**Ethics case studies**

This is an extra credit assignment. In this booklet, you will find 38 separate case studies. You are free to respond to any or all of these cases.

You may earn up to 5 extra credit points per question, based on the complexity of the case and the logic of your response. You may not earn more than 100 points (10 percent of your final grade).

You may find it helpful to read the paper “Four Tough Ethical Dilemmas” prior to responding.

While these are your opinions, citations are not expected; however, if you make use of the work of others, include APA style citations for complete credit.

Use this file for your submission. **Delete those cases to which you are not responding.**

**To receive maximum credit**, you must link your response to a principle. For example, if you say an act is not ethical, your must provide a reason, such as the Justice Rule, personal religious tenets, cultural norms, because my grandmother told me so, or specific laws.

Dr. Frick

**Case 1: Family Loyalty vs. Meritocracy**

A man was appointed president of the newly-acquired Philippine subsidiary of a large American company. He was reviewing the organization with the company's head of human resources. One thing the president noted was that the same names reoccurred frequently in several departments. "It is our tradition," commented the HR head. "Families take care of their own. If one family member gets a good job in a Philippine company, other members of the family apply to join that company and the first member there can help the whole family become successful by helping them get hired and by coaching them to be successful. The company benefits. Our costs of recruiting are lower, we know more about the people we hire, and the commitment to family success results in fewer performance and discipline problems because family members want to please their older relatives."

The president wondered how these practices would be regarded in a large American firm, and whether or not he should take action to change them.

1. Nepotism is not illegal, but is it ethical?
2. If the business is family-owned, does that make a difference?
3. How does national culture affect this discussion?

#### **Case 2: Is the Two-Tier System Ethically Problematic**

Employees at a cereal makers plant were “locked-out” from their jobs producing cereal for over 3 months. Company management and the union representing the employees reached a stalemate in negotiations resulting in the lockout. The union claims that the primary issue is the company’s demand of dramatically increasing the number of temporary workers, who would earn $6 less per hour and receive fewer benefits. Critics claim this effectively creates a two-tier system at the plant. Under the current agreement, the company may use temporary workers for up to 30% of the workforce, but the union claims the company is now pushing for 100%. The workers, who have had their health insurance suspended, fear that their jobs will either be replaced entirely by temporary workers, or they will be forced to take lower wages. The company, in the midst of a 4-year cost reduction effort labeled, claims that the change is necessary to remain competitive and that current employees will be unaffected by the change.

1. Are two-tier systems ethically problematic?
2. When the agreement with the labor union expires, what should the company do?
3. Should the workers stand firm on retaining their wages and demand the company cut expense elsewhere?

#### **Case 3: Are App Developers On the Hook?**

Google removed two Chrome browser extensions from its store after they were found to be installing unwanted software and redirecting users to affiliate links. The two extensions, “Tweet this Page” and “Send to Feedly,” began as legitimate services, created by individual developers and offered free of charge. In both cases, the original developer sold the extension to a company who then took advantage of existing subscribers to disseminate ads. The Send to Feedly’s founder sold his extension used by 30,000 to an unidentified party. It was a 4-figure deal for something that took an hour to create. The founder has since published a blog post apologizing to existing users, and stated that taking the deal was a bad decision. While many corporations publish apps and extensions, a great deal of these services are made by nonbusiness entities and are offered free of charge.

1. Do independent developers have the same obligations to their users as corporations?
2. Is the founder correct in calling his decision a bad one?

#### **Case 4: Should Execs Be Penalized for Failing to Appoint Women to Senior Positions?**

The Business Council of Australia (BCA) claims that “chief executives should be challenged for explanations and even have their pay cut if they fail to appoint women to senior positions.” The BCA, the representative body of the chief executives of Australia’s 100 largest companies, is urging its members to adopt a “checklist of reforms” aimed at addressing the under-representation of women in senior positions, and to consider docking CEO pay if they do not implement the reforms. In Australia, women have been outpacing men in earning college degrees since 1985 and make up 46% of the workforce, but hold only 16% of board positions and 3.5% of chief executive roles. The BCA aims to double the number of women in senior positions in the next 10 years, and claims this isn’t just an equality issue, but also an economic issue. The BCA claims, “We risk not getting the best talent for the job.”

1. Is tying executive compensation to the promotion of women ethically problematic?
2. Do firms have a moral obligation to hire more women to achieve demographic equality?
3. Are quota systems designed to redress past injustices ethical?

#### **Case 5: Where are the Women?**

After the release of its IPO filing, a firm has come under heavy scrutiny for the lack of women amongst its board, investors, and executive. High tech has long been criticized for having a gender imbalance, with only 5.7% of employed women in the United States working in the computer industry. Critics claim that the lack of gender diversity is among the many symptoms of Silicon Valley’s chauvinistic and male-dominated culture. Those close with the firm’s CEO report that finding a woman board member has been a priority, but has been a difficult process.

1. Is the firm in the wrong for going to IPO without a diverse leadership team?
2. If so, should the public hold them accountable?

#### **Case 6: Trading Internships?**

Small business owners and corporate executives have long faced the problem of whether to hire their children for summer internships and entry-level positions. On one hand, executives know the importance of gaining “real-world” experience at an early age, but on the other, hiring direct family raises many concerns of favoritism and conflict of interest. In response, a recent trend has emerged: “internship swapping.” The quid pro quo arrangement works something like this; “I’ll hire your daughter for the summer at my law firm, if you give my son an internship at your accounting agency.” Taken at face value, it appears to be an elegant solution as neither firm has a familial connection to the new hire. Still, some argue that this is just another way of protecting the special opportunities for the well-connected.

1. Should top executives be engaging in internship swapping?
2. What policies might a firm establish?
3. What is the moral objection, if any?

#### **Case 7: Should Management be Held Accountable for the Actions of Employees?**

The Permanent Subcommittee on Investigations of the United States Senate held hearings on JPMorgan's $6.2 billion trading debacle. According to the 307-page report, traders in JPMorgan's chief investment office hid underperforming derivatives; routinely exceeded bank mandated risk limits; and manipulated the valuation of unprofitable investments to minimize reportable losses. In addition, the report found that JPMorgan used intimidation and deception to mislead regulators. Executives, including the person who managed the London operation, passed the buck down to lower level employees, claiming that attempts to reduce risky investments were undermined by individual traders undervaluing existing positions to minimize reported losses. Regulators at the Office of the Controller of the Currency were also criticized for not identifying the losses sooner, as well as for not being aware of JPMorgan's $156 billion high-risk derivatives portfolio.

1. How should blame be allocated for the mishap?
2. Do senior executives get a free pass for actions of subordinates hidden from them?
3. Should the boss always bear the ultimate blame?

#### **Case 8: Should Labor Practices of Multinationals be Judged by the Standards of their Home Country or the Country of Operation?**

A group of representatives from one of Germany's largest labor unions, marched on one of Amazon's eight German distribution centers. Armed with 37,000 petition signatures, the group demanded a meeting with Amazon executives to negotiate a union wage contract for its German workforce. Amazon, which employs 8,000 people in Germany, has refused to communicate with union officials, emphasizing that it already pays above the union rate. The union has protested the "Big Brother" atmosphere where "everything is measured, everything is calculated, everything is geared toward efficiency." The union is also protesting the treatment of the 10,000 temporary workers that Amazon buses in from Spain and Romania to meet Christmas demand, citing German legislation, introduced in 2005 that lowered labor regulations, as a main contributor to the problem. Amazon is quickly becoming despised for personifying the qualities of American-style management that Germans despise. "People want to be treated with respect," argues the union leader.

1. Should Amazon insist on American-style management in Germany?
2. In general, should firms adopt local customs in its operations?

#### **Case 9: Should Companies Admit They've Been Hacked?**

Cyber-attacks on American companies have become increasingly more common, but not all companies respond to security breaches the same way. Companies such as Facebook, Twitter, Target, and Apple, have voluntarily gone public with their security troubles. Alternatively, Exxon Mobil, Coca-Cola, Baker Hughes, and others have continued to deny cyber-attacks, despite reports to the contrary. The U.S. government has encouraged transparency on cyber-attacks as part of a wider effort to protect American intellectual property and identity protection. Advocates of disclosing breaches claim it will set a precedent for other companies to get more active in fighting cyber-attacks. The majority of company lawyers advise not to disclose, pointing to potential shareholder lawsuits, embarrassment, and fear of inciting future attacks. By lay, health and insurance companies must disclose breaches of patient information, and publicly traded companies must when an incident effects earnings.

1. What policy should companies adopt when dealing with a cyber-security breach?
2. Is withholding from the public the fact of a cyber-attack ethical?
3. Announcing a cyber-attack will likely affect the profitability of the firm. Whose interests are paramount, the customers or the stockholders?

#### **Case 10: Employee Theft, Coercion, and False Confessions**

Take the suspect to an isolated place. Make sure the conversation isn’t being recorded. Engage in small talk to build rapport. Commence interrogation. These steps, outlined in a manual used by loss prevention specialists to question employees expected of theft, are a common practice in the retail industry. Employee theft costs American retailers $16 billion a year, and it’s difficult to stop. Rarely is there any physical evidence, only an imbalance in the books or missing merchandise. To address this, retailers are increasingly turning to internal investigations headed by specialists trained in police interrogation techniques. These interrogations include insisting that the company knows the suspect is guilty, pointing to “bulging files or videocassettes,” and an array of psychological tricks to get the confession. But these techniques are often too effective, resulting in a false confession from the employee. The interrogations are often held while the employee is “on the clock,” meaning leaving could result in losing their job, and the retailers don’t allow them to be videotaped. A slew of recent lawsuits brought against American firms have shined light on this problem, even revealing that one of the loss prevention specialist received confessions in 98% of his cases.

1. Given the growing evidence of this problem, should retailers abandon the use of police interrogation techniques in their investigations?
2. How should firms deal with employee theft?

#### **Case 11: Caught in the Middle: Where Does Your Loyalty Lie?**

Cindy recently graduated and was working in a sales position in a growing tech company. She worked very closely with her team and had a good rapport with them. She was the only woman on the team, but she still felt at ease with her colleagues. Part of her job involved traveling across the country and going to meetings and events outside of work with her team and other sales people from different organizations.

During certain non-customer, internal events, she noticed that some of her married co-workers were bringing women other than their wives. Although she was uncomfortable with the situation, she wanted to keep her distance so as not to become too directly involved with her co-workers and their personal decisions. She had knowledge of what was going on but didn't think it was her place to intervene.

One day, at an office party, the wife of one of her co-workers approached her. She wanted to know exactly what was going on during these trips. Cindy was frustrated to be put in this situation by her co-workers and she didn't know what to say. Should she put herself in the middle of a coworker's marriage and tell the truth about the situation? Is there another option? She didn't want to damage the team and be looked at as an outsider. She knew that she was not involved at all in these behaviors, but she still felt very uneasy about the situation.

1. How should Cindy react in this situation?
2. Is it Cindy's place to step in and say anything, or should she stay out of the situation all together?
3. With so many different loyalties, between her co-worker, her own values, her co-worker's wife, and her job, what is most important in this situation?

#### **Case 12: When Extra Attention Crosses the Line**

Annie has been recently hired full time at a major tech company where she interned for two summers during her college career. Annie loves her job and has established many strong relationships with her co-workers over the time she has worked there. The company encourages the interns and new hires to interact with VPs and upper management in order to create an open and friendly atmosphere.

During her time as an intern, Annie began to notice that one of the VPs paid her extra attention. When he was around he would always make an extra effort to stop by Annie's cubicle and chat; something he did not do with any of the other interns. He reached out to her over social networking sites and even invited her to a gathering at his house. Some of her co-workers began to make offhand comments to Annie about the extra attention.

Now that she was in a full time position, Annie began to dread that she would soon have to work with this VP directly. While he has not done or said anything explicitly inappropriate, the extra attention—and the fact that her co-workers noticed it—made her very uncomfortable and undermined her concentration on work. When she was hired, she was told that she should always speak to her manager if she was uncomfortable or had issues with the work environment. While at the same time, she is afraid to come across like a tattletale since the VP hasn't explicitly done anything wrong.

1. What course of action should Annie take?
2. What are management’s obligations?
3. Do you consider this a hostile work environment?

#### **Case 13: Signing Off on a Substandard Product**

Lauren's first job after graduation was working as a quality engineer with a highly respected technology company. She had to monitor the manufacturing process and make sure that all products met customer specifications. Just three months into her position, the company booked a very large deal with a strategic customer, helping establish the company's dominance in the industry.

Specifically, Lauren's company was designing a device that would be integrated into another company's product. The customer contracted out this work because they were experiencing rapid growth and cannot meet demand otherwise. They picked Lauren's company because of its good reputation and fast turnaround time. Lauren's role was to test the new device and make sure it met technical and environmental specifications, particularly functionality under extreme conditions, such as high humidity.

The test results showed that the products did not meet the quality standards agreed upon, but only by a very small margin. Her general manager instructed her to push it through anyway, stating that the risk of failure was not great enough to delay mass production. Moreover, the likelihood of the product ever being placed in such extreme situations was so small that the manager did not feel jeopardizing the contract was worth it.

Lauren spoke to her immediate boss, who worked under her general manager, and he also advocated pushing the product through to production. She was faced with the choice of ignoring company protocols or going against management. Sweeping the problem under the rug would require Lauren to sign off on a report that she knew to be fraudulent. She also knew that if she went to upper management her working relationships with her immediate bosses would be strained, maybe even preventing her success in the company. Not to mention, the company would have to delay production and possibly lose the contract.

1. What should Lauren do?
2. Whose interests are paramount? Lauren’s, Lauren’s company, the customer?

#### **Case 14: Externalities of Age Discrimination Safeguards**

Lindsey worked as a top manager at a struggling technology company in Silicon Valley. As part of a companywide initiative, she had the task of downsizing her department by a considerable margin. Among the most troubling decisions involved eliminating a position within her department's most productive teams: eight people for seven jobs. As she considered each team members'; contributions and merits, there were two employees whose performance reviews were far behind the rest of the team.

Dianne was a 38-year-old woman, an employee at the company for 12 years, and an average performer. She worked hard and did a decent job overall, but failed to thrive at the company. She worked for a mediocre manager and Lindsey thought Diane's performance would improve if she worked for a more competent manager. Lindsey felt that Diane had more potential than Ron, but up until now it had not been realized.

Ron was a 42-year-old male with tenure and experience in the firm similar to Diane. Like Diane, he was an average performer but was not a rising star in the organization. He did not show as much potential as Dianne. However, because Ron was over 40, he was considered a member of a "protected class," giving him special protections against discrimination based on age. If Lindsey fired him, he could, and most certainly would, sue the company with a claim that he was being let go because of age discrimination.

Lindsey felt that Dianne was the slightly better candidate, given her potential to grow into a top contributor. On the other hand, eliminating Ron's position would expose the company to a lawsuit and the expenses associated with it, perhaps outweighing any benefit the company would gain by choosing Diane over Ron.

1. What should Lindsey do?
2. Should Lindsey consider the threat of a lawsuit in her decision making?

#### **Case 15: When Equality Compromises Efficiency**

Ralph was a sales representative of a small but fast-growing mobile and social advertising platform. Working directly with the co-founder, Mike, Ralph was responsible for door-to-door sales, pitching the company's platform that helped clients gain a virtual following of customers.

The business owners in the area often spoke English as a second language, making clear communication between the two parties a key concern for Ralph.

On one sales call, Ralph approached a small hair salon and secured a contract along with a $100 signup fee. However, the situation soon turned sour, as the hairdresser was furious after learning that she would have to operate the online platform herself, as opposed to the full service deal she thought she had signed.

Mike, Ralph's boss, now found himself stuck in tough situation. Ralph claimed that he was blatantly clear what the contract was offering, though mentioned communication was strained due to the language barrier. Under the company's philosophy of putting the customer first, Mike refunded the $100 signup fee and voided the contract.

This was not the first time Mike had to refund a contract under these conditions, causing Mike to revisit both the contract and Ralph's sales pitch to ensure that the language was a clear as possible. After this incident, it was clear that adjustments have not made an impact, and the company continued to lose money on negated contracts and time wasted not pursuing interested customers. Mike began to consider redrawing their target areas away from those where English is not the predominantly spoken language, but is concerned that would be an injustice to those potential customers.

1. Should Mike make the decision to work only with English-speaking customers?
2. Is that an ethical solution?
3. Are there any alternatives?

#### **Case 16: When Incentives Don’t Match Your Values**

Frank, a recent graduate, recently landed a sales job for a Silicon Valley tech company. He is part of a team that qualifies sales opportunities. After talking to potential customers, Frank decides whether or not they are quality leads. If they are, he refers them to an account executive to close the deal, saving the company precious time in money in avoiding low probability contracts. If not, he will not pass them on and the sales opportunity is not pursued. Account executives expect prescreening of potential leads in order to maximize their time. Each referral Frank passes to the account executive is added to a tally that counts toward his target monthly total, and there is a monetary bonus for all sales staff members who reach their monthly quota.

This creates some controversy among Frank's team members, who are faced with conflicting incentives; pass on low quality leads to hit your quota, or focus on quality and risk missing the monthly target.  The pressure to "hit your number" comes from both the monetary incentive and management, who benefit when their sales team hits their quotas. To further complicate matters, since each sales representative self-reports how many leads they passed along, they can inflate their numbers in order to reach the monthly target goal; a common occurrence among Frank's coworkers.

As Frank tries to adjust to his new job, he is finding it difficult to balance his own moral compass with the pressure of hitting his monthly number.

1. How would you handle the dilemma between hitting the quota and submitting quality work you stand behind?
2. What factors would weigh into your decision?
3. What solutions would best solve this dilemma?
4. Do other measures exist to evaluate the performance of the members of Frank’s team?

#### **Case 17: Do Small Errors Need to be Reported?**

Ben is a recent graduate who has just started his first job in the finance department of a publicly traded Silicon Valley company. One of his main responsibilities is to create and distribute complicated spreadsheets that analyze costs and revenues for different divisions. Ben sends completed reports to his direct supervisor and the CFO. The CFO then uses the information to create the company's financial reports, in addition to the strategy and forecasting formulation.

While Ben considers himself to be detailed-oriented, the complicated nature of and the sheer volume of data sometimes overwhelm him, which is exacerbated by their strict deadlines. While Ben works hard to prepare the reports as accurately as possible, he often finds errors after he has submitted his final report. When the errors are critical, he revises the reports and resends them. However, some of the errors are minor, in Ben's estimation, and he doubts that the CFO will use or look at these figures. Ben is ambitious and wants to be promoted, but worries that if he frequently sends out revised reports he will appear unreliable and unqualified. At the same time, the potential consequences from inaccurate financial reports put the company, the CFO and CEO, and Ben himself at risk.

1. What actions should Ben take when he catches a mistake?
2. Is he obligated to report every error, particularly since he works for a publicly traded company?
3. Is there such a thing as a small error in this context?

#### **Case 18: Instagram and the Ethics of Privacy**

Founded in 2010, Instagram considers itself to be “a fun and quirky way to share your life with friends through a series of pictures.” By downloading the free Instagram mobile application, users snap a photo with their mobile phone, then choose a filter to transform the image, and can share it on various sites such as Facebook and Twitter. The company views itself as more than just a photo-storage tool but a way “to experience moments in your friends' lives through pictures as they happen. We imagine a world more connected through photos.”

In April 2012, the 13-employee company was acquired by social networking giant Facebook for approximately $1 billion. In less than three years, Instagram has become one of the fastest growing social media platforms as seen by its estimated 12 million daily users.

In December 2012, several months after being acquired by Facebook, Instagram announced new changes to its privacy policy and terms of use. According to the updated terms, "a business or other entity may pay Instagram to display users' photos and other details in connection with paid or sponsored content or promotions, without any compensation to you," and there was no apparent option to opt out. The backlash was immediate. Photographers and celebrities were particularly upset, given that their photos were a part of their own businesses and brand images.

Instagram was quick to respond that its intention was simply to improve advertising. Co-founder Kevin Systrom posted, “Our intention in updating the terms was to communicate that we’d like to experiment with innovative advertising that feels appropriate on Instagram. Instead it was interpreted by many that we were going to sell your photos to others without any compensation. This is not true and it is our mistake that this language is confusing. To be clear, it is not our intention to sell your photos.”

Instagram's privacy policies and terms of use were once again updated in January 2013. The current terms state, “You hereby grant to Instagram a non-exclusive, fully paid and royalty-free, transferable, sub-licensable, worldwide license to use the Content that you post.” Instagram also reserves the right to share users’ information (including analytics information, log files, cookies, and location data, as well as the content users post) with companies affiliated with Instagram (mainly Facebook), third-party service providers, third-party advertisers, and “other parties.”

While the initial backlash against Instagram has been quelled, there is still uneasiness among users regarding privacy issues. Instagram has to walk a fine line to keep its users happy and still turn a profit. On one hand, Instagram offers a free service to users, which up until this point has been free of advertisements, unlike other social media platforms like Facebook. In order to remain a viable company, Instagram has to bring in revenue somehow, and advertising seems the obvious choice.

We believe that it is not unreasonable for Instagram to try to make money using member photos for several reasons. First, it would be foolish for Instagram to walk away from such a lucrative revenue opportunity.

Let us not forget that Facebook purchased the company for $1 billion in cash and equity in April 2012. Facebook owes it to its shareholders to try to monetize Instagram considering how much it spent on this company.

Second, users pay absolutely nothing for using Instagram's services. There is no price per photo uploaded, no subscription required, or pricing scheme of any sort. Individuals and celebrities are not the only ones who derive personal benefit from Instagram. Many small businesses like to use Instagram as a marketing tool because it is free and effective. Some will upload pictures of new product arrivals to lure new or existing customers to come in and purchase. Businesses like to have Instagram accounts because the service allows them to build their brand and customer loyalty through posts, giving them the venue to engage and interact with customers in ways they could not do previously.

1. How much, if any, of our information should Instagram be able to share with third-parties and advertisers?
2. Why are Instagram users making such a fuss about the revised privacy policy if they are gaining so much personal satisfaction or business from a service that is free?
3. Are Instagram users reasonable in expecting that their postings be kept private?

#### **Case 19: A Job Search Dilemma**

Eric, a second-semester senior, is looking for a job. Anxious about finding work in the worst economy in decades, he sends out scores of resumes for a wide variety of positions. The first call he gets is for a position that doesn't really interest him, but he figures he should be open to every opportunity. He schedules an interview, which he aces. In fact, the recruiter offers Eric the job on the spot. He would like Eric to start as soon as possible.

1. Should Eric accept the offer?
2. If he does, can he continue to pursue other jobs actively?

### Case 20: The Case of the Reference Request

A former employee who was fired due to poor quality work, absences, and lateness related to a drinking problem, informs you that she has applied for a position at another company and has already given your name as a reference. She desperately needs a job (she is a single parent with three children), and she asks you to give her a good recommendation and not mention her drinking, which she assures you is now under control.

She also asks you to say that she voluntarily left the company to address a family medical crisis, and that the company was pleased with her work. You like this person and believe she is a good worker when she is not drinking. You doubt that she really has overcome her drinking problem, however, and you would not recommend your own company hire her back.

1. What do you say to this woman?
2. What do you say to an employer who calls you for a reference?
3. What if the prospective employer was a friend?
4. Suppose the problem was a theft. Would that change your viewpoint?
5. What values are at stake? Do some of the values conflict with one another?

### Case 21: Easy on the Wallet or Easy on the Earth.

DressUp is an online auction site where those who have more style than money can bid on designer apparel. The site registers members for $30, who are then allowed to bid on exceptional deals. In an effort to stand out from the crowded field of online bargain sites, DressUp reached out to the local community in search of help marketing their company to college students.

Part of this effort included hiring a student intern, Carly. At that point, DressUp had no formal marketing strategy for targeting consumers. As someone who grew up in the digital age, Carly knew she had to kick start the company on the Internet. Her marketing knowledge centered on the benefits of viral technologies, especially Facebook and Twitter.

Carly immediately revamped the DressUp Facebook page to make it more user-friendly--adding quizzes, polls, discussion boards, and photo albums--as well as setting Twitter blasts to go off repeatedly throughout the day. During her three-month internship, Carly quadrupled the DressUp Facebook fan base. Her project helped catapult the company into prominence. In the three months of her internship, DressUp increased the number of items offered on the site threefold.

The CEO noticed Carly's success in social networking and asked her to launch a marketing campaign on her own campus to create buzz for DressUp among her peers. The CEO challenged her to register 100 new clients within the week.

A member of a sorority since her freshman year, Carly decided to use her Greek connections. She appeared at four campus sororities that week. Promising a free DressUp T-shirt with the sorority's name for every membership purchased, Carly registered 300 new members in one night.

Reporting to work the next day, Carly was excited to share with the team the quick acceptance DressUp had received on campus. She believed she had developed an easy and effective marketing strategy that could be replicated at schools all over the country. Carly planned to order different T-shirt designs for different sororities, highlighting the DressUp logo in bold lettering.

That's when she faced a difficult ethical decision: She could order the shirts from a low-cost company in China or she could order them from a fair-trade company in San Francisco, which provided safe conditions and higher wages for the workers who made the clothing. The fair trade shirts were $28.65, making the grand total for her project $8,595. In contrast, the Chinese T-shirts were $5.50 each, and the company's Web site promised fast and free delivery for a grand total of $1,100.

Carly remembered from her Venture Capital Finance class that startup companies need to focus on making the most money during the first two years. She also knew that the T-shirts from China would be cheaper so that she could create a more elaborate design with more graphics and color. She realized her school was a "testing campus" for DressUp and that if her marketing module worked, her internship work would spread to other college campuses. She thought of how easy it would be for a factory in China to produce large quantities of shirts to give away for free as a promotion that she could promote on the Facebook page she had worked so hard on. She also wondered if the higher cost of the T-shirts would affect the grade the CEO gave her for the internship.

On the other hand, her International Management class had exposed her to the harsh reality of working conditions in China: low wages, rigorous work schedule, poor safety regulations, and the complete lack of worker's compensation and benefits. When Carly had sailed on the Human Rights and Social Justice Voyage with University of Virginia's Semester at Sea, she saw first-hand a Bulgarian clothing factory's destitute environment. She wasn't sure how the public would react if they knew they had taken advantage of outsourcing cheaper t-shirts rather than supporting a U.S. company during the global recession.

Then Carly weighed her other option of ordering t-shirts from a San Francisco company she had already used once when she worked with a community service student organization. While the shirts were more expensive, they were fair-trade, organic, and eco-friendly, all attributes she thought would appeal to students. Carly reasoned students would be more likely to wear a shirt that was fashionable and better quality than one that was made cheaply.

Carly didn't want to disappoint her boss. She knew she was working on a deadline and didn't have time to research the prices of T-shirts at other companies. Even though she could have created a bidding war with local T-shirt companies for the business, she preferred to buy from a company that she could trust. At the same time, the $7,495 she would save if she bought from the Chinese manufacturer was too good not to consider. She knew if she made her boss happy, she'd be promoted and enjoy more independence with her future projects.

Carly wants DressUp to increase its popularity and become a topnotch company among college trendsetters.

1. What should she do and why?
2. Should she quit her internship and drop the class?
3. Should she ask for an extension on her assignment?
4. Should she order the T-shirts from a fair trade company?
5. Is it reasonable to assume the Chinese company doesn't treat its workers fairly?

### Case 22: The Case of the Million-Dollar Decision

Pegasus International Inc. is a leading manufacturer of integrated circuits and related software for such specialty markets as communications and mass storage, as well as PC-based audio, video, and multimedia. With a focus on innovation, Pegasus is committed to "technology leadership in the new millennium." Its long-standing strategy has been to anticipate changes in existing and emerging growth markets and to have hardware and software solutions ready before the market needs them. The company has also made significant strides in wireless communications.

The systems and products of Pegasus' wireless business have been selling well in its already existing markets in the United States, Japan, and Europe. But, like any company, Pegasus is eager to grow the business. At a strategy session with the Wireless Division, Pegasus CEO Tom Oswald and division managers decide to explore the potential of expanding their business to China.

Initial research indicates that China is likely to develop into a huge market for wireless because its people do not currently have this capability and the government has made spending on wireless a priority. Wireless is really the only choice for China because of the high cost of burying the communications cables necessary in wired systems; further, in underdeveloped countries, copper wires are often stolen and sold on the black market.

Subsequent research does raise one concern for Pegasus wireless managers. They tell Oswald, "We have this problem. China allocates frequencies and makes franchise decisions city by city, district by district. A bribe is usually required to get licenses."

The CEO says, "A lot of companies are doing business with China right now. How do they get around the problem?"

His managers have done their homework: "We believe most other companies contract with agents to represent them in the country and to get the licenses. What these contractors do is their own business, but apparently it works pretty well because the CEOs of all those companies are able to sign the disclosure statement required by law saying that they know of no instance where they bribed for their business."

"I wonder if paying someone else to do the crime is the same as our doing the crime," Oswald says. "I'm just not very comfortable with the whole question of payoffs. So, let me ask you, if we don't expand into China, how much business will we lose, potentially?"

His Wireless Division manager responds, "It will be huge not to do business in all the countries expecting payoffs. China alone represents easily $100 million of business per year. It's not life and death, but it is a sizable incremental opportunity for us, not to mention potential Japanese partners who will make significant capital investments. All we have to do is add our already-existing technology. When you consider all that, we have a lot to gain. What will we really lose if our local contractors are forced to make payoffs every now and then?"

Oswald wants his company to succeed, he wants to maximize shareholder value, he wants to keep his job, and he wants to model ethical leadership. He has made an effort to build a corporate culture characterized not only by aggressive R&D and growth but also by integrity, honesty, teamwork, and respect for the individual. As a result, the company enjoys an excellent reputation among its customers and suppliers, employee morale is high, and ethics is a priority at the company.

1. What should Oswald do in this case?
2. What corporate value is more important, ethics or profit?
3. Should a firm engage in practices that are legal, but morally questionable?

**Case 23: Receiving a Holiday Gift.** A supplier sends a basket of expensive foodstuffs to your home at Christmas with a card, “We hope you and your family enjoy the goodies.”

1. What questions should you ask yourself?
2. What action should you take?

**Case 24: Sales Expense.** The purchasing manager for a large company agrees to give you an order (their first), expecting you agree to make a $200 donation to his favorite charity, a local youth sports team.

1. What are the values at odds?
2. How do you respond?

**Case 25: Sales Expense Reimbursement.** A customer executive from Southeast Asia will visit your HQ facility and meet with your executive team. Your independent Southeast Asian agent requests that you reimburse the customer for his expenses, including expenses that could violate your company's policies. The agent will reimburse you.

1. How do you proceed?
2. What dangers do you face?

**Case 26: References.** A large, prospective client calls you and asks about a competitor's reputation. One of your long time customers had a very bad experience with this competitor.

1. What information do you share with the prospect?
2. How do you respond to the prospect call?

**Case 27: Gratuities.** A customer has a large sailing yacht on a vessel that your company will be discharging. The customer is present and is watching the off-loading operation.

The five stevedores you manage pull off a very tricky maneuver, safely transferring the yacht to the trailer. The customer is elated, and reaches into his pocket, pulling out a big wad of $50 bills.

1. What do you do?
2. What values are in play?

**Case 28: Conflict of Interest.** As department manager, you are hosting an informal celebration in the office. The food budget is $200. Your next door neighbor has just started her own catering business and asks to supply the food. Since she is just starting out, she'll do it at cost and provide extra items at no charge.

1. What might you want to consider?
2. What actions should you take?

**Case 29:More Competition.** You are in a head-to-head battle with your arch competitor, Evil Enterprises. One of your co-workers approaches you. He has recently joined your company after having worked for a second competitor for several years.

He suggests, "I made notes on all of Evil's bids when I could get the data. They use some clear cost standards. Would you like me to bring my notes to the office tomorrow and let you look through them?"

1. How do you respond?
2. What values are at stake?

### Case 30: Reporting Inflated Numbers

Barbara graduated at the perfect time. It was the peak of the dot-com boom and businesses were competing for recent graduates. Barbara had no problem getting her first job in the high-tech industry as a corporate communications specialist.

Many of her friends struggled when entering the corporate world, but Barbara didn't have any problems. The workplace had a casual atmosphere, she enjoyed a salary far above that of her friends, she received perks regularly and she enjoyed Mai-Tai Fridays at the office every week.

She was at the job for less than two months when the company released the quarterly numbers.

As the internal communications representative, Barbara was responsible for reporting the numbers to all the employees within the company. Because the company was not publicly traded, only those within the organization were privy to the information.

"I was aware something wasn't quite right with the numbers," said Barbara. "But I was so young and naïve. I never thought they could be wrong." She knew the company was doing well, but Barbara had been tracking the high-tech industry and was conscious of the usual financial targets. She also knew that the industry was getting out of control and each company was willing to do anything to get ahead. After asking her coworkers, she realized that they all knew the numbers were intentionally inflated every quarter. Barbara took the hints from her coworkers and passed the numbers on without question.

"We were a young company and we needed our stock price to rise so that we could stay competitive in the booming industry," said Barbara. "Everyone questioned the numbers, but, because of the hip work culture that everyone enjoyed and the potential for riches, there was an underlying pressure to be loyal."

The inflated numbers became another part of the culture. Barbara observed coworkers laughing when they picked up the paper and read the headlines about their company's booming quarter.

"Everyone was just enjoying the ride and didn't want it to end," said Barbara. "Venture capitalists were practically throwing money at our company and we were spending it faster than we thought possible."

"I was new at the company, was making great money and had great benefits-why would I jeopardize all of that?" said Barbara.

1. How would you describe the fundamental ethical dilemma that Barbara faces?
2. Who benefits by Barbara passing on the incorrect information? Who is harmed by her doing so?
3. Do you think Barbara handled this situation correctly? Would you handle it differently?

### Case 31: Bad Business Ethics or Acceptable Promotional Perks?

Gail had taken her first job offer out of college. As a communication major, she hoped to go into broadcast media and eventually become an on-air personality. But she knew she had to work her way up. So she took a job with a local Bay Area radio station in the publicity department. Gail immediately fell in love with the station's young, hip vibe.

Soon after beginning at the radio station, Gail began to feel uncomfortable about some of the practices within the promotions department. When station officials requested products from local companies to be given away on-air, they would overestimate the amount necessary. The employees would then take the extra products.

This happened several times with tanning packages. A local tanning salon would often donate coupons for free one-month trials. The station didn't have a set ratio for coupon dollar amount per minute of advertising, so the promotions department would negotiate individually with each customer. It was also impossible for the individual companies to keep track of the on-air advertising time, so they never knew if their negotiated airtime was actually in effect. These negotiations resulted in a completely arbitrary system that always erred on the side of the station. Instead of giving all the tanning packages away on the air, the disc jockeys would often keep a few for personal use, or distribute them to other station employees.

Because everyone at the station enjoyed receiving the perks, nobody complained. "I enjoyed the industry," said Gail. "I'm just glad I wasn't on the other side of the street." Gail realized that the supporting companies donating giveaways had no idea of the radio station's practices. This frustrated her, but she, too, didn't feel it was worth speaking up about. "I was getting a horrible salary, so I figured I could enjoy the perks," she said. "Plus, they were on such a small scale, that it didn't seem significant."

"This was just how the business operated, so I didn't say anything," said Gail. "It was just part of the culture."

1. Define Gail's ethical dilemma.
2. Is the radio station's policy with product giveaways ethically acceptable?
3. Do you agree with how Gail handled the situation and how she justified her actions?
4. Can small, relatively inconsequential perks be harmful?

### Case 32: A Right or Wrong Way to Sell?

Five years after graduating, Ilene got a job in contract sales, selling high-end office furniture to large companies throughout Northern California. Ilene was a manufacturer's rep who represented ten lines of furniture to dealers who then sold the furniture to the end-user law firms and financial companies in remodel or expansion processes.

Ilene had learned about the strict chain-of-custody within the contract furniture industry from a close friend in the business. This chain was a custom in the business which permitted only certain individuals to sell to and represent those immediately above or below them in the "ladder." In the system, designers and architects who were remodeling law firms and company offices specified furniture to buy from the dealers who would, in turn, buy the furniture from the manufacturer. As a manufacturer's representative, Ilene would only be selling to dealers, architects and designers. She would not be selling to end users.

But when this chain-of-custody system was explained to Ilene by her new boss, he told her that, in reality, it often didn't work that way. He had hired Ilene to sell directly to the law firms and companies, thereby cutting out the dealers, architects and designers. By eliminating the dealers, architects, and designers in the process, Ilene's firm could make a bigger profit. In many large deals, Ilene was bidding against dealers, architects and designers she often worked closely with; dealers she was supposed to be using at the time. The entire process made Ilene feel very uncomfortable. She felt like she was cheating the system. It was apparent that her company was using a less-accepted strategy.

After a couple months, she brought the concern to her boss, the owner of the company, who was completely unsupportive.

Her boss told her that she was, "too idealistic and not a true salesperson." They were in the business to make money, not to make friends. He said she could leave if she didn't feel comfortable with the arrangement.

"I just realized I was hired for a position that was completely unethical," said Ilene. Frustrated, Ilene did her best to balance both her role as a manufacturer's representative and her forced role in the bidding wars. On several occasions she bowed out of potential deals with end users when she was faced with bidding against her own dealer client. In these instances the dealers knew that Ilene was going after the profit. She wasn't proud of the strategy and, knowing well that she may have to work with the dealers in the future, she decided to take herself out of the awkward situations.

But Ilene couldn't handle the balance. "I told my boss that I was uncomfortable selling to the end users for ethical reasons," said Ilene. For the next six months, Ilene only sold to dealers and designers, as the chain-of-custody intended.

"The option was less lucrative for me and for the company, but at least I was doing what I thought was right and fair," said Ilene.

After those six months, Ilene quit the job and began a sales job in another industry where she's found ground-breaking success.

1. Do you think the sales strategy of Ilene's boss is unethical or just an aggressive tactic?
2. What would your advice be to Ilene on how to deal with this discomfort she felt with selling directly to end users?
3. How could this practice of breaking the chain-of-custody impact the industry?
4. Does Ilene have the obligation to push for broader changes within the system, rather than only changing her own job responsibilities to align with her personal ethics?
5. Is it ethically forbidden to go out of the sales chain?

### Case 33: The Effects of Ethics Policies: A Positive Story

Mike was well established in his career in human resources when he went to work for a mid-size, IT company located in the Bay Area. At the time, Arthur Andersen had just gone out of business for illegal accounting practices and ethics scandals were all over the news. But against the grain, Mike's new company had taken the commitment to ethics to a new level. The company made a conscious effort to dedicate itself to be an employer that actively supported ethical business practices. They wanted employees to be comfortable speaking up about ethical issues, so they partnered with an external ethics company which fielded anonymous phone calls about ethics concerns. In addition, each employee was required to navigate an online values course that provided ethical dilemmas for employees to solve. Mike felt comfortable knowing his company took ethics seriously.

After two years with the company, Mike encountered a situation that questioned his morals. He had been assigned to create an online tool designed to explain the inner workings of the company to each employee. He had committed to having it done in two weeks, but he encountered a problem: some of the content necessary for the online tool was under copyright. Mike knew that he didn't have time to request use of the material. He also knew that, if he used it illegally, it was likely nobody would notice. "Deep down I knew it wasn't right to use the content," said Mike.

Flagging this as a concern for the company would delay the project, but Mike was committed to the ethical stance of the company, so he went to the management team. He told them that, although he knew he wanted the project done, he would be forced to violate the company's stance to accomplish the project on time.

Mike offered two options to the management: they could purchase the content or eliminate it from the online tool. Either way, the project would be delayed.

Mike was quickly praised by the management for bringing the issue to their attention. Managers told him that he did the right thing.

1. Assuming that unauthorized use of copyrighted material may be illegal, do you also think it's unethical?
2. Do you think Mike would have made the same decision if his company had not had an extensive internal ethics policy?
3. Name at least three things that you think indicate whether a company is committed to ethics or not.

### Case 34: Is the Customer Always Right?

Paula was a junior partner at a public relations firm when she was asked to assist in publicizing an event for one of the firm's top clients. The client was sponsoring a talent competition where local men and women would compete for the chance to win a fourteen-day cruise for two. The company hoped the event would be a huge success so that the media attention would give wide mention of its name.

After nearly five months of preparation, Paula thought all was well planned. She had secured celebrity judges, contacted all the local news organizations, and had drafted a press release for release after the competition. It was going to be great publicity for the software company.

When the talent competition was finished, Paula was behind stage tallying the votes to determine the winner when the head of the software company, Mr. Johnson, frantically approached her. It was a close competition and two contestants, one "average Joe" and one up-and-coming actor, were the final two. When the votes were tallied the actor won, but Mr. Johnson wasn't pleased; he wanted the "average Joe" to win because he thought that it would make for a better news story and, hence, more publicity for his company. Mr. Johnson asked Paula to take "creative liberties" in determining the winner. The fine print in the rules said the final decision was ultimately up to the company and not the judging panel and he made it clear who the winner should be.

Paula's manager was the one in charge of deciding whether to honor Mr. Johnson's request or to go with the judges' choice. Her manager chose to side with Mr. Johnson and announce the "average Joe" as the winner, but did verbally express disapproval of the process and disappointment of being put in such an uncomfortable and compromising position. But they did settle a compromise, while the "average Joe" was named the winner, both received the grand prize. Though Paula strongly disagreed with the decision, she didn't have much control. She was never asked her opinion and she never offered it.

"If I were in charge, things would be different," she said. "We weren’t doing the right thing by rewarding the person who didn't actually win. But we settled on a compromise that was as good as it could have been and that tried to appease all people involved."

The press release mentioned that the "average Joe" was the single winner; news of the other "unofficial" winner was not mentioned, however he was named as the first runner-up. The actor wasn't featured as prominently and he didn’t get some of the local media coverage that the "average Joe" received, however he did receive media coverage in his hometown. "It felt a little rigged," said Paula. Even the judges seemed surprised with the outcome, but none raised serious complaints.

1. Do you think Mr. Johnson's request to favor the "average Joe" is unethical?
2. Publicists represent the client's interests, but is the customer always right? Where should the line be drawn?
3. Should Paula have spoken up at the time of the decision to alter the results of the contest?
4. Could Paula have avoided the situation in the planning process of the event? How or how not?

### Case 35: Client Obligations and Handling your Boss

Rosie had recently lost her job from the dot-com bust when she decided to switch industries and join a medium-sized consulting firm where she helped individual clients manage their personal portfolios. Although the firm wasn't the top in the market, the firm had several long-term clients who gave them a good reputation amongst peers.

One long-term client, Betty, emailed Rosie's boss, Conor, asking a few questions about a recent acquisition of stock. Conor forwarded the inquiries to Rosie, asking her for help. Rosie, new to the job and not fully aware of Ms. Fitz's financial background, wasn't able to answer all of Ms. Fitz's questions. They needed to be put to someone with more expertise. So she wrote an email back to Conor, letting him know that she needed more information before she could fully evaluate Ms. Fitz's situation. She explicitly stated in the email to Conor that her reply was an inquiry for further information and was not meant to be forwarded on to Ms. Fritz. Rosie felt her answer was still in an informal, rough form and left many questions unanswered. A few days later, Ms. Fitz emailed Conor again, asking if he had gotten her questions answered.

In a rush, Conor forwarded Rosie's email to Ms. Fitz. Later. He told Rosie that he felt her response was good enough and that he didn't have the time to waste composing a whole new document. When Ms. Fitz complained about the lack of detail in the response, Conor placed the blame on Rosie, his "clearly incompetent assistant."

"He messed with my reputation," said Rosie. "I don't normally like to create commotion, but I felt this was a necessary battle I had to fight." In Rosie's mind, Conor had not only lied to a client and implicated her, he had also damaged her professional reputation with a longstanding client. She looked unreliable.

Rosie approached Conor the following day and said that all he needed to tell Ms. Fitz was that he had forgotten or hadn't gotten a chance to look at it yet. Either way, each answer would have made him appear busy, something completely justifiable to the client. Even if Rosie had messed up, she told Conor that she would expect him to either fire her or cover for her, not damage her reputation and leave her unable to defend herself.

Surprisingly, Conor agreed and apologized to Rosie-and later apologized to Ms. Fitz.

1. Do you think Rosie was fair to her boss?
2. How could Rosie have handled the initial problem of having not enough information differently?
3. What's the impact of Rosie and Conor's decisions on Ms. Fitz, the customer?
4. Is it best to be honest with customers, even if it shows your weakness?
5. What are three important ethical qualities to look for in a boss?

### Case 36: The Case of Bad News

George was just a few months beyond his 40th birthday on the day he became CEO of ACI. He was still basking in the glow of his good fortune, eager to try out his skills as the CEO. He hoped to get the chairmanship one day when the company's founder, Mike, decided to step down.

ACI was a leading supplier of fiber optic transceiver components for the telecommunications industry. ACI's annual sales were around $500 million with 2,500 employees in locations in Mexico and Scotland, in addition to its Southern California headquarters. Both offshore facilities enjoyed excellent employee relations.

George realized that ACI's growth and profitability were problems, but he wasn't sure if the source was the management team, product development, marketing and sales, or something else. He realized that it wasn't the people. Sure, there were a few problem areas, and some employees seemed a bit too comfortable. But the main issue was a lack of focus and a general weakness in the business systems required in this fast-paced industry. There was no clear vision of what ACI wanted to be and no acceptable plan on how to get there.

To address this weakness, George implemented a task force made up of middle managers from all the various disciplines, as well as the executive team. He chaired the task force because he believed strongly that CEOs shouldn't delegate strategy.

When it came to business systems, the problem seemed to be a lack of adequate cost accounting. The company didn't know its individual product costs to any reasonable degree of accuracy. To address this challenge, George brought in a new chief financial officer.

Just as George was beginning to feel optimistic about where ACI was going, he got a phone call from sales to tell him that Alcatel was canceling its backlog. Apparently, Alcatel's customers were slowing their acquisition of new equipment, and Alcatel seized that opportunity to shift all of its business to a French competitor of ACI's. George's first call was to the chairman. To his surprise, Mike handled it well, voicing his empathy and support. But clearly, George was expected to take action quickly. He decided that one way of avoiding a layoff was to implement a four-day workweek. That spread the pain evenly among all employees. George called his executive team together to tell them the bad news and to get the necessary action underway. Next, he went to discuss the issue with union leadership. The regional head of the union, also the local steward, was in George's office before lunch with a stern look on his face. "Look, George, you're the new kid on the block, so we don't think this setback was your doing. No one likes to lose part of his paycheck, but your plan treats management the same as the blue-collar workers, so you've got our support. We want to give you a chance to act. If we don't like what you're doing, we'll be back."

The four-day workweek was implemented. Without being told, the entire management staff knew that they got four day's pay, but they were expected to be there five. After about six weeks, the lower costs began to kick in. ACI was treading water, but starting to sink.

George could no longer avoid a layoff. His best calculation was that 900 people would have to go. The rest would go back on a five-day week. More details had to be worked out. What projects should be cut? Who should be protected?

George decided to be open about the impending layoff with all the important constituencies even though the implementation details were not worked out. That evening as he left his office for the day, George was surprised to see that a television crew had set up their camera near the main entrance and were talking to employees as they left.

As soon as the reporter spotted him, the crew raced over and thrust a microphone in his face. "We understand that there are going to be layoffs at this plant. What is your comment? We hear that the plants in Mexico and Scotland are not going to be hit as hard as the Irvine plant. Aren't you just using this layoff as a way to export jobs to lower-wage countries? Don't you owe it to the American workers to let them keep their jobs so long as there are foreign workers to be laid off?"

George made a few comments that set the matter in perspective. Although still skeptical, the press grudgingly conceded the argument...for the moment.

When he got to the parking lot, he found that his car had been slashed. The paint job was ruined. As he drove home, he thought, “These problems are not my doing.” If the managers and workers had paid more attention to quality, they might not have been hit so hard by order cancellations. The layoff was going to happen the next Tuesday, and he scheduled an all-hands meeting for the remaining employees. Did he ever have things to say to them!

The next six months were the roughest of George's career. But things started to click, the industry was coming back, and the organization had fixed the quality problems. Best of all, the new product, which used technology that was a generation ahead of the competition, was moving along at lightning speed. They would have it to market by his first anniversary. As George reflected on the past year, he realized he had learned a lot.

Two years later, ACI was the most profitable company in its sector. It felt like a rebirth, for George as well as for the company.

1. When George moved to the four-day workweek scheme, should he have expected his managers to work five days for four days' pay?
2. Should George tell anyone except his immediate staff about the impending layoff before the details have been worked out? What about the board of directors? The union? The employees?
3. Was George's decision to be open about the impending layoff the ethical thing to do?
4. Are there situations in which it is best to try to keep a lid on such information?
5. The particular jobs cut at ACI were chosen on the basis of the long-range interests of the business and not on the nationality of the work force. As the reporter's questions implied, shouldn't American businesses favor American employees over foreign employees?

### Case 37: The Case of the Performance Appraisal

Frank became CFO and a member of the Executive Committee of a medium-sized and moderately successful family-owned contracting business six months ago. The first nonfamily member to hold such a position and to be included in the Executive Committee, he took the job despite a lunch-time remark by the company's CEO that some members of the family were concerned about Frank's "fit with the company culture." But the CEO (who is married to the daughter of the founder of the company) said he was willing to "take a chance" on Frank.

Soon after Frank started, the company decided for the first time to "right-size" to respond to rapid changes in its business. Frank, who had been through this before when he was a senior manager in his previous company, agreed this was good for the long-term health of the 20-year-old company. He decided not to worry that family members seemed more concerned about their own short-term financial interests.

The CEO was relying on Frank to help him determine how to downsize in an ethical manner; the CEO said he trusted Frank more on this than he did the head of his personnel department, who had "been around a little too long."

On Frank's recommendation, the company decided to make its lay-off decisions based on the annual performance appraisal scores of the employees. Each department manager would submit a list of employees ranked by the average score of their last three appraisals.

If the employee had been with the company less than three years, if the score for two employees was identical, or if there was some extraordinary circumstance, the manager would note it and make a decision about where to rank the person. At some point, Frank and the Executive Committee would draw a line, and those below the line would be laid off.

As Frank was reviewing the evaluations, he was puzzled to find three departments in which the employee at the bottom of the list had "N/A" where the evaluation score should have been written. When he asked the managers to explain, they told him these employees had been with the company almost since the beginning. When performance appraisals had been instituted six years earlier, the CEO agreed to the longtime employees' request that they keep receiving informal evaluations "as they always had." The managers told Frank they'd questioned this decision, and the CEO had told them it wasn't their problem.

When Frank raised this issue with the CEO, he responded, "Oh, I know. I haven't really evaluated them in a long time, but it's time for them to retire anyway. They just aren't performing the way they used to. The company's been very good to them. They've got plenty of retirement stored away, not to mention the severance you've convinced me to offer. They're making pretty good money, so cutting them should let us lower the line a little and save jobs for some of the younger people with families just starting out. Don't worry about a lawsuit. There is no way they would do that."

"Do they know they're not performing well?" Frank asked.

"I don't know," the CEO responded. "They should. Everybody else in the company does."

As they walked to the door, the CEO put his arm around Frank's shoulder. "By the way," he said, "you should know that you've won over the Executive Committee. They think you are a terrific fit with this company. I'm glad you talked with me today about these three employees. You got it right. This is a company that cares for its employees—as long as it can and as long as they're producing. Always has, always will."

Frank left the CEO's office with the vague feeling that he had some moral choices to make.

1. Does he have an ethical dilemma?
2. What's the right thing to do?
3. If he disagrees with the CEO, how does he protect his own career and the interests of his own family?

### Case 38: The Case of the Plant Relocation

You are the chief executive of Electrocorp, an electronics company, which makes the onboard computer components for automobiles. In your production plants, complex hydrocarbon solvents are used to clean the chips and other parts that go into the computer components. Some of the solvents used are carcinogens and must be handled with extreme care. Until recently, all of your production plants were located in the United States. However, the cost of production has risen, causing profits to decline.

A number of factors have increased production costs. First, the union representing the workers in your plant waged a successful strike resulting in increased salary and benefits. The pay and benefits package for beginning employees is around $15/hour. A second factor has been stringent safety regulations. These safety procedures, which apply inside the plant, have been expensive in both time and money. Finally, environmental regulations have made Electrocorp's operations more costly. Electrocorp is required to put its waste through an expensive process before depositing it at a special disposal facility.

Shareholders have been complaining to you about the declining fortunes of the company. Many of Electrocorp's competitors have moved their operations to less-developed countries, where their operating costs are less than in the United States, and you have begun to consider whether to relocate a number of plants to offshore sites. Electrocorp is a major employer in each of the U.S. cities where it is located, and you know that a plant closure will cause economic dislocation in these communities. You know that the employees who will be laid off because of plant closures will have difficulty finding equivalent positions and that increased unemployment, with its attendant social costs, will result. However, you are aware of many other corporations, including your competitors, that have shut down their U.S. operations, and it is something that you are willing to consider.

You have hired a consultant, Ms. Smith, to investigate the sites for possible plant relocation. Ms. Smith has years of experience working with companies that have moved their operations to less-developed countries to reduce their operating costs. Based on your own research, you have asked Ms. Smith to more fully investigate the possibility of operations in Mexico, the Philippines, and South Africa. A summary of her report and recommendation for each country follows:

**Mexico**. A number of border cities in Mexico would be cost-efficient relocation sites based on both labor, health, and safety/environmental factors. Workers in production plants comparable to Electrocorp's earn about $3 per day, which is the prevailing wage. There is frequent worker turnover because employees complain that they cannot live on $3/day, and they head north to work illegally in the United States. However, a ready supply of workers takes their place.

Mexican health and environmental laws are also favorable to production. Exposure to toxic chemicals in the workplace is permitted at higher levels than in the United States, allowing corporations to dispense to some degree with costly procedures and equipment. Mexico's environmental laws are less strict than those of the United States, and a solvent recovery system, used to reduce the toxicity of the waste before dumping, is not required.

The only identifiable business risk is possible bad publicity. The rate of birth defects has been high in many Mexican border towns where similar plants are in operation. Citizen health groups have begun protests, accusing the companies of contamination leading to illness.

**Philippines.** Conditions in the Philippines are more favorable than those in Mexico in terms of labor, health, and safety/environmental factors.

The prevailing wage in the Philippines is about $1/day, and young workers (under 16) may be paid even less. As in Mexico, the workers complain that the rate of pay is not a living wage, but it is the present market rate.

The health and safety and environmental regulations are equivalent to those in Mexico, but there have been no public complaints or opposition regarding birth defects, cancers, or other illnesses.

**South Africa**. Conditions in South Africa are positive in some respects, but not as favorable in economic terms as in Mexico or the Philippines. The prevailing wage in South Africa is about $10/day. Furthermore, there is a strong union movement, meaning that there may be future demands for increases in wages and benefits.

The unions and the government have been working together on health and safety issues and environmental protections. Exposure to toxic chemicals in the workplace is not permitted at as high a level as in Mexico and the Philippines. Although the equipment necessary to reduce toxic chemicals to an acceptable level is not as costly as in the United States, this expense would not be incurred in the other two countries. Furthermore, there are requirements for a solvent recovery system, which also increases operation expenses.

1. What should Electrocorp do?
2. If Electrocorp moves operations overseas, what are the potential consequences?
3. If Electrocorp moves operations overseas, should it adopt a lagging, matching, or leading pay policy?