

You are a project manager for Engineers International, a large engineering design and manufacturing firm. You oversee a team of engineers that has designed and manufactured an electronics component assembly for an important customer. One of your engineers informs you that the customer's on-staff engineer contacted her with questions about the ability of the assembly to withstand harsh environments, particularly wide swings between freezing and hot conditions. The customer wants to know at what temperatures and pressures the product would likely fail. Unsure how to respond, your engineer has asked you to become involved.

All products your firm designs are tested for temperature and pressure tolerance, but the nature of your tests only gives a range of temperatures and pressures for safe use. The customer envisions a specific use of the product at the limits of its physical tolerance range. Your data suggests that the proposed use lies at the edge of the product's "intended use" zone. At temperatures and pressures just beyond what the customer proposes, you are fairly certain the product would fail. At levels just below what the customer proposes, your data suggest no problems. The customer is large, and its business with your company is substantial. Personally, you would not use the product as the customer desires, but you can make no overwhelming professional case to them that the intended use is unsafe. You do know, however, that the intended use would be highly profitable to the customer, and to your company through increased sales. If the product fails, however, the health and safety of your customer's customers would be jeopardized.

Debate Preparation Questions.

1. What would you tell the customer? Why?
2. How should managers deal with ambiguous information? Do they have obligations to share all that they know, or should they only provide customers and users with the information they need to know?
3. How would you describe the benefits and risks of each proposal?