

Corporate Governance and Ethics

A Series of Decisions

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

Scenario 1: Distributing Corporate Profits

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

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

Debate Preparation Questions

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