9ed Comprehensive Case #2: An Ethics Role Playing Case. Handouts to accompany Teaching Note. See end of accompanying TN for instructions and sequence. NOTE: FOR EACH HANDOUT, print out a separate sheet.

NOTE: Handout 1-Introduction and Background, and Handout 2-Decision 1 are in the textbook, along with instructions to students.

Students should receive the appropriate version of Handout III based on their previous decision, as indicated in each version on the following pages.

Handout III (Version 1)—Result of Decision 1 and New Decision 2

Your Decision 1 was (a) *Continue operations and try to cut costs within six months.*

Your days are extremely busy as you try to find appropriate ways to cut costs. Wages of all employees, including yourself, have been halved, no one is happy, and morale is very low, but most people seem to understand you are doing the best you can in a bad situation. Many of your extended family are upset and have been asking your spouse to influence you to do more to help them. Your relationships with government officials have also cooled dramatically. You are not yet sure why. Supply costs have been reduced, at least for a time, and the sale price on Asian shoes has been increased, but this has led to declining sales growth. As you feared, the results are still not good enough to meet the USHF's profit requirements, and you have quietly been asking local interests if they would be willing to buy out AHF's operations.

About three months into your trial period, a local government official, Abuwahr Sahib, approaches you and offers to buy the company. You realize that there is a great deal of uncertainty about the future cash flows the company will produce—can the company can restore its profitability to its former levels, or are the current cash flow levels permanent? The value assigned to the firm is very sensitive to whether optimistic or pessimistic assumptions about the future are used. Nevertheless, Sahib's offer price is at least 10% to 15% less than your estimate of the firm's value. You don't know Sahib personally, but he has many highly placed government connections. All Sahib asks is that you recommend the sale be approved by the parent USHF. In exchange, Sahib agrees to keep AHF running and to continue to employ you as manager at your original salary. USHF will likely share your view that the offer price is discounted, but the company is eager to complete a sale, and you are pretty sure you can convince the home office to agree to the deal. Sahib made it plain that he will not up his offer, and that he can guarantee that his would be the only offer looked upon favorably by the government. What do you do?

Decision 2

Part A: Does this decision involve ethics or is it a business decision? Please explain.

Part B: The decision is up to you. What do you do? Please circle (c) or (d1).

(c) Recommend that the company sell to Sahib

(d1) Don't sell. Keep going as planned, cutting costs.

Please tell why you made the decision you did.

Handout III (Version 2)—Result of Decision 1 and New Decision 2

Your Decision 1 was (b) *shut down*.

Upon your return you announce that AHF will be closing sometime in the next three to nine months. You indicate that you will try to keep as many people employed as long as possible, but you are not sure how long that will be. You begin to look for buyers of specific assets or of the company as a whole. You desperately hope that a local buyer may be found, but you know that is unlikely. No one is happy, least of all you and your spouse, and morale is at an all-time low. Many of your extended family are particularly upset and have been asking your spouse to influence you to do more to help them. Your relationships with government officials have also cooled dramatically. You are not yet sure why.

About three months into your trial period, a local government official, Abuwahr Sahib, approaches you and offers to buy the company. You realize that there is a great deal of uncertainty about the future cash flows the company will produce—can the company restore its profitability to its former levels, or are the current cash flow levels permanent? The value assigned to the firm is very sensitive to whether optimistic or pessimistic assumptions about the future are used. Nevertheless, Sahib's offer price is at least 10% to 15% less than your estimate of the firm's value. You don't know Sahib personally, but he has many highly-placed government connections. All Sahib asks is that you recommend the sale be approved by the parent USHF. In exchange, Sahib agrees to keep AHF running and to continue to employ you as manager at your original salary. USHF will likely share your view that the offer price is discounted, but the company is eager to complete a sale, and you are pretty sure you can convince the home office to agree to the deal. Sahib made it plain that he will not up his offer, and that he can guarantee that his would be the only offer looked upon favorably by the government. What do you do?

Decision 2

Part A: Does this decision involve ethics or is it a business decision? Please explain.

Part B: The decision is up to you. What do you do? Please circle (c) or (d2).

(c) Recommend that the company sell to Sahib.

(d2) Don't sell. Keep going with planned shutdown.

Please tell why you made the decision you did.

Students should receive the appropriate version of Handout IV based on their previous decision, as indicated in each version on the following pages.

Handout IV (Version 1)—Result of Decision 2 and New Decision 3

Your Decision 2 was (c) *recommend that the company sell.*

USHF agrees and the deal is consummated. You stay on as manager of the new company, Sahib Shoes, but you now handle the business end, trying to learn finance and foreign exchange management, while Sahib has appointed his own man to run the day-to-day operations. Soon you learn through your family connections that Sahib has begun using both child and prison labor and finding excuses to fire the original workers. None of your family has been fired, though. Outraged, you go to Sahib and threaten to quit and go to the government. Sahib calmly retorts that if you do either, he will fire all your family and ensure that none of them will be able to find other employment. Also he reminds you of your assistance in their deal with USHF and threatens to make your role public. What do you do? Do you quit?

Decision 3

Part A: Does this decision involve ethics or is it a business decision? Please explain.

Part B: The decision is up to you. What do you do? Please circle either (e) or (f).

(e) Quit and go to the government.

(f) Protect your family by continuing to work.

Please tell why you made the decision you did.

Handout IV (Version 2)—Result of Decision 2 and new Decision 3

Your Decision 2 was (d1) *Don't sell. Keep going as planned, cutting costs.*

You suddenly find your firm faced with supply problems, additional taxes on transactions, and surprise government inspections that disrupt work. Sadly, you realize that trying to continue operations isn't going to work, and you notify the Seattle office that you are agreeing to shut down AHF as soon as possible and you will concentrate on finding buyers for the firm's assets. Landon is not surprised, and he tells you not to worry because they have found a buyer, some local named something-or-other "Sahib". Sahib is willing to do a deal where he would make a large down payment today, sufficient to meet USHF's immediate cash flow needs, and make another large payment in one year if USHF will provide low cost supplies for the first year, and if Sahib can retain you as a paid consultant to teach him how to run the business. You will also get the opportunity to learn foreign exchange management and the other aspects of business management you have never had the time to learn. When you express your concerns about Sahib, and mention what Sahib tried to do, Landon is pleased that you didn't cheat USHF, but he lets you know that this is a done deal and you are expected to cooperate.

You stay on as a manager in the new company, Sahib Shoes, but your job now is to train Sahib and try to learn finance, marketing, and foreign exchange management, while Sahib has appointed his own man to run the day-to-day operations. Soon you learn through your family connections that Sahib has begun using both child and prison labor and finding excuses to fire the original workers. None of your family has been fired, though. Should you go to Sahib and threaten to quit and go to the government? If you do, you know that he will fire all your family and ensure that none of them will be able to find other employment. What do you do? Do you quit?

Decision 3

Part A: Does this decision involve ethics or is it a business decision? Please explain.

Part B: The decision is up to you. What do you do? Please circle either (e) or (f).

(e) Quit and go to the government.

(f) Protect your family by continuing to work.

Please tell why you made the decision you did.

Handout IV (Version 3)—Result of Decision 2 and New Decision 3

Your Decision 2 was (d2) *Keep going with planned shutdown.*

Landon calls and tells you that they have found a buyer, some local named something-or-other "Sahib". Sahib is willing to do a deal where he would make a large down payment today, sufficient to meet USHF's immediate cash flow needs, and make another large payment in one year if USHF will provide low cost supplies for the first year, and if Sahib can retain you as a paid consultant to teach him how to run the business. You will also get the opportunity to learn foreign exchange management and the other aspects of business management you have never had the time to learn. When you express your concerns about Sahib, and mention what Sahib tried to do, Landon is pleased that you didn't cheat USHF, but he lets you know that this is a done deal and you are expected to cooperate.

You stay on as a manager in the new company, Sahib Shoes, but your job now is to train Sahib and try to learn finance, marketing, and foreign exchange management, while Sahib has appointed his own man to run the day-to-day operations. Soon you learn through your family connections that Sahib has begun using both child and prison labor and finding excuses to fire the original workers. None of your family has been fired, though. Should you go to Sahib and threaten to quit and go to the government? If you do, you know that he will fire all your family and ensure that none of them will be able to find other employment. What do you do? Do you quit?

Decision 3

Part A: Does this decision involve ethics or is it a business decision? Please explain.

Part B: The decision is up to you. What do you do? Please circle (e) or (f).

(e) Quit and go to the government.

(f) Protect your family by continuing to work.

Please tell why you made the decision you did.

Students should receive the appropriate version of Handout V based on their previous three choices, as indicated in each version.

Handout V (Version 1)—Final Results

Decision 1: (a) *Continue operations and try to cut costs within six months.* Decision 2: (c) *Recommend that the company sell to Sahib.* Decision 3: (e) *Quit and go to the government.*

As a result of your actions, an investigation into Sahib's affairs is begun, but it progresses slowly, and no action is taken by the government. One by one, your family members are fired from the company, and they have tremendous difficulty in finding other employment. You and your spouse have lost face in their eyes, and you and your spouse and children have been ostracized. Your role in the sale of the business to Sahib at a cut-rate price is public knowledge, and you cannot find work, either. None of your old contacts will have anything to do with you. You receive an angry phone call from Landon, who wants to know how you could have betrayed your employers and him. Having no one else to turn to, you have no choice but to leave Sri Lanka in disgrace. Your spouse refuses to accompany you. You will try to start over elsewhere, alone. Eventually, Sahib is forced out of the company by the government. A government-backed consortium of local buyers takes over the company, and labor conditions slowly improve.

Handout V (Version 2)—Final Results

Decision 1: (a) *Continue operations and try to cut costs within six months.* Decision 2: (c) *Recommend the company sell to Sahib.* Decision 3: (f) *Protect your family by continuing to work.*

An investigation into Sahib's affairs is begun, but it progresses slowly, and no action is taken by the government until U.S. pressure eventually forces the authorities to act. Suddenly, without warning, you and Sahib are arrested for human rights violations. After a quick trial, you and Sahib are both sentenced to 10 years hard labor in a Sri Lankan prison. Sahib is freed after two years when his family manages to bribe a high-ranking justice official. You try to involve U.S. officials in your case, but no one is particularly interested in helping you because your role in the sale of the business to Sahib at a cut-rate price was made public knowledge at the trial. Landon in particular made it plain that he will have nothing more to do with you. A government-backed consortium of local buyers takes over the company and labor conditions slowly improve. Eventually you are freed, but your career is over.

Handout V (Version 3)—Final Results

Decision 1: (a) *Continue operations and try to cut costs within six months.* Decision 2: (d1), (d2) *Keep going as planned and refuse to sell the company to Sahib.* Decision 3: (e) *Quit and go to the government.*

A consortium of buyers headed up by Sook Whang, an old Asia hand and longtime friend of George Landon, approaches you about purchasing AHF. Whang indicates their desire to purchase the company and keep it running in Sri Lanka. Although you would not be the new company's manager, they wish to retain your services as a consultant, utilizing your business experience and extensive contacts. He states that he hopes he can look forward to working with you for a long time to come. Whang indicates his willingness to negotiate a fair price for the firm, as he recognizes the many benefits AHF, and you, have brought to his country. Whang asks you to go ahead and resign from AHF so that you will have no conflict of interest, and states that he will negotiate the details of the deal with Mr. Landon. Whang goes on to say that he knows that Sahib and others have been troubling your efforts to manage AHF, and with a quiet smile Whang indicates that Sahib "will no longer be a problem". You agree and send a resignation letter to USHF, including your estimate of the fair value of the company. Landon is pleased with the news, though not surprised, because he is the one who first contacted Whang about the opportunity, and the deal is quickly and easily done. USHF receives enough cash to satisfy its stockholders with a small extra dividend and enough money to begin its next phase of technological improvements. Without the high profit goals imposed by USHF, wages and employment levels return to normal levels fairly quickly, and your status with your family has increased quite a bit.

Handout V (Version 4)—Final Results

Decision 1: (a) *Continue operations and try to cut costs within six months.* Decision 2: (b1), (b2) *Keep going as planned and refuse to sell the company to Sahib.* Decision 3: (f) *Protect your family by continuing to work.*

An investigation into Sahib's affairs is eventually begun as increasing pressure instigated by U.S. and U.N. human rights groups forces the authorities to act. Suddenly, without warning, you and Sahib are arrested for human rights violations. After a quick trial, you and Sahib are both sentenced to ten years hard labor in a Sri Lankan prison. A government-backed consortium of local buyers takes over the company, and labor conditions slowly improve. Sahib is freed after two years when his family manages to bribe a high-ranking justice official. Eventually U.S. officials become involved in your case, and you are freed after three years. Because of your refusal to sell to Sahib at cut-rate prices, Landon has pressured the U.S. to help you. He offers you a minor position with USHF back in the U.S., and having few alternatives, you take it.

Handout V (Version 5)—Final Results

Decision 1: (b) *Shut down.* Decision 2: (c) *Recommend that the company sell to Sahib.* Decision 3: (e) *Quit and go to the government.*

As a result of your actions, an investigation into Sahib's affairs is begun, but it progresses slowly, and no action is taken by the government. One by one your family members are fired from the company and they have tremendous difficulty in finding other employment. You and your spouse have lost face in their eyes, and you and your spouse and children have been ostracized. Your role in the sale of the business to Sahib at a cut rate price is public knowledge and you cannot find work either. All your old contacts will have nothing to do with you. You receive an angry phone call from Landon wanting to know how you could have betrayed your employers and him. Having no one else to turn to, you have no choice but to leave Sri Lanka in disgrace. Your spouse refuses to accompany you. You will try to start over elsewhere, alone. Eventually Sahib is forced out of the company by the government. A government backed consortium of local buyers takes over the company and labor conditions slowly improve.

Handout V (Version 6)—Final Results

Decision 1: (b) *Shut down.* Decision 2: (c) *Recommend that the company sell to Sahib.* Decision 3: (f) *Protect your family by continuing to work.*

An investigation into Sahib's affairs is begun, but it progresses slowly, and no action is taken by the government until U.S. pressure eventually forces the authorities to act. Suddenly, without warning, you and Sahib are arrested for human rights violations. After a quick trial, you and Sahib are both sentenced to ten years hard labor in a Sri Lankan prison. Sahib is freed after two years when his family manages to bribe a high-ranking justice official. You try to involve U.S. officials in your case, but no one is particularly interested in helping you because your role in the sale of the business to Sahib at a cut-rate price was made public knowledge at the trial. Landon, in particular, made it plain that he will have nothing more to do with you. A government-backed consortium of local buyers takes over the company and labor conditions slowly improve. Eventually you are freed, but your career is over.

Handout V (Version 7)—Final Results

Decision 1: (b) *Shut down.* Decision 2: (d1), (d2) *Keep going as planned and refuse to sell the company to Sahib.* Decision 3: (e) *Quit and go to the government.*

A consortium of buyers headed up by Sook Whang, an old Asia hand and longtime friend of George Landon, approaches you about purchasing AHF. Whang indicates their desire to purchase the company and keep it running in Sri Lanka. Although you would not be the new company's manager, they wish to retain your services as a consultant, utilizing your business experience and extensive contacts. He states that he hopes he can look forward to working with you for a long time to come. Whang indicates his willingness to negotiate a fair price for the firm, as he recognizes the many benefits AHF, and you, have brought to his country. Whang asks you to go ahead and resign from AHF so that you will have no conflict of interest, and states that he will negotiate the details of the deal with Mr. Landon. Whang goes on to say that he knows that Sahib and others have been troubling your efforts to manage AHF, and with a quiet smile Whang indicates that Sahib "will no longer be a problem". You agree and send a resignation letter to USHF, including your estimate of the fair value of the company. Landon is pleased with the news, though not surprised, because he is the one who first contacted Whang about the opportunity, and the deal is quickly and easily done. USHF receives enough cash to satisfy their stockholders with a small extra dividend and enough money to begin its next phase of technological improvements. Without the high profit goals imposed by USHF, wages and employment levels return to normal levels fairly quickly, and your status with your family has increased quite a bit.

Handout V (Version 8)—Final Results

Decision 1: (b) *Shut down*. Decision 2: (d1), (d2) *Keep going as planned and refuse to sell the company to Sahib.* Decision 3: (f) *Protect your family by continuing to work.*

An investigation into Sahib's affairs is eventually begun as increasing pressure instigated by U.S. and U.N. human rights groups forces the authorities to act. Suddenly, without warning, you and Sahib are arrested for human rights violations. After a quick trial, you and Sahib are both sentenced to ten years hard labor in a Sri Lankan prison. A government-backed consortium of local buyers takes over the company, and labor conditions slowly improve. Sahib is freed after two years when his family manages to bribe a high-ranking justice official. Eventually, U.S. officials become involved in your case, and you are freed after three years. Because of your refusal to sell to Sahib at cut-rate prices, Landon has pressured the U.S. to help you. He offers you a minor position with USHF back in the U.S., and having few alternatives, you take it.

Practical Ethics Shareholder-Stakeholder Feedback Form

Name: ____

1. What was the one most important point you learned from the case exercise?

2. What aspect(s) of the case did you like? Why?

3. What aspect(s) of the case did you *not* like? Why?

4. How could the presentation format of the case be improved? (For instance, provide more class time for discussion, or less, or working in groups, etc.)

5. How much work experience have you had (years and type)?

Chapter 2: Managing Interdependence

Social Responsibility and Ethics

Ninth Edition

2-1

Chapter Learning Goals

1. To understand the social responsibility of corporations toward their various constituencies around the world, in particular their responsibilities toward human rights

2. To acknowledge the strategic role that ethics must play in global management and pro- vide guidance to managers to maintain ethical behavior amid the varying standards and practices around the world

3. To recognize the importance of managing interdependence and include sustainability in their long-term plans

Opening Profile: The Bangladesh Disaster: Can Companies Outsource Responsibility?

- The strategic problem for retailers is finding low-wage countries to produce, label, and ship goods on time.
- With low wages and terrible working conditions, to what extent does factory oversight belong to multinationals or to local governments?
- Since the 2013 fire, 90 European firms and some U.S. retailers have pledged to oversee improvements in Bangladesh and correct safety problems..
- Suppliers often subcontract manufacturing, further removing production oversight.
- How should retailers balance their profitability against their responsibilities in overseas contracting?

Chapter Learning Goals

To understand the social responsibility of corporations towards their various constituencies around the world, in particular their responsibilities towards human rights

The Social Responsibility of MNC' s

CSR Dilemma

Profit is MNC's only goal

MNCs should anticipate and solve social needs

MNC Stakeholders

MNC Stakeholders

Home Country

- Owners
- Customers
- Employees
- Unions
- Suppliers
- Distributors
- Strategic Allies
- Community
- Economy
- Government

MNC

Host

- Economy
- Employees
- Community
- Host
- Government
- Consumers
- Strategic Allies
- Suppliers
- Distributors

Society in General

- Global interdependence/standard of living
- Global environment and ecology
- Sustainable resources
- Population's standard of living

Benefits of CSR

- Improved access to capitol
- Secured license to operate
- Revenue increase and cost and risk reduction
- Improved brand value and reputation with customer attraction and retention
- Improved employee recruitment, motivation, and retention

Global Consensus of Regional Variation

- **Global Corporate Culture:**
  An integration of the business environments in which firms currently operate
- The United States and Europe adopt strikingly different positions that can be traced largely to history and culture.

Dealing with Confusion About Cross-Cultural Dilemmas

- Engaging stakeholders (and sometimes NGOs) in a dialog
- Establishing principles and procedures for addressing difficult issues such as labor standards for suppliers, environmental reporting, and human rights
- Adjusting reward systems to reflect the company's commitment to CSR

General Guidelines for Code of Morality and Ethics in Individual Countries

Moral Universalism

- Addressing the need for a moral standard that is accepted by all cultures

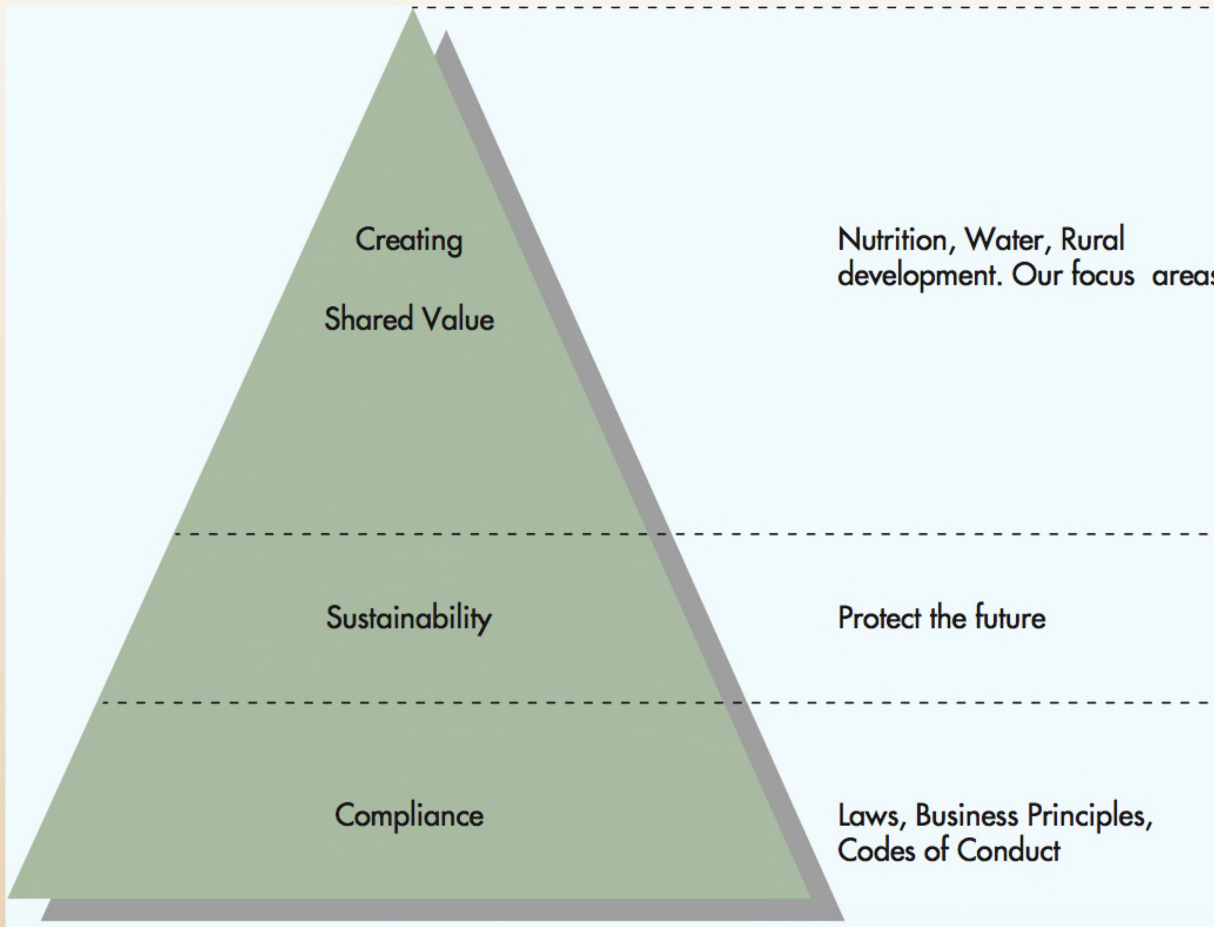
Ethnocentric Approach

- Applying the morality used in home country—regardless of the host country's system of ethics

Ethical Relativism

- Adopting the local moral code of whatever country in which a firm is operating

Under the Lens: Nestlé Creates Shared Value Globally



International Codes of Conduct

- The Sweatshop Code of Conduct
- The Electronic Industry Code of Conduct (EICC)
- Social Accountability 8000 (SA 8000)
- Guidelines for MNCs developed by:
  - International Chamber of Commerce
  - Organization for Economic Cooperation and Development
  - International Labor Organization
  - United Nations Commission on Transnational Corporations

Comparative Management in Focus: Doing Business in China

- The attraction of doing business in China:
  - Cheap labor cost
  - An expanding market
  - A growing economy with growth in higher skilled jobs and services
  - Continuing concerns
    - Uncertain legal environment
    - Protecting IP

Comparative Management in Focus: Doing Business in China

Human Rights and Freedom of Information Challenges	Human Rights and Freedom of Information Issues in China
• Potentially rampant violation of workers' rights • Repression of free speech • Difficulty monitoring and correcting human rights violations	• Wal-Mart • Government limits on media and internet freedoms • Google • Microsoft • Yahoo

Chapter Learning Goals

To acknowledge the strategic role that ethics must play in global management and provide guidance to managers to maintain ethical behavior amid the varying standards and practices around the world

Ethics in Global Management

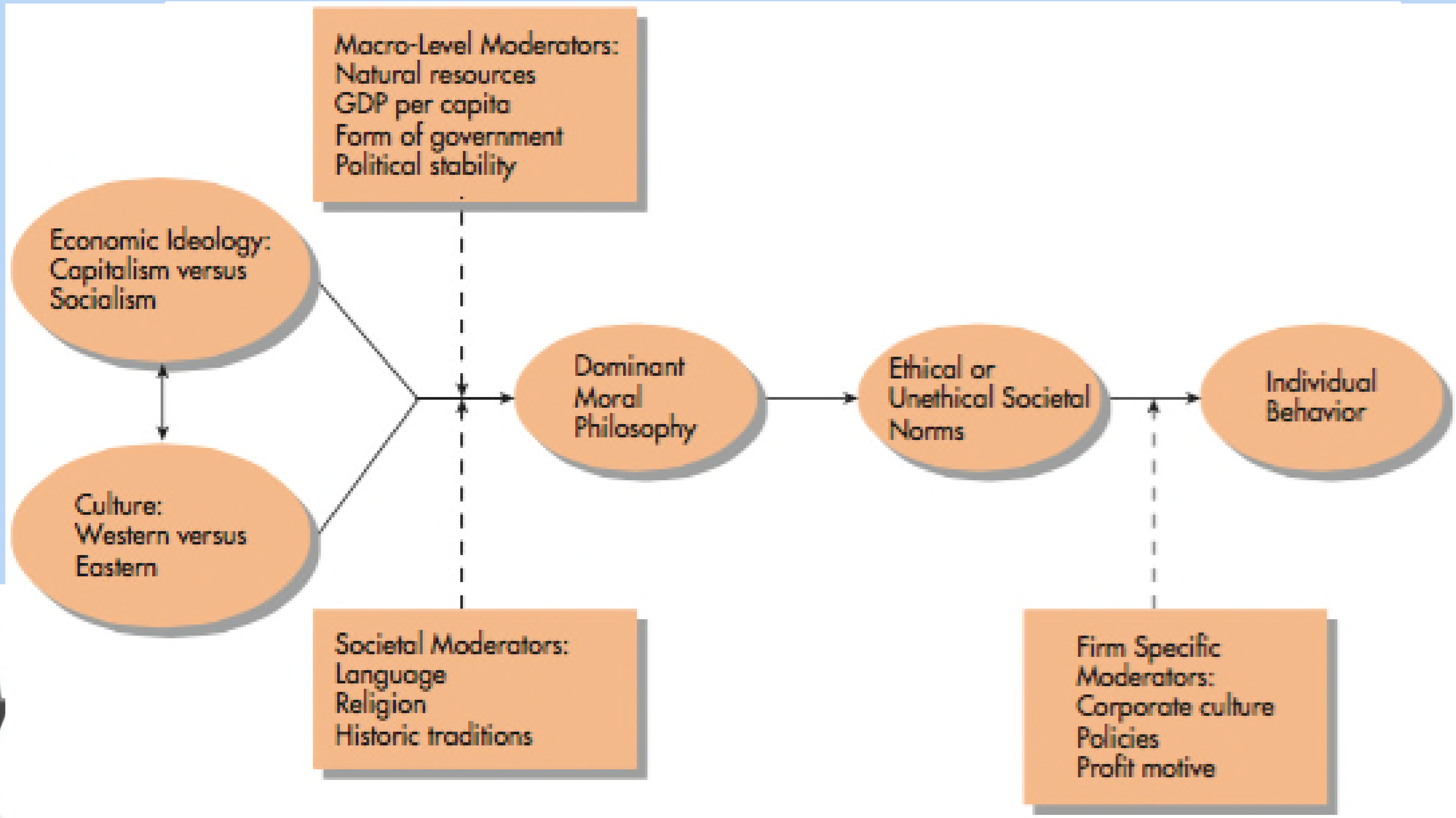
International Business Ethics

The business conduct or morals of MNCs in their relationship with individuals and entities

Ethics vary based on the cultural value system in each country or society

HH3

A Moral Philosophy of Cross-Cultural Societal Ethics



Slide 17

HH3 The text on this image may be difficult to read, even on a large projector screen. Consider enlarging this image.
Heather Hetzler, 1/7/2013

Global Corruption Barometer:

2014 Corruption Perception Index (CPI)—Selected Ranks

Rank	Country
1	Denmark
2	New Zealand
3	Finland
7	Singapore
10	Canada
11	Australia
12	Germany
14	UK
15	Japan
17	Hong Kong
17	U.S.A.
26	France
43	South Korea
67	South Africa
69	Greece
69	Brazil
85	India
100	China
103	Mexico
107	Indonesia
136	Russia

Chapter Learning Goals

To recognize the importance of managing interdependence and include sustainability in their long-term plans

Ethical Use of Technology

- Varied expectations about the use of technological devices/programs as they intersect with people's private lives
- EU Directive on Data Protection ←→ Google mapping service
- Sony PlayStation Network

To Bribe or NOT to Bribe?

Questionable Payments

- Paying mail carriers in Mexico to prevent them from "losing" mail
- Paying $100 to get a computer picked up from a rainy dock
- Gift-giving to bond social ties

Managing the Corruption

- Foreign Corrupt Practices Act (FCPA)
- Organization for Economic Cooperation and Development convention on bribery

Three Tests of Ethical Corporate Actions

Is it legal?

Does it work in the long run?

Can it be talked about?

Policies to Help MNCs to Confront Concerns About Ethical Behavior and Social Responsibility

- Develop worldwide code of ethics.
- Build ethical policies into strategy development.
- Plan regular assessment of the company’s ethical posture.
- If ethical problems cannot be resolved, withdraw from that market.

Under the Lens: Rolls-Royce Accused of Bribery

- Rolls-Royce has been accused of a multibillion-dollar bribery/kick-back scheme at Brazil's state-controlled oil producer.
- The British engineering company, which makes gas turbines for oil platforms, paid bribes in exchange for a $100m contract
- Rolls-Royce is the latest foreign company alleged to be involved in the scandal, which threatens Brazil's government

Steps to an Ethical Decision

Consult the International Codes of Conduct for MNEs
Consult the company's code of ethics and established norms

Consult the laws of both the home and the host countries

Weigh shareholders rights

Follow your own conscience and moral code.

The Process for Companies to Combat Corruption and to Minimize the Risk of Prosecution

- Having a global compliance system which shows that employees have understood, and signed off on, the legal obligations regarding bribery and corruption in the countries where they do business
- Making employees aware of the penalties and ramifications for lone actions, such as criminal sanctions
- Having a system in place to investigate any foreign agents and overseas partners who will be negotiating contracts
- Keeping an effective whistle-blowing system in place

Managing Subsidiary—Host-Country Interdependence

Common Criticism of MNC Subsidiary Activities

- MNCs locally raise their needed capital, contributing to a rise in interest rates in host countries.
- The majority of the stock of subsidiaries is owned by the parent company. Host-country people have little control over the operations within their borders.

HH4

Common Criticism of MNC Subsidiary Activities Cont.

- MNCs reserve the key managerial and technical positions for expatriates, instead of developing host-country personnel.
- MNCs do not adapt technology to the conditions in host countries.
- MNCs concentrate research and development activities at home, restricting technology transfer and know-how to host countries.
- MNCs create a demand for luxury goods in host countries at the expense of consumer goods.

Slide 29

HH4 Consider extending these bullet points out to additional slides so that the text will be larger.

Heather Hetzler, 1/7/2013

Common Criticism of MNC Subsidiary Activities Cont.

- MNCs start foreign operations by purchasing existing firms, not by developing new facilities in host countries.
- MNCs dominate major industrial sectors, contributing to inflation, by stimulating demand for scarce resources and earning excessively high profits and fees.
- MNCs are not accountable to host nations but only respond to home-country governments; they are not concerned with host-country plans for development.

Managing Subsidiary—Host-Country Interdependence

Require managers to go beyond issues of CSR to deal with specific concerns of MNC and host-country relationship.

MNCs must learn to accommodate the needs of other organizations and countries.

HH5

MNCs Benefits and Costs to Host Countries

Benefits	Costs
Access to outside capital	Competition for capital
Foreign-exchange earnings	Increased interest rates
Access to technology	Inappropriate technology
Infrastructure development	Development investment exceeds benefits
Creation of new jobs	Limited skills development
More humane employment standards	Few managerial jobs for locals

Slide 32

HH5 In the slide notes, consider adding a page number from the text where Exhibit 2-5 can be located.
Heather Hetzler, 1/7/2013

Managing the Interdependence

The Risks of Interdependence

- Nationalism
- Protectionism
- Governmentalism

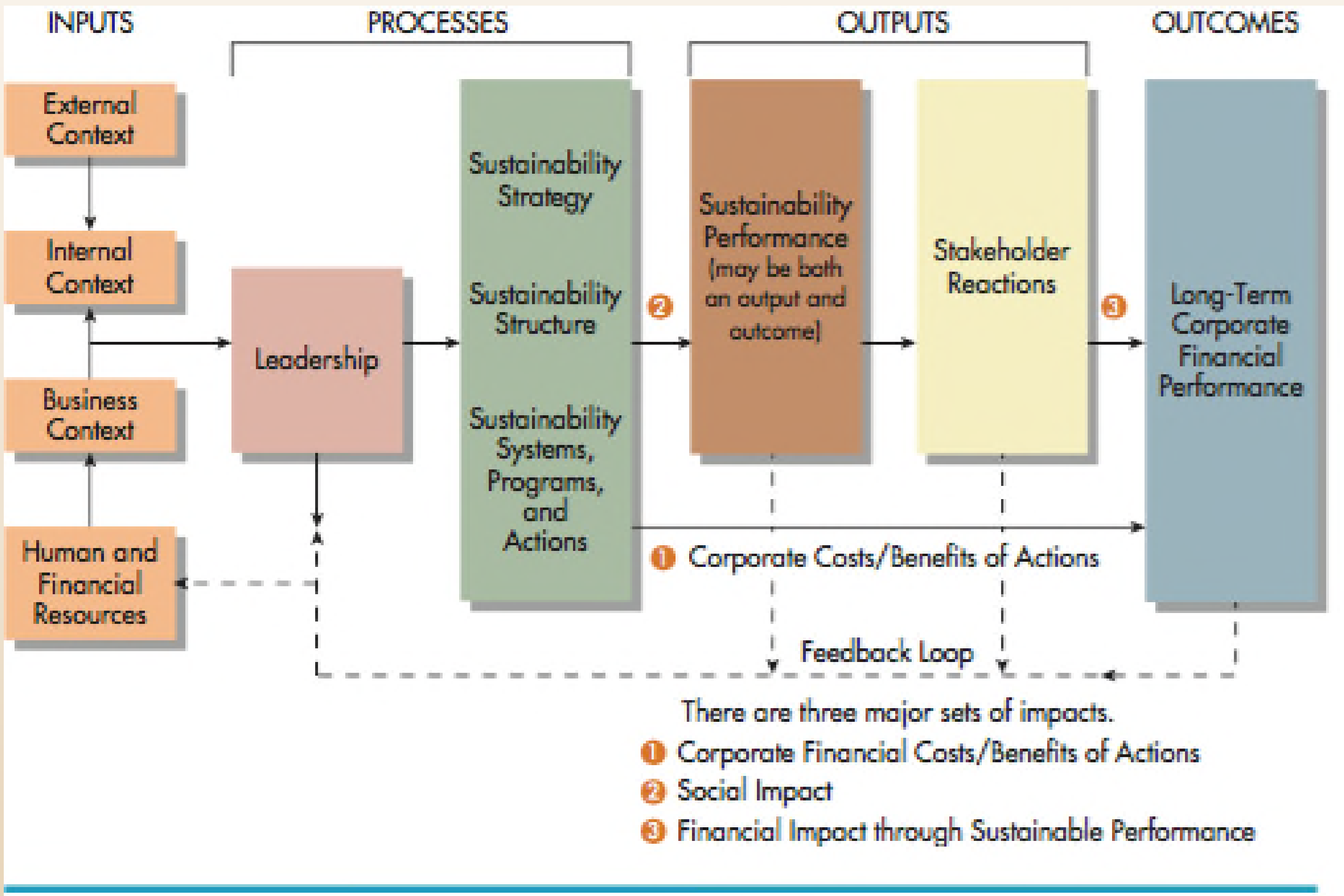
Issues in Managing Environmental Interdependence

- Coca-Cola in Rajasthan
- BP in the Gulf of Mexico
- Export of pesticides
- Integrating goals of sustainability into strategic planning

Under the Lens: BP's Sustainability Systems Under Fire

- British Petroleum's explosion of a drilling rig in 2010 caused the worst environmental disaster in U.S. history.
- BP's record in sustainability showed a lack of willingness to take responsibility and respond effectively.
- Many accused BP of negligence and greed.
- BP incurred costs for cleanup, compensation to homeowners and workers, penalties, and loss of shareholder value.
- The consequences to BP make the case for corporate social responsibility.

Corporate Sustainability Model



Recommendations for MNCs Operating in and Doing Business with Developing Countries

- Do no intentional harm. This includes respect for the integrity of the ecosystem and consumer safety.
- Produce more good than harm for the host country.
- Contribute by their activity to the host country's development.
- Respect the human rights of their employees.

Recommendations for MNCs Operating in Developing Countries Continued

- To the extent that local culture does not violate ethical norms, respect the local culture and work with and not against it.
- Pay their fare share of taxes.
- Cooperate with the local government in developing and enforcing just background institutions.

Chapter 2
MANAGING INTERDEPENDENCE
SOCIAL RESPONSIBILITY, ETHICS, AND SUSTAINABILITY

LECTURE OUTLINE

General Outline

***Opening Profile: The Bangladesh Disaster: Can Companies Outsource Responsibility for Workers in Its Supply Chain*?**
The Social Responsibility of MNCs
CSR: Global Consensus or Regional Variation?
From CSR to Shared Value?
Under the Lens: Nestlé Creates Shared Value Globally
MNC Responsibility toward Human Rights
Comparative Management in Focus: Doing Business in China: CSR and the Human Rights Challenge
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Chapter Learning Objectives (see slide 2-2)

1. To understand the social responsibility of corporations toward their various constituencies around the world, in particular their responsibilities toward human rights

2. To acknowledge the strategic role that ethics must play in global management and provide guidance to managers to maintain ethical behavior amid the varying standards and practices around the world

3. To recognize the importance of managing interdependence and include *sustainability* and *shared value* in their long-term plans

Opening Profile: ***The Bangladesh Disaster: Can Companies Outsource Responsibility?*** **(see slide 2-3)**

To what extent was it ignorance or negligence on behalf of the global apparel industry that led to the fire in the Tazreen Fashions Factory in Bangladesh that killed 1,127 workers in November 2012? The Bangladesh government blamed the Tazreen factory owner for negligence and unsafe working conditions, and Sears and Walmart said they did not know their clothing was being produced there. Has the apparel industry's global supply chain become so complex that those retailers out-sourcing production in Bangladesh can claim ignorance for this terrible failure of its responsibilities?

How should retailers balance their profitability against their responsibilities and reputation in overseas contracting? Is the answer to move production to other countries? Would that solve the sup- ply chain oversight problem? Moreover, how would that affect the 3.6 million workers in the garment industry in Bangladesh? Who are the parties who should be held accountable for these disasters? Who are the stakeholders in this kind of situation?

I. Chapter Learning Goals & The Social Responsibility of MNC's **(see slides 2-4 & 2-5)**
   A. *Global interdependence* is a compelling factor of the global business environment, creating demands on international managers to take a positive stance on issues of social responsibility and ethical behavior, economic development in host countries, and ecological protection around the world. Managers today are usually quite sensitive to issues of social responsibility and ethical behavior because of pressures from the public, interest groups, legal and governmental concerns, and media coverage.
   B. The United Nations published guidelines for the responsibilities of transnational corporations and called for companies to be subject to monitoring, verification, and censure for unethical business practices.
   C. Though many companies agree with the guidelines, they resist the notion that corporate responsibility should be regulated and question where to draw the line between socially responsible behavior and the concerns of the corporation's other stakeholders. Issues of social responsibility continue to center on poverty and lack of equal opportunity around the world, the environment, consumer concerns, and employee safety and welfare.
   D. The concept of *international social responsibility* is the expectation that MNCs concern themselves about the social and the economic effects of their decisions regarding activities in other countries.
   E. The opinions on the level of social responsibility that a domestic firm should demonstrate range from two extremes—one is that the only responsibility of a business is to make a profit, and the other that companies should anticipate social needs and try to solve them. **(See slide 2-6)** Exhibit 2-1 (p. 45) shows that managers are faced with not only considering stakeholders in host countries, but also with weighing their rights against the rights of domestic shareholders. The impact of CSR on business benefits can increase the firm's competitiveness and thus economic success. **(see slide 2-7)**

Global Consensus or Regional Variation? (see slide 2-8)

A. With the growing awareness of the interdependence of the world's socioeconomic systems, global organizations are beginning to recognize the need to reach a consensus on what should constitute moral and ethical behavior around the world. Some think a consensus is forming due to the development of a global corporate culture **(see slide 2-9)—**"corporate activity should be motivated in part by a concern for the welfare of some non-owners, and by an underlying commitment to basic principles such as integrity, fairness, and respect for persons."

B. Corporate Social Responsibility (CSR)—an integration of the business environments in which the firm operates. Although it is very difficult to implement a generalized code of morality **(see slide 2-10)** and ethics in individual countries, such guidelines do provide a basis of judgment regarding specific situations. Bowie used the term *moral universalism* to describe a moral standard that could be accepted by all cultures. Under the ethical approach of *ethnocentrism*, a company would apply the morality used in its own home country. A company subscribing to *ethical relativism* would take the local approach to morality appropriate in whatever country it is operating.

C. Creating Shared Value (CSV)**—**that is, expanding the pool of economic and social value**—**"leverages the unique resources and expertise of the company to create economic value by creating social value. By viewing the growth, profitability, and sustainability of the corporation as intermeshed with societal and economic progress in the markets in which it operates, companies such as Walmart, Google, and Intel are creating shared value by: "reconceiving products and markets; redefining productivity in the value chain; and enabling local cluster development" (clusters of related business in a local area in which the company operates). Walmart, for example, has reduced its environmental footprint through its revamping of the plastic used in its stores, and by reducing its packaging; it also has cut 100 million miles from its delivery routes, saving $200 million even as it shipped more products.

Under the Lens: Nestlé Company Creates Shared Value Globally **(see slide 2-11)**

Among the increasing number of companies transitioning from corporate social responsibility (CSR) to creating shared value (CSV), Nestlé Corporation stands out. Nestlé shows how it has advanced the company strategy and resources to creating shared value with its stakeholders in a long-term agenda. Nestlé has evolved from responding to outside conditions and pressures to that of internal and community initiatives and integration.

D. MNC responsibility toward human rights
   1. What constitutes "human rights" is clouded by the perceptions and priorities of people in different countries **(**Although the United States often takes the lead in the charge against what they consider human rights violations around the world, other countries point to the homelessness and high crime statistics in the United States.
   2. The best chance to gain some ground on human rights around the world would be for large MNCs and governments around the world to take a unified stance. A number of large image-conscious companies have established corporate codes of conduct for their buyers, suppliers, and contractors, and have instituted strict procedures for auditing their imports. Reebok and Levi have established codes of conduct for their buyers, suppliers, and contractors. In addition some companies are uniting with others in their industry to form their own code for responsible action. One of these is the Electronic Industry Code of Conduct (EICC) which comprises H-P, Dell, IBM, Intel,

and 12 other tech companies who have agreed on policies banning child labor, excessive overtime, and so forth.

E. International Codes of Conduct (**see slide 2-12)**

1. A considerable number of organizations have developed their own codes of conduct; some have gone further to group together with others around the world to establish standards to improve the quality of life for workers around the world. Companies such as Avon, Sainsbury Plc., Toys 'R' Us, and Otto Versand have joined with the Council on Economic Priorities (CEP) to establish SA8000 (Social Accountability 8000, on the lines of the manufacturing quality standard ISO9000). Their proposed global labor standards would be monitored by outside organizations to certify if plants are meeting those standards, among which are the following:
   a. Do not use child or forced labor.
   b. Provide a safe working environment.
   c. Respect workers' rights to unionize.
   d. Do not regularly require more than 48-hour work weeks.
   e. Pay wages sufficient to meet workers' basic needs.

Teaching Tip: Send your students on an electronic scavenger hunt. Ask students to find firms' statements on ethics or codes of conduct from corporate Websites. To make it more interesting for students you may choose companies with operations near your school or those companies that produce your students' favorite brands. Have students assess the codes of conduct given the guidelines in Exhibit 2-2.

Teaching Resource: Have students visit the Website of Social Accountability International (www.sa-intl.org) to learn more about the SA 8000 standards.

2. There are four international codes of conduct that provide some consistent guidelines for multinational enterprises (MNEs). These codes were developed by the International Chamber of Commerce, the Organization for Economic Cooperation and Development, the International Labor Organization, and the United Nations Commission on Transnational Corporations. Getz has integrated these four codes and organized their common underlying principles, thereby establishing MNE behavior toward governments, publics, and people. This synthesis of guidelines is shown in Exhibit 2-2 (page 48)

Comparative Management Focus: *Doing Business in China &* (see slides 2-13 & 2-14)

China's growth engine continued to drive the global economy in 2015 (albeit more slowly), . . . propelled by China's $586 billion economic stimulus plan enacted during the global economic downturn. However, although this growth has lifted millions of Chinese out of poverty, many people and their basic rights remain largely behind, and there has been a heavy cost to the environment as energy usage increases and causes pollution. "China has tightened controls over all aspects of public life and clamped down hard on freedom of expression since President Xi Jinping took over in 2012.

Although growth in higher-skilled jobs and in services is now well under way, there is continuing concern among MNCs about the pitfalls of operating in China. These include the uncertain legal climate; the difficulty of protecting intellectual property there; the repression of free speech; and the difficulty of monitoring, let alone correcting, human rights violations in factories. MNCs face considerable pressure in their home markets to address human rights issues in China and elsewhere.

> Country/Culture—China: A series of extremely useful DVDs giving insight about Chinese business is "On the Frontlines: Doing Business in China": www.chinadoingbusiness.com

> *Teaching Tip:* An interesting movie to explore Chinese culture is the Chinese produced *Beijing Bicycle* (2001) directed by Wang Xiaoshuai.

II. Chapter Learning Goals **(see slide 2-15)**

A. Globalization has multiplied the ethical problems facing organizations. However, business ethics have not yet been globalized. Attitudes toward ethics are rooted in culture and business practices. For an MNC, it is difficult to reconcile consistent and acceptable behavior around the world with home-country standards. One question, in fact, is whether it should be reconciled. Perhaps more scrutiny should have been applied to those global MNCs headquartered in the United States such as Enron and WorldCom that so greatly defrauded their investors, employees, and all who had business with them.

B. *Ethics in Global Management* **(see slide 2-16)** refers to the business conduct or morals of MNCs in their relationships to all individuals and entities. Such behavior for MNCs is based largely on the cultural value system and the generally accepted ways of doing business in each country or society. Those norms are based on broadly accepted guidelines in religion, philosophy, professions, and the legal system.

C. The American approach is to treat everyone the same by making moral judgments based on general rules. Managers in Japan and Europe tend to make such decisions based on shared values, social ties, and their perception of obligations.

D. The biggest single problem for MNCs in their attempt to define a corporate-wide ethical posture is the great variation of standards of ethical behavior around the world. U.S. companies are often caught between being placed at a disadvantage in doing business in some countries by refusing to go along with accepted practices, or being subject to criticism at home for going along with them to get the job done. Exhibit 2-3 **(see slide 2-17)** provides a conceptual model explaining important elements of this challenge.

E. Transparency International, a German organization, conducted research on the level of corruption among public officials and politicians in various countries as perceived by business people, academics, and risk analysts. The 2014 Corruption Perceptions Index **(see slide 2-18)** is provided in Exhibit 2-4.

> *Teaching Resource:* Have students visit the Website of Transparency International www.transparency.org and have them find out how the corruption index is determined.

F. Chapter Learning Goals & Ethics in Uses of Technology **(see slides 2-19 & 2-20)**

1. The ethical use of technology around the world poses a considerable challenge for companies to have consistent practices because of the varied expectations about the

use of technological devices and programs as they intersect with people's private lives. This conflict is illustrated by the electronic data privacy laws in Europe. The EU Directive on Data Protection guarantees European citizens absolute control over data concerning them. A U.S. company wanting personal information must get permission from that person and explain what the information will be used for. The company must also guarantee that the information won't be used for anything else without the person's consent.

G. To Bribe or NOT to Bribe? **(see slide 2-21)**
   1. A specific ethical issue for managers in the international arena is that of questionable payments. These are business payments that raise significant questions of appropriate moral behavior either in the host nation or in other nations. Such questions arise out of differences in laws, customs, and ethics in various countries, whether the payments in question are political payments, extortion, bribes, sales commissions, or "grease money"—payments to expedite routine transactions. For the sake of simplicity, the text categorizes all these different types of questionable payments as some form of bribery.
   2. The dilemma for Americans operating abroad is how much to adhere to their ethical standards in the face of foreign customs, or how much to follow local ways in order to be competitive.
   3. Americans must be able to distinguish between harmless practices and actual bribery, between genuine relationships and those used as a cover up. To help them make this distinction, the Foreign Corrupt Practices Act (FCPA) of 1977 **(see slide 2-22)** was established, which prohibits U.S. companies from making illegal payments or other gifts or political contributions to foreign government officials for the purposes of influencing them in business transactions. The goal was to stop MNCs from contributing to corruption in foreign government and to upgrade the image of the United States and its companies operating overseas. The penalties include severe fines and sometimes imprisonment.
   4. There are three questions **(see slide 2-23)** to ask of ethical corporate actions:
      a. Is it legal?
      b. Does it work (in the long run)?
      c. Can it be talked about?

      Bribery fails each test.
   5. Many MNCs have decided to confront concerns about ethical behavior and social responsibility by developing worldwide practices that represent the company's posture. **(see slide 2-24)**

Under the Lens: Rolls-Royce Accused of Bribery **(see slide 2- 25)**

Rolls-Royce has been accused of involvement in a multibillion-dollar bribery and kickback scheme at Petrobras, Brazil's state-controlled oil producer, as more foreign companies are dragged into the corruption scandal. The British engineering company, which makes gas turbines for Petrobras oil platforms, allegedly paid bribes via an agent in exchange for a $100m contract as part of a scheme in operation during much of the past decade, according to testimony from a former Petrobras executive. It is the one of the biggest international groups so far to be implicated in the Petrobras scandal.

H. Steps to an Ethical Decision & The Process for Companies to Combat Corruption and to Minimize the Risk of Prosecution **(see slides 2-26 & 2-27)**
   1. What is the right decision for a manager operating abroad when faced with questionable circumstances of doing business? The first step would be to consult the laws of both the home and host countries. If legal consultation does not provide you with a clear answer, you should consult the company's code of ethics. If you are still unsure of what to do you have the right and obligation to consult your superiors. When the situation is not clear-cut, ask yourself what are the rights of the various stakeholders involved and how those rights should be weighed. In the end, follow your own conscience and try to operate with integrity.

> *Teaching Tip*: Remind students of some of the basic tests for making ethical decisions: Would you be comfortable saying what you did 1) in a widely broadcasted television interview? 2) to colleagues in your company? 3) to your parents or grandparents?

III. Managing Interdependence

A. Because multinational firms (or other organizations, such as the Red Cross) represent global interdependency, their managers at all levels must recognize that what they do, in the aggregate, has long-term implications for the socioeconomic interdependence of nations. Simply to describe ethical issues as part of the general environment does not stress the fact that managers need to control their activities at all levels for the long-term benefit of all concerned. The powerful long-term effects of MNC activities should be considered as an area for managerial planning and control, not as haphazard side effects of business.

B. Foreign subsidiaries in the United States
   1. Much of the preceding discussion has related to U.S. subsidiaries around the world. However, to highlight the growing interdependence and changing balance of business power globally, we should also consider foreign subsidiaries in America.
   2. The number of foreign subsidiaries in the United States has grown and continues to grow dramatically; foreign direct investment (FDI) in the United States by other countries is in many cases far more than U.S. investment outward. Americans are thus becoming more sensitive to what they perceive as a lack of control over their own country's business.
   3. Things look very different from the perspective of Americans employed at a subsidiary of some overseas MNC. Interdependence takes on a new meaning when people "over there" are calling the shots regarding strategy, expectations, products, and personnel. Often, resentment by Americans over different ways of doing business by "foreign" companies in the United States inhibits cooperation, which gives rise to the companies' presence in the first place.

C. Managing Subsidiary-Host-Country Interdependence **(see slide 2-28)**
   1. When managing interdependence, international managers must go beyond general issues of social responsibility and deal with specific concerns of the MNC subsidiary-host country relationship.
   3. Most criticisms of MNC subsidiary activities, whether in less-developed or more-developed countries, are along these lines:

a. MNCs raise capital locally.
b. The majority of the venture's stock is usually held by the parent company.
c. MNCs usually reserve key management positions for expatriates. **(see slide 2-29)**
d. The transfer-in of inappropriate technology.
e. MNCs concentrate their R&D at home.
f. MNCs give rise to demand for luxury goods in economies that are not meeting demands for necessities.
g. MNCs start their operations by purchasing existing firms rather than developing new productive facilities in the host countries. **(see slide 2-30)**
h. MNCs dominate major industrial sectors.
i. MNCs are not accountable to the host government but respond to the home country. **(see slide 2-31)**

Exhibit 2-5 summarizes the benefits and costs **(see slide 2-32)** to host countries of MNCs in three areas: capital market effects, technology and production effects, and employment effects.

4. Numerous conflicts arise between MNC companies or subsidiaries and host countries, including conflicting goals (both economic and noneconomic) and conflicting concerns, such as the security of proprietary technology, patents, or information. Overall, the resulting tradeoffs create an interdependent relationship between the subsidiary and the host government, based on relative bargaining power.

Teaching Tip: Special interest groups often wield more power than individuals. Ask students to consider what special interest groups exist in a particular country and how those interests might conflict with those of the MNC.

Teaching Resource: *The Progressive Directory of the Institute for Global Communications*— IGC's five online communities of activists and special interest organizations: PeaceNet, EcoNet, AntiRacismNet, and WomensNet, are gateways to articles, headlines, features, and Web links on progressive issues. http://www.igc.org/igc/

5. MNCs **(see slide 2-33)** run the risk of their assets becoming hostage to host control, which may take the form of **nationalism**, **protectionism**, or **governmentalism**. With nationalism, public opinion is rallied in favor of national goals and against foreign influences. Under protectionism, the host institutes a partial or complete closing of borders to withstand competitive foreign products by using tariff and nontariff barriers. In governmentalism, the government uses its policy setting role to favor national interests rather than relying on market forces.

E. Managing environmental interdependence and sustainability
   1. International managers can no longer afford to ignore the impact of their activities on the environment. The demand for corporations to consider **sustainability** in the CSR plans comes from various stakeholders around the world.
   2. A generally accepted definition of sustainable development for business enterprises is that of "adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today, while protecting, sustaining, and enhancing the human and natural resources that will be needed in the future."

3. Existing literature generally agrees on three dimensions of sustainability: (1) economic, (2) social, and (3) environmental. A sustainable business has to take into account "the interests of future generations, biodiversity, animal protection, human rights, life cycle impacts, and principles like equity accountability, transparency, openness, education, and learning, and local action and scale."
4. Effectively managing environmental interdependence includes the need to consider ecological interdependence as well as economic and social implications of MNC activities: selling at low prices yet being environmentally and socially conscious.
5. MNCs have to deal with the various approaches of different countries as to their policies and techniques for environmental and health protection.

Teaching Resource: The video, "Bhopal: The Second Tragedy," provides an excellent overview of the environmental and physical damage caused by the industrial accident at the Union Carbide plant in Bhopal, India as well as the responsibility of the Indian and American governments in providing for the victims.

6. While most executives agree that sustainability is important to the financial success of their companies, less than half of them are making serious commitments to integrate the necessary steps into their business systems. Reasons include a lack of clear view on what sustainability comprises, and the difficulty in allocating responsibility in the company for the vast and overlapping concerns of environmental, social, and governance issues. As a result, sustainability often does not get internalized in the culture or systems of the company, and competing priorities, such as short-term profits, intervene.
7. A report in 2011 from a survey by McKinsey consultants of 3,203 executives representing the full range of industries and geographic regions shows that many companies are actively integrating sustainability principles into their businesses, and they are doing so by pursuing goals that go far beyond earlier concern for reputation management. The McKinsey report noted a more mature attitude toward sustainability and its expected benefits than in prior surveys, saying that "More companies are managing sustainability to improve processes, pursue growth, and add value to their companies rather than focusing on reputation alone."
8. In recent years, the export of hazardous wastes from developed countries to less-developed ones has increased considerably. E-waste—from electronic components, computers, and cell phones, for example, all of which are full of hazardous materials—has become a major problem for developing economies, producing sickness and death for its handlers there; this continues in spite of laws against such dumping by U.S. companies and others. Often, companies choose to dispose of hazardous waste in less-developed countries to take advantage of weaker regulations and lower costs.

Under the Lens: BP's Sustainability Systems Under Fire **(see slide 2-34)**

BP has incurred considerable costs for the cleanup of the beaches and waters in the gulf, for the $20 billion fund to compensate homeowners and workers in the fishing and tourism industries, for penalties for violating the Clean Water Act, and for the loss of value for the shareholders. In addition, BP's image has suffered a terrible blow; the company had long promoted its sunburst logo and its "Be Green" campaigns, but after the oil spill, its reputation was based on what the company did, or did not do—not what it said—and as a result, BP lost firm value of over $100 billion. Apart from the moral argument for responsibility to its many stakeholders, and for sustainability of the environment, the consequences to BP clearly make the business case for corporate social responsibility. The BP disaster has raised deeper concerns about the usefulness of voluntary CSR policies and reports. Clearly, many corporations need to focus carefully on the implementation of their sustainability strategies

9. It is clear that MNCs must take the lead in dealing with ecological interdependence by i integrating those factors with strategic planning. At least MNC managers must deal with the increasing scarcity of natural resources in the next few decades by (1) looking for alternate raw materials; (2) developing new methods of recycling or disposing of used materials; and (3) expanding the use of by-products.

Management in Action: TerraCycle – Social Entrepreneurship Goes Global
TerraCycle is an example of a "social purpose venture." Each exists because of a social, specifically environmental mission, but seeks to achieve profitability and growth. Regardless of the terminology, it is clear that social entrepreneurs such as Skazy provide "the engine of positive, systemic change that will alter what we do, how we do it, and why it matters." In addition, by partnering with companies and institutions around the world, TerraCycle is providing a stimulus and outlet for the CSR of those entities and a direct source of initiatives for environmental sustainability.

F. Corporate Sustainability Model (**see slide 2-35)**
   1. Effective implementation of sustainability strategies, according to Epstein and Buhovac, requires companies to have both formal and informal systems in place: "Companies need the processes, performance measurement, and reward systems (formal systems) to measure success and to pro- vide internal and external accountability. But they also need the leadership, culture, and people (informal systems) to support sustainability implementation. An alignment among the formal and informal systems along with the organizational structure is critical for success." Key to understanding the role of corporate sustainability is the relationship between managers' decisions, their impact on the society and its environment, and financial performance. Epstein's model (Exhibit 2-6, page 67) provides a system for examining, measuring, and managing the drivers of corporate sustainability.
   2. Recommendations for MNCs Operating in and Doing Business with Developing Countries (**see slides 2-36 & 2-37)**
      a. Do no intentional harm.
      b. Produce more good than harm for the host country.
      c. Contribute by their activity to the host country's development.
      d. Respect the human rights of the employees.
      e. To the extent that local culture does not violate ethical norms, MNCs should respect the local culture and work with it.

f. Pay their fair share of taxes.
g. Cooperate with the local government in developing and enforcing just background institutions.

Internet Resources

Visit the Deresky Companion Website at http://www.pearsonhighered.com/deresky for this chapter's Internet resources.

Chapter Discussion Questions

2-1. Discuss the concept of *corporate social responsibility*. What role does it play in the relationship between a company and its host country? How does CSV move beyond CSR?
Learning Objective: 1; AACSB: Ethical understanding and reasoning

International social responsibility is the expectation that MNCs concern themselves with the social and the economic effects of their decisions regarding activities in other countries. An MNC's stance on international social responsibility determines how harmonious and productive its long-term relationships with host countries will be. By taking an open-systems perspective on CSR it is more likely that the MNC will be taking the right action relevant to all stakeholders. Creating Shared Value (CSV)—that is, expanding the pool of economic and social value—"leverages the unique resources and expertise of the company to create economic value by creating social value. By viewing the growth, profitability, and sustainability of the corporation as intermeshed with societal and economic progress in the markets in which it operates, companies are creating shared value

2-2. Discuss the criticisms which have been levied against MNCs in the past regarding their activities in less-developed countries. What counter-arguments are there to those criticisms?
Learning Objective 2; AACSB: Ethical understanding and reasoning

MNCs have been criticized for disrupting the social, technological, and political climates in host nations. Governments often have a "love-hate" relationship with MNCs because they want the economic advantages produced by the presence of MNCs, but they regret the negative impacts MNCs often have on the political and social environments. MNCs can defend themselves by pointing out that, without their presence, host nations would not have as many jobs or trade opportunities, as well as opportunities to appropriate technology. MNCs have also been accused of destroying local culture through globalization. Although MNCs have increased the degree of globalization, and in some cases made some aspects of local culture disappear, differences in culture remain strong and deep.

2-3. What does *moral universalism* mean? Discuss your perspective on this concept. Do you think the goal of moral universalism is possible? Is it advisable?
Learning Objective: 2; AACSB: Ethical understanding and reasoning

This means to address the need for a moral standard that is accepted by all cultures. Class discussion is likely to be divided on this issue. Some students will argue that there are or should be moral absolutes. Others will argue that morals are culturally driven and will, therefore, need to reflect differences in cultures. Some students may note that communication and technology are creating a greater cultural interaction, which may result in a universalism over a long period of time. To some extent it is desirable for agreement on what is right and wrong. Enforcement of ethical standards and laws would be enhanced by some convergence of viewpoints. It doesn't seem likely that a high level of moral universalism will prevail anytime soon.

2-4. What do you think should be the role of MNCs toward human rights issues in other countries? What are the major human rights concerns at this time? What ideas do you have for dealing with those problems? What is the role of corporate codes of conduct in dealing with these concerns?
Learning Objective: 1; AACSB: Analytic skills

MNCs must be very careful not to become instruments of political change or policy making, because they are economic institutions. However, where MNCs can unite with the international community in opposing human rights violations, the legitimate policies of sovereign states can be benefited through MNC cooperation. Current issues will vary from class to class. At the time this book was being developed, Amnesty International had accused the United States of violating human rights by having a repressive and racist prison policy. Students will vary broadly in their prescriptions for corporate involvement. A corporate code of conduct can be beneficial in guiding multinational managers in these difficult areas. The code of conduct can act as a guide to corporate values concerning human rights issues and reduce much of the ambiguity and uncertainty found in this area.

2-5. What is meant by *international business ethics*? Should the local culture affect ethical practices? What are the implications of such local norms for ethical decisions by MNC managers?
Learning Objective: 2; AACSB: Ethical understanding and reasoning

International business ethics refers to the business conduct or morals of MNCs in their relationships to all individuals and entities with whom they come into contact. Because local business practices differ substantially between regions of the world, it is difficult to find ethical standards subscribed to by all MNCs and their managers. Generally, codes of ethics prescribe only the lower level of limits on ethical behavior; there is widespread disagreement on the upper level limits. Although managers must be sensitive to local customs, they must also adhere to the values of their organizations. Whereas it may be custom to hire children to work fulltime in some cultures, the international manager must be responsive to the ethical orientation of the organization.

2-6. As a manager in a foreign subsidiary, how can you reconcile local expectations of *questionable payments* with the corporate code of ethics and the Foreign Corrupt Practices Act? What is your stance on the problem of "payoffs"? How does the degree of law enforcement in a particular country affect ethical behavior in business?
Learning Objective: 2; AACSB: Ethical understanding and reasoning

Managers must be able to distinguish between harmless practices and actual bribery, between genuine relationships and those used as a cover up. The fact of the matter is many business people are willing to engage in bribery as an everyday part of meeting their business objectives. The Foreign Corrupt Practices Act attempts to provide some guidelines for distinguishing between a bribe and a harmless practice facilitating business. Ultimately, it will be up to the local manager to make the call. Students will likely have a range of opinions on the issue of enforcement. Some will note that if the law is not being enforced by the host country, then it is probably less important to the host. They will argue for a broader range of acceptable business activities. Others may note that character and ethics should be independent from enforcement. (In the words of one author, character is who you are when no one is looking).

2-7. What do you think are the responsibilities of MNCs toward the global environment? Give some examples of MNC activities which run counter to the concept of ecological interdependence and responsibility.
Learning Objective: 3; AACSB: Dynamics of the global economy

The management of environmental interdependence includes the need to consider ecological interdependence, as well as economic and social implications of MNC activities. Examples of problem areas in environmental interdependence include the export of hazardous wastes from developed countries to less-developed ones and the exporting of pesticides. Coca-Cola has had issues in India concerning the environmental impact of its factory in Kala Dera.

2-8. Discuss the ethical issues that have developed regarding the use of IT in cross-border transactions. What new conflicts have developed since the printing of this book? What solutions can you suggest?
Learning Objective 3; AACSB: Use of information technology

Information technology has increased the ability of firms to engage people throughout the world. Although most of this engagement is seen as positive, such as increasing consumer choice, some has been seen by some as negative. Of significant concern to the United States and Western Europe is the issue of off-shoring of jobs. The development of an information technology superhighway has allowed firms to contract out work previously done at home to foreign workers. Many jobs have been off-shored to India, the Philippines, and Eastern Europe. Students can be encouraged to discuss the ethical issues involved in this off-shoring process.

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Application Exercises   Learning Objective: 2; AACSB: Ethical understanding and reasoning

2-9. This is an interesting and instructive exercise. It would be perhaps most useful if students could select two companies from the same industry for comparison. If this isn't possible, it will still be useful to see the differences in codes of conduct across industries and to have them comment on the usefulness of those codes.

Experiential Exercise

Learning Objective: 2; AACSB: Ethical understanding and reasoning

This exercise will require students to address a difficult and relevant situation concerning questionable payments. Because this is not an American company, the Foreign Corrupt Practices Act (FCPA) does not apply. Even if it was an American company, it is unclear if the purchasing manager is really a government official. If he is not, then the FCPA also will not apply. The exercise highlights the cultural differences in the perception of the legitimacy of bribe paying. In many cultures it is a normal and acceptable practice. The exercise should cause a discussion of the differing views of ethics and which is most appropriate in this situation. If the CEO wants to avoid this situation from occurring again, he must institute a policy against such behavior, inform employees in the policy, and have penalties for violation of the policy.

End-of-Chapter Case Study: Levi Looks to Cut Its Cloth Differently by Rewarding Responsible Suppliers

Discussion Questions

2-10. Consider what happened in Bangladesh (see the opening profile). To what extent do you think the efforts by Levi Strauss can resolve the kinds of problems that led to that disaster?
Learning Objective; 1; AACSB: Dynamics of the global economy

The project sprang out of conversations at the International Finance Corporation (IFC) following the 2013 Rana Plaza factory collapse in Bangladesh, which left more than 1,100 people dead and prompted new scrutiny of fashion brands' supply chains. The initiative comes at a time when consumers are becoming increasingly interested in the conditions in which their clothes are made. Multinational companies are responding by tightening their bonds with suppliers and using new tools to manage them. Frequently, there is little oversight and control over the foreign manufacturer. All of this can lead to the problems described in the opening profile on Bangladesh.

2-11. What other people and factors are involved? Who are the stakeholders, and how are they affected? Consider the process and what steps are necessary to make this good idea happen
Learning Objective; 1; AACSB: Dynamics of the global economy

In addition to being socially responsive to internal stakeholders such as domestic employees, the organization also views its impact on suppliers, regulators, investors, and communities, regardless of their location. The apparel industry in general, and Levi Strauss, in particular, are labor intensive and operate in a low wage environment. The industry also has contract manufacturing in which a foreign firm does all the production,

. Epstein's model (Exhibit 2-7) provides a system for examining, measuring, and managing the drivers of corporate sustainability. Essential to success is the commitment of top leadership and the recognition of sustainability as a process that will benefit the company—i.e., that it is a good business idea. Key to understanding the role of corporate sustainability is the relationship between managers' decisions, their impact on the society and its environment, and financial performance.

2-12. How do these types of incentives relate to the overall goal of sustainability for the company?
Learning Objective: 3; AACSB: Dynamics of the global economy

Through the IFC, Levi Strauss suppliers will have access to cheaper capital than they would in their home countries. Suppliers that did best on labor and the standards would receive a further discount of up to 50 basis points on the interest charged. Levi Strauss was committed to helping expand it to the rest of the garment industry as part of a global race to the top in standards of sustainability. However, whether the incentive plan works depends on how Levi Strauss and the IFC monitor suppliers.

Student Stimulation
Group or Class Learning Activities

1. Environmental Policies: Ask teams to choose two firms. They should then find the environmental policies for these firms on the company Website. Working in teams, have students evaluate the policies. Consider these issues when evaluating the policies: a) What impact do you think the environmental policy of each firm has on its bottom line? b) Do you think there is a cultural link between the nature of the environmental policy and the home country of each corporation? c) To what extent does each firm "market" its environmental policy to end consumers?

2. Code of Ethics: Working in teams, develop a code of ethics and social responsibility for your college or university in regard to its foreign students. Your ethics code should cover such areas as recruiting, degree completion times, scholarship availability, work study issues, language, culture, on-site versus off-site instruction, and any other issues you feel are important. After each team presents its ethics code, you may wish to ask the following discussion questions:

    a. What ethical issues do you see in cross-border education?
    b. In what ways is a university that is involved in international education different than an MNC that is involved in international business?
    c. In what ways is a university that is involved in international education similar to an MNC that is involved in international business?
    d. How would you change a university to make it more socially responsible?
    e. Provide the teams with copies of your University's actual code of ethics. How does it compare to the ones your students developed already? Does it contain all the areas students feel are relevant given the University's impact on various stakeholders?

Additional Stimulation Discussion Questions

1. Do you feel profit is a sufficient goal for companies that operate across national borders?

2. To what extent do you feel codes of ethics and social responsibility are culturally derived?
3. Should MNCs have lower standards of ethics and social responsibility in developing nations, given that developing nations need jobs so badly and have lower standards of living? In other words, to what extent do you feel ethical standards are a function of economic development?
4. Given that there are no agreed upon universal codes of ethics in international business, should companies follow the adage: “When in Rome, do as the Romans do?”
5. What do you feel should have the highest priority over the ethical actions of U.S. corporations: U.S. law or the laws of host nations where U.S. subsidiaries operate?
6. Students from different cultures may have different perceptions of university “honor codes.” For instance, in Thailand, students often feel that the greater honor is to aid one’s fellow students rather than to allow them to fail. Thus, a Thai student would break the honor code by failing to assist his or her classmates. In the United States, we would perceive the aid to be cheating and a violation of the honor code. If you were in a study abroad program in Thailand, which honor system would you utilize? Why? If a Thai student were studying in your school, which honor system should they operate under? Can someone comfortably change systems given its connection to our personal ethical values?

Journal of Business Ethics Education 7: 155-176.
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An Ethics Role-Playing Case: Stockholders versus Stakeholders Case Discussion

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Abstract. This paper discusses a role playing ethics case suitable for business students in which participants must balance shareholder and stakeholder concerns. Students take on the role of operations manager and are challenged to consider the effects of their choices on the local society as they balance the demands of stockholders, employees, and family when the concerns of the groups come into conflict. The exercise helps students understand the need to consider the ethical components of business decisions and the difficulties of handling values in conflict. Students learn more about their own values through playing the role of manager. Suggested discussion questions are provided. This note also reviews some of the extant literature on the goals of stakeholder versus shareholder wealth and the role of ethics, and it discusses areas of common ground between the stakeholder/shareholder theories.

Keywords: ethics, stakeholders, shareholder wealth, international operations, role playing cases.

Teaching Note and Case Discussion

This teaching note accompanies the case titled, "An Ethics Role Playing Case: Stockholders versus Stakeholders". The case consists of a role playing exercise that highlights ethical conflicts between the stockholder wealth goal and managing for multiple stakeholders. Students take on the role of an expatriate manager of a U.S. firm with operations in a developing country that is dependent on the firm for employment. Students are asked to balance the concerns of multiple stakeholders in making three sequential decisions that will have major impacts on firm cash flows and on local stakeholders. Subsequent decisions are varied, based on prior decisions, and suggested final results tailored to the student's decisions are provided.

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1. This project was funded by a Department of Education Northwest International Business Educators Network grant and by a University of Montana School of Business Summer Research Grant. I would like to thank two anonymous reviewers and editor John Hooker for providing detailed suggestions that tremendously improved the paper.

The note is organized as follows: The first section briefly discusses the importance of ethics in finance and why a role playing exercise was chosen. This material can be used to motivate student interest in the case, or it can be used as follow-up material after the case is administered. The second section provides a discussion of shareholders versus stakeholder theory and a reconciliation of the two views. This material will allow the instructor to guide students through arguments for and against the two schools of thought. The third section provides an analysis and discussion of the ethics case. This section walks the instructor through how to use the case and suggests discussion questions. The final section provides some brief conclusions.

Motivation for the Case

Imagine how the last 10 to 15 years would have been different if there had been no egregious ethical breaches in business and finance. Would we have had the financial crisis and incurred the huge losses if financial managers had not taken on such high levels of risk, if all lenders had followed ethical practices in making home loans, and all homebuyers had refused to falsify loan documents? Has the finance paradigm's emphasis on maximizing shareholder wealth as the sole goal contributed to the ethical breakdowns we have witnessed? Ghoshal (2005), Bennis and O'Toole (2005) and Smith and Wassenhove (2010) all argue that the shareholder wealth paradigm taught in business schools underlies the ethical problems and poor decisions of managers. The question of whether business school graduates have become self-interested opportunists at least in part because of what they learned in their classes is not definitively answerable. Nevertheless, it behooves the academy to engage in introspection about the role of ethics in the finance curriculum.

I first became interested in teaching ethics because of the increased number of ethical failures that were occurring in business. In attempting to include a discussion of ethical thinking in a basic corporate finance class, I discovered that the majority of students were not particularly interested, and I was unable to generate meaningful classroom discussions. I then tried giving students short structured role playing exercises and had better student discussions. Heartened, I then turned to creating longer role playing exercises that (1) encourage students to become aware of ethical considerations in their business decision making process and (2) allow them to see the consequences of their choices. I had learned by now that including (2) helped foster (1). Findings in Williams and Dewett (2005), Thorne (2001) and Massey (1999) supported this intuition.

I received a Department of Education Center for International Business and Education Research (CIBER) grant to develop three internationally focused role-playing ethics cases. This paper discusses the second of the three cases.[2] The ethics case is used as a motivational tool to illustrate to students the need to include ethical considerations in business decisions. A good ethics case should require students to apply their values and morals in a self-discovery process in an ambiguous setting. In teaching ethics we do not seek to instill our own value system onto others. It is better to encourage students to think about their own values in a meaningful way and assist them in finding their own guidelines for their behavior. It is a major first step to get students to realize that they are expected to apply a set of ethical values to a business decision.

Trevino and Nelson (2004) distinguish between an obvious moral choice of right and wrong and an ethical dilemma. The choice to steal or not from the company is an example of a moral choice between right and wrong. Presenting students with this type choice does not result in much introspection or growth in their ethical awareness, nor does it lead to satisfactory class discussions. An ethical dilemma involves choosing between two "good" values which are in conflict. In the context of the case the choice is between making a management choice to benefit the stockholders that potentially harms other stakeholders. Many managers believe they should consider the interests of multiple stakeholders. How does a manager choose, when closing a plant may result in improved profits to stockholders but a loss of jobs for employees and a significant negative effect on a local economy? This is the ethical dilemma posed by the case. The next section provides a brief literature review and discussion of shareholder versus stakeholder theory that may help an instructor who uses the case.

Shareholders versus Stakeholders

Milton Friedman (1976) argued that the social responsibility of business is to make a profit, albeit while operating within the law and the moral customs of society. The gist of Friedman's argument is that managers have a fiduciary responsibility to owners (the stockholders) and should not use the owner's money to benefit other stakeholders at the expense of stockholders. The basis of Friedman's arguments lies in the rights of property ownership, but not everyone agrees with his conclusions. A large amount of management and psychology literature suggests that maximizing stakeholder value is a superior, more moral goal than maximizing shareholder wealth. Most legal, finance, and economics studies side with Friedman and find that the proper goal of the firm is to maximize shareholder wealth. Much of the difference in the models arises from treatment of property rights of shareholders. Hendry (2006) notes that profits are a property right of ownership of the stockholders and are not immoral. Beyond upholding the rights of property ownership, an argument can be made that a goal of increasing shareholder wealth benefits society. If the property right of ownership is sufficiently diluted, there will be less capital available for risky stock

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2. The first case is analyzed in Manuel and Bajwa (2005).

investments. Reduced investment may result in lower levels of economic growth and fewer opportunities for betterment of members of society.

Once the positive moral role of increasing shareholder wealth is understood, one must consider realistic problems with the goal. First, government regulation is necessary to limit market failures and the human tendency to give into moral temptations. Second, the need for business ethics (including fair treatment of other stakeholders) must still be a part of daily business decisions, because even well-constructed contracts and incentives are not a substitute for ethical behavior in business (Noreen 1988). Nevertheless, an appropriate ethical culture and proper incentive alignment can reduce ethical lapses and resolve conflicts between the pressure to perform and behave ethically (Trevino and Nelson 2004, Bartlett and Preston 2000).

Upholding the primacy of shareholder rights does subordinate the rights of other stakeholders. This "profits over people" argument makes many uncomfortable and leads some to conclude that stakeholder theory is inherently more moral than stockholder theory. Freeman (2000) and others have postulated stakeholder theories. For instance, Boatright (1994) argues that managers do not have a special fiduciary relationship to shareholders, nor do they meet the characteristics of agents for the owners.[3] If this is the case, then the only defensible basis for any special obligation of managers to manage the firm for the benefit of shareholders is a public policy argument. It is then easier to argue that managers should be jointly maximizing the interests of all their stakeholders (or at least their immediate stakeholders) as a matter of public policy, particularly given the size and power of today's large corporations and the potential effects of their decisions on multiple stakeholders. Marcoux (2003) refutes Boatright's argument and argues that managers have a fiduciary responsibility to shareholders. Marcoux argues that stockholders' claims are still unique because the fiduciary duty to stockholders is material and moral. Both Marcoux (2003) and Jensen (2005) argue that in the United States, the legal fiduciary responsibility to stockholders obviates the possibility of simultaneously managing for multiple stakeholders. Conflicts of interest of the different stakeholders will inevitably arise, and management is legally duty bound to put the interests of the shareholders above other stakeholders.

Jensen (in Agle et.al. 2008) recognizes that stakeholder models give too much freedom to management and reduce managerial accountability, because there is no overarching goal against which one can measure managerial performance. Managing for stakeholders (and the so called triple bottom line) are likely to lead to large efficiency losses arising from having multiple "bosses" and having no means of measuring performance. Given the lack of efficiency and other

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3. Boatright's (1994) argument is interesting and it revolves around the implications of incomplete contracting. One of the arguments for the "specialness" of stockholders as a stakeholder is the residual risk they bear. Boatright argues that other stakeholders have claims with similar characteristics because they, too, involve incompletely specified (explicit or implicit) contracts with residual risks.

problems observed with state-run firms that serve the interests of multiple coalitions, in the long run it is conceivable that all stakeholders would lose if management actively pursues a stakeholder as opposed to a shareholder policy.

Danielson, Heck and Shaffer (2008) suggest that many of the management failures observed in recent years have not been caused by the shareholder wealth goal per se, but rather arise from overemphasis on short term profits as opposed to long term value, particularly with respect to increasing stock price over the short term. They argue that a stakeholder approach does not solve the short term problem. Evidence in Vilanova (2007) supports this view. Vilanova finds that a stakeholder management approach is likely to devolve into a political power struggle with stakeholders, with the uppermost political power at the moment swaying decisions. Later, other stakeholders that were previously hurt are likely to marshal political power to limit their future losses. Efficiency losses would seem to be potentially large in this type of scenario.

Managerial compensation is asymmetric with respect to performance, as managers gain more if the firm performs well than they lose if the firm performs poorly, at least in the short run. If managerial compensation is skewed towards short-term performance rather than long-term performance, then managers have an incentive to engage in risky strategies that may result in destroying firm value (Bebchuck 2009). Heineman (2009) cites anecdotal evidence that institutional stock investors also pressure managers to generate favorable short-term results, even at the expense of long-term value. These behaviors can clearly harm other stakeholders.

We can draw an important conclusion from this discussion. Incorrect pay incentives or an inability to monitor the reasonableness of managerial decisions encourage managers to engage in short-term decisions to increase share price. The focus on the short term may actually lead managers to engage in activities that may destroy long-term value for many stakeholders. This provides a public policy argument for rules that require a consideration of stakeholder value.[4] For instance, Jackson (2002) posits that stakeholder models of corporate governance may limit managers' ability to engage in excessive risk taking that can result in destroying long-term value.

Dobson (1997) takes an entirely different approach that is rooted in virtue ethics. Dobson argues that the starting assumptions about managerial agents in finance models are fatally flawed in both the positive and the normative sense. In standard finance models, managers are self-interested rational economic individuals that consider their own interests first and the interests of the

4. With adequate government regulation and corporate governance, and a perfectly efficient stock market where prices always reflect the long term value of equity, managers could neither manipulate stock price nor profit from short-term fluctuations, and this argument would not hold. Most financial economists believe that markets approach efficiency but are not perfectly efficient. Doubts about efficiency have grown since the financial crisis. Failures in regulation and corporate governance also abound. A brief nontechnical discussion may be found in Smith and Wassenhove (2010).

employing firm only in so far as they are provided with the proper incentives to do so. Dobson rejects this stereotype and posits that managers are not solely motivated by external rewards, noting that they also value intrinsic rewards that result from acting virtuously. Ghoshal (2005) draws on examples of altruism to make a similar argument that mangers act ethically for its own benefits. There is undoubtedly truth to these assertions. Thus finance agency models that assume opportunistic behavior don't capture the reality of many business relationships where trust is honored by contracting parties because to do so is virtuous, even when it may not be in the parties' own (or their shareholders') pecuniary interest to do so. Dobson also uses game theory to demonstrate that when virtue is deemphasized and opportunistic behavior by agents is expected, opportunistic behavior increases over time in repeated trials. This raises another interesting point that finance must begin to address. Does the emphasis on maximizing shareholder wealth (or profits generally) to the exclusion of all else, including other stakeholders' interest, lead to a decreased emphasis on ethics as both Dobson and Ghoshal argue? If so, the financial emphasis on maximizing shareholder wealth may then create a "non-virtuous" trend that leads to increasing opportunistic behavior over time and the need for ever more costly contracting to limit these behaviors.

Reconciling the Two Views

According to Hendry (2001), business ethicists have been unable to construct a stakeholder model of the firm that is not fatally flawed. Nevertheless, managers do consider the interests of multiple stakeholders, and they undoubtedly should. One reason for this is that the potential conflicts between stakeholders are not as pervasive as they are often pictured. Jensen (in Agle et.al. 2008), among others, correctly indicates that in many cases concern for the welfare of multiple stakeholders will be in the long-term best interests of the shareholders. Treating customers with respect, fairly paying employees, not polluting, and so forth, serve as general rules that contribute to shareholder wealth in the long run. Danielson, Heck and Shaffer's (2008) implication that much of the conflict among stakeholders arises from a short-term focus by managers is correct.

Porter and Kramer (2006) extend this argument to corporate social responsibility (CSR). Porter and Kramer maintain that CSR, a form of stakeholder management, should be integrated with the firm's main business strategy and firms should engage in investments that benefit both the firm and society. The quid pro quo is that society should expect business to engage only in CSR that is in the firm's enlightened self interest and leverages the firm's expertise. These views provide common ground for proponents of shareholder and stakeholder theories that both sides can agree upon.

Managers will always have to make tradeoffs among different stakeholder groups that require nuanced ethically mature judgments. No rule or theory can substitute for this. Nevertheless, many, if not most, of the conflicts between the shareholder and stakeholder schools of thought can be resolved by (1) encouraging managers to manage for long term value, (2) improving corporate incentive systems to reinforce the focus on long-term value and managerial integrity, and (3) to inculcate ethical training and education into both business school curricula and on-the-job training that emphasizes the value of virtue and integrity.[5]

Managing for shareholder value is about managing the firm's resources in an efficient, effective manner to generate a rate of return commensurate with the risk borne by the firm's shareholders. In short, managers must honor the implicit contract with their owners. Managers must also honor their commitments to fair treatment of other stakeholders. If they fail to do so, some stakeholders suffer and, in the long run, society suffers efficiency losses as breaches of trust require costlier contracts and more restrictive regulations that impose costs on business. A sufficient number of egregious breaches of trust may even cause society to rewrite the implicit contract between business and society. Friedman's (1976) argument can only be allowed as a rule of business if managers can be expected to act ethically and fairly towards all their stakeholders.

Analysis and Discussion of the Ethics Case

The case employs a simple role-playing exercise written to illustrate ethical considerations of business decisions. The case can be completed in one eighty-minute class period, although some follow-up discussion in the subsequent class period may be desirable. The context of the case is the decision to close a plant facility that is a major part of the local economy in a developing country in order to meet shareholder demands for better profitability. The case asks students to grapple with the moral ramifications of maximizing shareholder wealth when this appears to conflict with other stakeholders and pushes them to decide how far they are willing to go to protect a stakeholder group.

The case has been used in a senior-level multinational finance/international business class. Typical class size averages 15 to 25 students. The majority of students in this class are international business majors, with most having a second major in a functional area of business. The case is provided to the students near the end of the semester and is used as a preparatory tool for a separate final exam

5. A discussion of incentive systems is beyond the scope of this paper but the recently proposed "clawback" rules that require bonuses to be repaid if the event of futures losses and "say on pay" provisions are a starting point in making incentive pay more focused on long term value. Many other new ideas are likely to emerge (or reemerge) over the next several years that generate substantial improvements over current systems. See for instance Bebchuk (2009) and Bhagat and Romano (2009) for several ideas.

exercise: an international finance capital budgeting spreadsheet model that includes ethical decision variables as part of the decision process.[6] In the semesters before I began using this case, most students failed to consider the ethical implications in the ethics portion of the final exam. The scores on the ethical component of the final exam improved after including this case.

Prior to the ethics case, there was no formal discussion of ethics in this class, although students had a general business ethics class and a liberal arts ethics class. In some semesters, the case is given to students for extra credit on their overall case grade. Students are asked to come to an extra class session. When there is sufficient time in the semester, the case is part of their normal case grade and is administered during the normal class time. In both instances, grading is based only on class participation. Students are informed that their choices will not affect their case grade, and the only way to lose points is to not participate in the discussions and written exercises.

The case introduction (Handout I in the case) is made available to the students one class period before the case is administered, and students are instructed to read the introduction and be prepared to discuss it in class. Students are told that it is an ethics role playing case with multiple decisions, and the outcomes they will face will depend on their choices. It is important to encourage students to express their thoughts freely and ensure that participants do not fear being criticized for their decisions.

Figure 1 contains a suggested time outline for a 1 hour and 20 minute class session. Times are suggested only and the instructor should be flexible and allow more time when the students are engaging in fruitful discussion. In my experience the instructor will have to cut off discussion in order to complete on time once students begin making decisions. If the instructor does not wish to have the students write down the motivations for their choices then more time for discussion can be allowed. Requiring students to write down their decisions and motivations is useful because this activity requires students organize their thinking and may allow the instructor to engage in additional analysis of student responses.

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6. The analysis of the related capital budgeting spreadsheet model may be found at Manuel and Tangedahl (2009). The capital budgeting case requires students to consider ethics in their decision choices.

Figure 1: Suggested Case Usage Timeline

Case Chronology (80 minute class period)	**Estimated Time**
1. Give students background for the case the prior class period. Note - this is in the textbook - Case 1.	
2. Discuss case background, have students provide synopsis.	10 minutes
3. Pass out Handout II, "Decision I", and allow students to fill out their answers and then facilitate a discussion. Note - this is in the textbook.	10 minutes writing; 10-15 minute discussion
4. If their Decision 1 choice was (a) *Continue*, give students Version 1 of Handout III. If their Decision 1 choice was (b) *Shut down*, give them Version 2.	
5. Allow students to fill out their answers for Decision 2 and then facilitate a discussion.	10 minutes writing; 10 minute discussion
6. If their Decision 2 choice was (c) *Recommend that the company sell,* give students Version 1 of Handout IV. If their Decision 2 choice was (d1) *Keep going as planned to cut costs*, the students receive Version 2. If their Decision 2 choice was (d2) *Keep going as planned to shut down*, the students receive Version 3.	
7. Allow students to fill out their answers and then facilitate a discussion of Decision 3.	10 minutes writing; 15 minute discussion
8. Hand out the appropriate Final Results Sheet. Discuss briefly now if time permits, otherwise in next class period.	
9. Have students fill out feedback form (may be done in a subsequent class period or have them fill out at home and bring back the next class period).	
10. Turn in all forms.	

Case Introductory Information

The instructor should elicit discussion on the case setup at the start of the class section. The discussion should be limited to no more than ten minutes. The introduction indicates that the student will play the role of the chief operating officer in an overseas subsidiary of a U.S. firm that operates in a developing economy. The officer is a U.S. citizen but has extensive local ties and is married to a local. The U.S. parent firm is considering closing the local facility and moving operations to another country due to short-term profit pressures and the ability to automate some of the production process. The officer argues that the cost of the pullout to local stakeholders will be very high and that local economic development gains may be lost. The officer has a potential conflict of interest because he or she has extended family members that are employed by the firm. The inclusion of extended family members as employees personalizes the effects to stakeholders and encourages students to think of them as real people.

The instructor may wish to use some or all of the following suggested questions to encourage discussion:

1. Who are you in the case? What do you do?

2. Do you have any real or potential conflicts of interest? Are the conflicts sufficient to require you to excuse yourself from the decision?

3. According to the case, what is esteem in the local society based on? In what ways, if any, does this affect your role as a manager?

4. What arguments are you making to your boss? Are they good? Do they have merit, or are they just sentimental and irrelevant?

5. Do you think the firm is making a decision with long term-effects based primarily on short-term events?

6. Should improving the quality of life in society in which the firm operates be a primary corporate goal? Should it be a consideration at all, or should the firm only seek to maximize shareholder wealth?

7. Would your answer differ if the parent company were a German or a Japanese firm?

The instructor should be careful to elicit both sides of the shareholder-stakeholder debate rather than push one viewpoint over another. There are many ideas available in the Shareholders versus Stakeholders section above that the instructor can draw upon. Placing the students in the role of a local manager whose decision can significantly affect the lives of many people is a method to help students understand how their decisions can affect other stakeholders. The instructor should limit the time allowed for discussion to ten to fifteen minutes. The time requirement may not allow the instructor to use all of the questions.

Decision 1

After the instructor has elicited a synopsis and discussion of the introductory material, Decision 1 found on Handout II should be given to the students. It may be useful to color code the decision sheets to ensure the proper sheets are handed out at the proper point in the case. Allow the students about ten to fifteen minutes to make a choice and write down their answers on the supplied sheets. Ask students to provide a synopsis of Decision 1 and then facilitate a discussion of their choice and their motivations. Decision 1 asks the students to choose whether to defer to the boss' wishes and announce a plant shutdown or try to cut costs to meet the stringent profit targets of the parent firm. The class discussion concerning Decision 1 should be conducted immediately after the students finish choosing and explaining in writing why they made the choice they made and whether the decision involved ethics. This pattern is repeated after every decision (refer to Figure 1 for the usage outline).

Suggested questions to encourage discussion after they make their decision include:

1. Synopsis:
   (a) Describe the situation now.
   (b) What is really behind the pressure to cut costs? Are these short-term or long-term effects? Does this matter?
   (c) If you try to cut costs what has to happen to make it work?

2. Do you have any personal risk here? How did that affect your decision if at all?

3. Does this decision involve ethical issues, or is it just a business decision? Why do you think so?

4. Who are the stakeholders? How do we prioritize their different claims? How much does it matter to you that real people that are important to you are involved?

5. What did you decide to do? What were your thoughts and motivations in making this decision?

It is useful if all students contribute to the discussion, and the instructor may wish to call on individual students who are not actively participating. The current generation of students enjoys expressing its opinion, and most are willing to reveal their choice and explain why they made it. The instructor should be careful to discourage any disparagement of student choices or motivations as that will reduce overall class participation. Discussion for Decision 1 should be centered on the shareholder versus stakeholder paradigm. Question 4 above is difficult because prioritizing conflicting needs of stakeholders strikes at the core of the problem with a stakeholder goal. Be prepared to spend some time discussing this point with students.

The instructor may wish to highlight utilitarian versus Kantian thought processes that students are using to make the decisions. Many students will apply utilitarian thinking to this decision and weigh the perceived costs and benefits of the two choices to arrive at a decision. Those who apply principled (Kantian) thought processes must choose between the conflicting duties to manage shareholders' money efficiently and their duty to their family and the local society. The student's cultural background can strongly affect how they perceive their duty to protect their family. Some cultures put family above many other stakeholders. Even if one strictly applies the shareholder wealth goal, one could argue that trying to keep the plant open is in the long-term best interests of the shareholders because much of the pressure to close the plant is coming from what may be only short-term profit problems with the parent. If students do not recognize this point, the instructor should solicit it.

A statistical appendix is available from the author that contains more detailed analysis of student responses and the number of responses that can be classified into different schools of ethical thinking, such as utilitarian, principle-based, and egoistic. Some general observations are included here. Most students are likely to choose to continue operations and try to cut costs in an effort to protect the local employee stakeholder group, even though their boss favors shutting down now. The majority will likely perceive the decision as involving ethics rather than being only a business decision. The students generally perceive that there is personal risk in the decision, but the students that utilized a utilitarian calculus predominantly decide that attempting to cut costs is worth the risk. In class discussions, those expressing principle or duty-based thinking in their decisions are overwhelmingly in favor of cutting costs rather than shutting down. These students express a duty to the local country and/or the employee stakeholders.

Some students may state or imply that the attempt to cut costs is the more moral decision rather than acceding to the shareholder goal. It may appear to be more moral to defend the rights of a well-defined group of people immediately and strongly affected by the decision than the rights of the more distant and ill-defined group of shareholders and their profits. Students may also believe it is better for the employees to try and cut costs rather than immediately announce a shut down so that employees will have more time to find another job. If students don't make Friedman's (1976) argument that it is not the managers' money they are risking, and they have a (delegated) fiduciary responsibility to act in the shareholders' interest, the instructor should suggest this point. Some may voice concerns that the financial variables (such as foreign exchange losses, for example) that are putting pressure on management to act are short term in nature. This raises the concern that the firm is making decisions that will have major long-term effects on the value of the firm and on the lives of other stakeholders based on short-term events. This should be a major discussion point, and it may lead into why short-term profit concerns appear to matter so much to top management and why this is a concern.

If time permits, the instructor may wish to lead students into a discussion of Heath's (2006) arguments on the benefits of efficiency and the Pareto optimality of the "invisible hand" as promulgated by Adam Smith, particularly if the majority of students favor a stakeholder approach without considering the duty to the shareholders.

Decision 2

Students now receive a handout that outlines Decision 2. The handouts vary based on their choice in Decision 1. If their Decision 1 choice was to "Continue operations and try to cut costs within six months", then they receive Version 1 of Handout III. It informs students that their efforts to cut costs to the extent required by the parent are not working. A potential buyer (Sahib) offers to buy the local firm at a discount from fair value. The parent firm will realize the offer is at a discount. If their first choice was "Decide to shut down", they receive Version 2 of Handout III. In this scenario, the same buyer offers to purchase the firm at a discount. Selling the business appears to be the only way operations will remain in the country. Selling to Sahib without knowing his character and intentions is risky, as subsequent events in the case will demonstrate. The case does not allow this, but the student would want to engage in a due diligence investigation of the buyer.

Firm value can be estimated in various ways, and one way is to calculate the present value of expected future residual cash flows using the firm's cost of equity as the discount rate. Alternatively, the difference between the estimated market value of the firm's assets less liabilities provides an estimate of value. Nevertheless, any estimate of value requires judgment and assumptions, and so a range of different value estimates are possible. Many students express concern about recommending the deal at a discounted price, although some that are concerned will still choose to sell. A few students indicated they feared what might happen if they recommended the sale to Sahib, citing the material in the introduction about the common usage of child labor. The most common reason for selling to Sahib is to keep the business located in the country—that is, to protect the employee stakeholder group and to a lesser extent the country at large. Recall that employee families are part of the employee stakeholder group, and that encourages some students to recommend the company sell to Sahib. It is increasingly questionable whether remaining in the country is in the best interests of the parent shareholders, and students should still consider the tension between the shareholder and stakeholder wealth goals.

Suggested questions to encourage discussion after they make their decision include:

1. Synopsis:
   (a) Ask for a synopsis from those whose Decision 1 choice was "Continue and try to cut costs".
   (b) Ask for a synopsis from those whose Decision 1 choice was "Announce a shut down".

3. Are you concerned about the buyer? What more would you like to know?

4. What are the conflicts and loyalties that are involved in this decision?

5. Does this decision involve ethical issues, or is it just a business decision?

6. What did you decide? What were your motivations in making this decision?

Class discussions following this decision still deal with the shareholder versus stakeholder paradigm, but to a lesser extent than in Decision 1. The primary motivation for not selling will be concerns about Sahib, although some students may be concerned about the inability to conduct a due diligence investigation of the buyer (although most students do not use the term due diligence). Before the most recent semester, the case described Sahib as "shady", and most students did not choose to sell. In the most recent usage of the case, the description of Sahib as "shady" was removed, and there was a roughly even split between choosing to sell to Sahib or not. The change has been retained. Even if Sahib is not "shady," failure to conduct a due diligence investigation could leave the officer who recommends the sale liable in certain conditions, particularly if there is a real or apparent conflict of interest. If this point does not come up in the discussions, the instructor should solicit it.

Decision 3

Students now receive Handout IV, which outlines the final decision, Decision 3. The version they receive varies based on their choice in Decision 2. If their Decision 2 choice was "Recommend the company sell", they receive Version 1. It describes a scenario in which the sale of the firm has been consummated and the student is learning international finance. The students are no longer involved in the day-to-day operations of the firm. If their Decision 2 choice was "Don't sell, keep going as planned cutting costs", the students receive Version 2, and if their Decision 2 choice was "Keep going as planned to shut down", they receive Version 3. In the latter two scenarios, students learn that the parent company has sold the subsidiary to the buyer (Sahib) and the students stay with the subsidiary at the request of their boss. Their new role is the same as described in Version 1. In all three scenarios, students also learn that the new owner is using child and prison labor and firing the original workers, although nothing is happening to their own family members.

Sahib is engaging in activities that are likely to be objectionable to most students. The students are now given a very structured choice. They must choose to quit and seek government help in removing Sahib or changing his employment practices, or continue to work to protect their families. At this point, the case has moved somewhat away from the shareholder-stakeholder conflict. This decision is much more distasteful and personal for the students than the first two.[7] The purpose of including this decision is to increase the emotional content of student involvement by putting them under some pressure, in the hope that they will come to better understand their own values and gain experience in making decisions under stress.

Suggested questions to encourage discussion after they make their decision include:

1. Synopsis:
   (a) What is your job now?
   (b) What is Sahib doing?

2. Does this decision involve ethical issues or is it just a business decision?

3. Does it matter that child labor is "culturally acceptable?" Should it matter whether child or prison labor is not culturally acceptable in the U.S.?

4. What are the risks if you stay on? If you go? What do you stand to lose?

5. What did you decide to do? What were your motivations in making this decision? Are there other alternatives you would rather have chosen?

Class discussions typically focus on the efficacy of seeking government assistance to oust Sahib or force a change in employment practices, as well as the personal effect of the consequences for the students and their families. What happens to their families is of primary concern in this decision. Discussions

7. Students who chose not to sell to Sahib can become a little smug at this point and the instructor should guard against this, as it can make participants feel defensive about their choice.

indicate that students wanted more information concerning this decision. They wanted to consult with lawyers and/or the local government and their boss, Dan Landon, at U.S. Hot Feet. Their instincts to seek additional information are correct, and this should be encouraged. Nevertheless, it is useful to have them make a decision under some sort of simulated time pressure without recourse to the opinions of others.

You can expect the majority of students to quit and go to the government. Many will not like either alternative, and many will object to going to the government. Sahib has government ties, and students cannot tell from the case information whether the government will listen to them or protect them. This is typical in a whistleblower situation where an individual must decide whether to quit or to pursue action against a firm.[8] Surprisingly, not all students will believe that this decision involves ethics, especially those that choose to not quit. In class discussions many students indicated that they felt they were not responsible for what was happening, and so their choice was simply a business decision. This provides a "teachable moment" where the instructor can point out the student's responsibility to fight injustice. Students must decide how far they are willing to go to protect their families when choosing to protect them requires the student remain in a situation that likely violates their core values. The instructor may wish to point out that remaining with the firm may destroy their relationship with the parent company and may put them at personal risk. For instance, one does not know what other unsavory or illegal activities Sahib will become involved in. The longer the student remains in Sahib's employ, the more culpable they will become.

Final Results

At the end of the class (or earlier if time permits), students are given the appropriate final result based on their decisions. Figure 2 contains a brief summary of the final results that the students receive upon completion of the case. The complete final results contain more detail and are provided with the case. The final results do not vary based on the first decision choice of shutting down or continuing and try to cut costs. This was done because both of these choices appear to be reasonable and do not violate ethical principles if we apply Rawls' veil of ignorance as a standard.[9] The results are increasingly harsh, depending on student choices in Decisions 2 and 3. The choice to recommend the sale of the firm to Sahib in Decision 2 without the proper due diligence and at a discounted

8. It would be easy to change the case and allow students a third option to just quit without going to the government. As the case is currently structured students face two difficult choices that require careful thought. Including a quit only option is likely to be the easy choice for many.
9. Applying Rawls' veil in this context means that an impartial observer would find either choice to be reasonable and justifiable.

value is a risky decision. This choice can undermine the student's ability to receive support from the parent company and their boss. Students who chose to continue to work to protect their families also receive poor outcomes. Poor outcomes are justified to help students understand that there are consequences to their decisions, and that situations arise that are beyond their control or responsibility and may result in less than desirable outcomes.

The decisions in the case are followed by one set of possible outcomes, but other outcomes are possible. For example, the decision to cut costs could have been successful if accompanied by favorable shifts in exchange rates and strong external demand for the firm's products. It was risky to sell to Sahib without proper "due diligence". However, the sale to Sahib could have led to a positive outcome for the locals if he had been a trustworthy individual. In particular, because he paid a "discounted" price, he may have been able to restore wage levels and employment to acceptable levels. Users of the case should feel free to develop their own outcomes and final results or to discuss other possible outcomes with the students, as time permits.

Figure 2: Brief Summary of Final Results (Detailed Final Results are available with the case.)

Decision 1 – (a) *Continue and try to cut costs*, or (b) *Shut down.* Decision 2 – (d1) or (d2) *Don't sell to Sahib.* Decision 3 – (f) *Protect your family and continue to work.* Go to jail, Landon helps get you out early, take a minor position with the firm in the U.S.
Decision 1 – (a) *Continue and try to cut costs*, or (b) *Shut down*. Decision 2 – (d1) or (d2) *Don't sell to Sahib.* Decision 3 – (e) *Quit and go to the government.* Sook Whang buys the firm, wages and employment levels return to normal, Sahib goes away, you stay on as consultant.
Decision 1 – (a) *Continue and try to cut costs*, or (b) *Shut down.* Decision 2 – (c) *Sell to Sahib.* Decision 3 – (e) *Quit and go to the government.* Career is basically over, get divorced and leave Sri Lanka
Decision 1 – (a) *Continue and try to cut costs*, (b) *Shut down.* Decision 2 – (c) *Sell to Sahib.* Decision 3 – (f) *Protect your family and continue to work.* Go to jail, Landon disavows you, and your career is over

Student Feedback

Table 1 contains a brief summary of typical student comments solicited via a feedback form administered after completion of the case and after the final results were distributed. The form is included with the case. Due to time constraints, it may be best to allow students to take the form home and fill it out on their own time, or fill it out in a subsequent class period. Student responses concerning the primary point they learned from the case vary, but generally indicate that they recognized the difficulty in balancing ethics and business considerations in their decisions. Interestingly, some feel they should trust their instincts, while others feel they could not trust their instincts. This is in line with prescriptions by Trevino and Nelson (2004) that although instincts can be a useful guide in an ethical dilemma, they cannot be fully trusted without reference to other analysis. The feedback form asks students what they enjoyed about the case. By far the most common response was the different decision routes based on their choices. They enjoyed the immediate feedback and "got into" the role. Each time the case has been used, students have engaged in very good discussions. Many also commented on how much they enjoyed learning about other students' perspectives and how this made them think about issues and consequences they had not considered. I believe this makes the exercise a success in itself.

Table 1: Typical Student Feedback

Primary point the students learned from the case
• There are gray areas in many business decisions and there are often no easy solutions
• Many decisions lead to unforeseeable outcomes
• Need to balance ethics with business decisions and that may be difficult to do
• Seeing different perspectives and how moral values determine choices
• Have to consider family as well as business, will face ethical choices that may negatively affect family
• Trust your instincts; Can't trust your instincts
• Consider the consequences of your decisions and various affected parties
• Thinking about what is acceptable in other nations and whether that should change my decisions
What they liked about the case
• Different decision routes based on your choices
• Hearing other peoples perspectives
• Very interesting and thought provoking, fun
• Made you think about ethics
• Good class discussions
• Encouraged original independent decisions
• Having to balance trade offs
What they did not like about the case
• My outcome
• Worst case scenario
• Needed more information to make the decisions
• Wanted more options in the choices
• Too many poor outcomes
• Like to see similar real cases
Suggested case improvements
• Work in groups: better insight, easier to speak up in a small group, allow more role playing
• More time for class discussions
• Need more time to make decisions

Items students do not like about the case include the structured nature of the decision path, the lack of additional information, particularly about Sahib, and the inability to work in groups. Many also comment that they do not like their final result, which involves jail time for quite a few. Although many students prefer to answer the questions in a group, there is value in requiring each student to make an individual decision and not rely on the values and opinions of others. Suggested case improvements include moving to groups, having more time for class discussion and having more time to make the decisions. As noted earlier, if the instructor does not want results in writing, then more time for decisions and class discussion can readily be provided, but there is also value in having the students organize their thoughts and express their motivations in writing.

Conclusions

The role playing exercise provides a unique and engaging experiential method to illustrate the tension involved in managing for shareholders versus stakeholders when the two interests conflict. The case has been successfully used many times, and a high level of class interaction and discussion has resulted each time. Students enjoy playing the role of manager and particularly enjoy seeing the results of their choices and learning how others arrived at a decision. Learning from the group's discussion is a high point of the students' experience.

The instructor may wish to provide a "debriefing" session in the subsequent class period to discuss further the need for ethics in business training and perhaps expand on the shareholder stakeholder conflict. This is also a good point to informally gather additional student feedback on the case. The ultimate purpose of the exercise is not to promote either shareholder or stakeholder goals. The purpose of the exercise is to help students understand and apply their own values when faced with external influences that will at times conflict with their own values and morals. Each class has asked for additional role playing cases so students apparently enjoy the experience. Some have suggested that similar format cases should be employed in each of the functional area classes so that students can gain experience in dealing with some of the conflicts they will face in working in different aspects of the firm. The case is a useful exercise in engaging students to consider ethics in business in a meaningful way.

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