

**8ed Comprehensive Case #1: 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<sup>3</sup>

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.

#### **Handout IV (Version 1)—Result of Decision 2 and New Decision 3<sup>4</sup>**

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

4. Students should receive the appropriate version of Handout IV based on their previous two choices, as in indicated in each version.

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?

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### *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.

## Handout V (Version 1)—Final Results<sup>5</sup>

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

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

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)?