

# An Ethics Role-Playing Case: Stockholders versus Stakeholders Case Discussion

**Tim Manuel<sup>1</sup>**

*University of Montana, USA*

**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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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.<sup>2</sup> 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.<sup>3</sup> 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.<sup>4</sup> 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

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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 managers 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.<sup>5</sup>

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

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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.<sup>6</sup> 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) <i>Continue</i> , give students Version 1 of Handout III. If their Decision 1 choice was (b) <i>Shut down</i> , 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) <i>Recommend that the company sell</i> , give students Version 1 of Handout IV. If their Decision 2 choice was (d1) <i>Keep going as planned to cut costs</i> , the students receive Version 2. If their Decision 2 choice was (d2) <i>Keep going as planned to shut down</i> , 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.<sup>7</sup> 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

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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.<sup>8</sup> 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.<sup>9</sup> 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

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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.)

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

## **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

<b>Primary point the students learned from the case</b>
<ul style="list-style-type: none"> <li>• There are gray areas in many business decisions and there are often no easy solutions</li> <li>• Many decisions lead to unforeseeable outcomes</li> <li>• Need to balance ethics with business decisions and that may be difficult to do</li> <li>• Seeing different perspectives and how moral values determine choices</li> <li>• Have to consider family as well as business, will face ethical choices that may negatively affect family</li> <li>• Trust your instincts; Can't trust your instincts</li> <li>• Consider the consequences of your decisions and various affected parties</li> <li>• Thinking about what is acceptable in other nations and whether that should change my decisions</li> </ul>
<b>What they liked about the case</b>
<ul style="list-style-type: none"> <li>• Different decision routes based on your choices</li> <li>• Hearing other peoples perspectives</li> <li>• Very interesting and thought provoking, fun</li> <li>• Made you think about ethics</li> <li>• Good class discussions</li> <li>• Encouraged original independent decisions</li> <li>• Having to balance trade offs</li> </ul>
<b>What they did not like about the case</b>
<ul style="list-style-type: none"> <li>• My outcome</li> <li>• Worst case scenario</li> <li>• Needed more information to make the decisions</li> <li>• Wanted more options in the choices</li> <li>• Too many poor outcomes</li> <li>• Like to see similar real cases</li> </ul>
<b>Suggested case improvements</b>
<ul style="list-style-type: none"> <li>• Work in groups: better insight, easier to speak up in a small group, allow more role playing</li> <li>• More time for class discussions</li> <li>• Need more time to make decisions</li> </ul>

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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