

# MODULE 11: Stakeholder Focus: Customers and Dangerous Products

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## Core Module Issues:

- **When, if ever, do companies have special obligations to their customers?**
- **Are the obligations more pronounced if safety is involved?**

### Module Teaching Notes

This concluding unit in the stakeholder/shareholder unit focuses on customers. This is yet another group of stakeholders without whom a company cannot operate.

But a shareholder model advocate might say: customers benefit by using and enjoying their purchases, and companies benefit through increased profits. End of story. There is no obligation beyond that.

Stakeholder model advocates will often argue that taking care of customers is the right thing to do, regardless of profits and losses. Particularly when safety is on the line.

I wrote this module in the days after the enormous Toyota “sticky accelerator” story dominated the headlines. If a more recent recall is in the news, by all means focus your lecture on it instead – there is nothing special about the Toyota example.

I find that, at the end of the unit, there is not a lot of new background information to add. And so, we have produced another video [**“Fan” in the South-Western Digital Video Library “Business Ethics” series**] of the scenario at the end of the module. To access the DVL, log in to your Cengage Faculty Account at **login.cengage.com**, select “Digital Video Library Instant Access Code” when you add the Bredeson text to your Bookshelf, and then click on the “Business Law Digital Video Library Online Access” link under “Additional Resources”.

I would suggest running it in class. I'll be glad to have it in mine.

After rolling the clip, off to the five questions.

When the questions are done, it might be worth five minutes to summarize the ideas presented in the unit.

You might also give a brief preview of or mention the next unit, which will feature ethical issues in selling, marketing, and advertising.

## Discussion Points for Scenario Questions

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1. If you were in Mark's position, would you recommend a recall today? Why or why not?

**A. TODAY – WHAT IF YOU LOSE THE BIG CONTRACT?**

**B. LATER – WHAT IF SOMEONE IS KILLED? DOES THAT SEEM LIKE A REMOTE RISK?**

2. If you were in Mark's position, would you recommend a recall in two months, after the Rooms-To-Go deal has been completed?

**A. YES – WOULD YOU FEAR A BACKLASH IF THE FULL STORY CAME OUT?**

**B. STILL NO – WHY NOT? WON'T THE INCREASED PROFITS FROM THE BIG CONTRACT MORE THAN COVER THE COST OF THE RECALL?**

3. Ann's testing showed 6 percent “bad” results (sparks) and 4 percent “really bad” results (fire and thrown metal). Would your answers to questions 1 and 2 change if Ann's testing had shown 18 percent “bad” and 12 percent “really bad” results? What if it had shown the same number of “bad” results but zero “really bad results”?

**[ASK THESE QUESTIONS INDIVIDUALLY. TRY TO DRAW OUT HOW MUCH RISK STUDENTS WOULD BE WILLING TO TAKE WITH OTHERS' SAFETY. ASK HOW THEY WOULD FEEL IF THEY HAD ONE OF THE FANS IN THEIR OWN APARTMENT/HOUSE/DORM.]**

**For questions 4 and 5, assume that no recall is made. Assume further that a fan started a fire and burned a home in your town to the ground, and that a local newspaper identified the ceiling fan as the cause. The newspaper later reported that the Cooper Fan Company knew about the potential problem and did nothing about it. Finally, assume that no one was badly injured in the fire.**

4. If you had read the newspaper article and later that year went shopping for ceiling fans, would you consider Cooper fans, or would you pass them by even if they were competitive in pricing, appearance, and features?

**A. STILL CONSIDER – WHAT IF THERE HAD BEEN A FATALITY?**

**B. WOULDN'T CONSIDER – IS THERE A REAL WORLD PRODUCT THAT YOU HAVE AVOIDED OVER CONCERNS LIKE THESE?**

5. Assume that you are a juror in a lawsuit filed by the family with the burned down house. If you were convinced that the Cooper Fan caused the fire and that Cooper knew about the potential problems, would you award the family more than the value of its lost home and possessions, if you had the chance? Would you award substantially more?

**A. NO – REALLY? YOU MAY STAND ALONE IN AMERICA**

**B. MORE – HOW MUCH MORE?**

# UNIT 2: Purpose of the Corporation

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- Unit Background/Author Perspective
- Module 6: Stakeholder Ethics
- Module 7: Milton Friedman and Shareholder Ethics
- Module 8: Stakeholder Focus: Employees
- Module 9: Stakeholder Focus: Plant Closing
- Module 10: Stakeholder Focus: Communities
- Module 11: Stakeholder Focus: Customers and Dangerous Products

## Unit Background/Author Perspective

Unit 1 examined general ethical issues. This unit looks at the first of many questions that are central to *business* ethics: “What is the purpose of a corporation? For much of our nation's history, the answer to this question was both simple and legally required: “To make money for the shareholders.” And, although no longer required by law, many companies continue to operate with an eye exclusively on the bottom line.

Many other companies, though, follow some form of the *stakeholder* model. Stakeholders are groups that have a stake in a firm's success. They include employees, customers, suppliers, the communities in which businesses operate, and other groups. Owners of a corporation (shareholders) are also stakeholders, but they are not the only group worthy of consideration under the stakeholder model.

In many circumstances, what is good for shareholders is good for stakeholders. A company with happy employees who are well treated tends to be more profitable. The same applies for a company with satisfied and loyal customers, and a company that operates in stable communities with strong labor pools and healthy local economies.

But some decisions pit shareholders against other stakeholders, and these are the difficult ethical questions. In such a case, should the shareholders “win,” or be given top priority, due to the fact that they put up their own money to make the company run? Or is it sometimes appropriate to give preference to other stakeholders, even if, in the end, the company makes a lower profit?

In this unit, we will identify various stakeholders. Then, we will evaluate a variety of situations which pit shareholders head-to-head with other stakeholders. Should employees be taken care of even if a company will lose money? Should a plant be kept open to protect a community if the company would make more money relocating the operation? Does a corporation have an obligation to give to charity and support projects that will benefit society? Does a company have an obligation to protect customers, even if it is not cost-effective? These and other questions will be examined.

## **Unit Core Ethical Issues**

- Is a company obligated to protect the interests of stakeholders?
- If owners (shareholders) and stakeholders collide, which side should take priority? Are owners obligated to listen to stakeholders?
- Does a corporation have an obligation to care for its employees? What if the company can make a lot more money if it lays everyone off and “outsources” jobs?
- Do organizations have obligations to the communities in which they operate? Are customers owed particular obligations by the companies they patronize? What if their safety is involved?

# MODULE 9: Stakeholder Focus: Plant Closing

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## Core Module Issues:

- **When, if ever, is a company obligated to consider employees if the needs of the employees are at odds with creating shareholder wealth?**
- **When, if ever, are communities relevant stakeholders?**
- **If a plant relocates within the US, is it fundamentally different than if a plant relocates overseas?**

### Module Teaching Notes

This module is a close cousin of the last one (Module 8), but the focus here is on communities and not employees. The workers in this scenario will have a change to keep their jobs, and so the downside is on the town that may be left behind.

When plants close, especially when the plant is a major employer, communities can be devastated. Unemployment rises at the same time the tax base diminishes. Property values tend to decline, and a downward spiral sometimes begins.

Michael Moore made a name for himself by documenting Michigan towns in the aftermath of plant closings. If you like, you might show a clip from his film in class.

The introduction to the last module featured the Ford v. Dodge case. A good case that compliments Ford is Ypsilanti v. GM, and I like to lecture on it before raising discussion questions. The town of Ypsilanti was actually successful, at least temporarily, in stopping GM from shutting a plant. The town in essence argued "no fair! We'll be ruined!" and a lower court judge played along.

Although the case was overturned on appeal, it does make for a nice example of a lower court judge attempting to require a company to consider stakeholders.

I like to stop and discuss the Ypsilanti case, sometimes for quite awhile. Many students have fairly strong opinions one way or another. Some will praise the lower court judge for "standing up to a big corporation", others will condemn the judge for "legislating from the bench". I'll often ask if the second group of students would be more comfortable if Congress or a state legislature passed a statute dealing with plant closings, and they will usually agree that they would be.

The imaginary Wood Works company in the scenario doesn't have to move. They will not go bankrupt, they will, in fact, be profitable. But, they would be significantly more profitable if they changed locations.

It is interesting to compare the students' response to this scenario to the last. Last time, the proposed move was overseas. This time, the company will stay in the US, and move about a two hour drive away. This

seems to matter to some students – the fact that the jobs will not be lost to American workers.

But try to direct attention also to the community that will be left behind as much as possible. Do the students feel sympathy for the community? If so, do they feel enough sympathy to say that the plant should remain in its current location?

## Discussion Points for Scenario Questions

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1. Assess the next-to-last sentence in the scenario: “We have to do what the shareholders want over what helps the town.” Rate the degree to which you agree with it.

Strongly agree ←-----→ Strongly disagree  
1    -----    2    -----    3    -----    4    -----    5    -----    6    -----    7

**A. STUDENTS WHO AGREE – WHY? DO YOU GENERALLY FOLLOW THE SHAREHOLDER MODEL, OR IS IT JUST IN THIS SCENARIO?**

**B. STUDENTS WHO DISAGREE – WHY? DO YOU GENERALLY FOLLOW THE STAKEHOLDER MODEL, OR IS IT JUST THIS SCENARIO?**

2. In this scenario, the town in Kentucky will lose 500 jobs. But a town in Tennessee stands to gain 500 jobs. Does the benefit cancel the harm, or does leaving the first town create more harm than operating in the new town will create?

**A. BENEFIT CANCELS HARM – ARE YOU MAKING A UTILITARIAN CALCULATION?**

**B. CAUSES MORE HARM THAN GOOD – WHY? IS IT IN PART THE TOWN THAT WILL BE LEFT BEHIND?**

3. The current town has refused WoodWorks’ request for tax incentives. Does the company have an ethical obligation to give the town a “last clear chance” to make a deal, or is the company ethically free to negotiate a deal with the new town?

**A. LAST CLEAR CHANCE – WHY? ISN'T ONE CHANCE ENOUGH?**

**B. NO – IS A COMPANY EVER OBLIGATED TO "BE NICE" TO A TOWN IN WHICH IT OPERATES?**

4. If the town in Tennessee offers tax abatements, and the town in Kentucky does not, where should the plant ultimately be?

**A. TENNESSEE – WHAT IF THE ABATEMENTS WERE HALF THE SIZE, AND PROFITS WOULD ONLY GO FROM 3% UP TO 6%**

**B. KENTUCKY – WHAT IF THE PLANT WOULD BE MAKING A 0% PROFIT IN KENTUCKY**

5. Assess the overall fairness of companies that engage in this type of “location shopping” for lower manufacturing costs. Rate a company that, like WoodWorks, decides to relocate to another town in the United States.

**Fair** ←-----→ **Unfair**

1 ---- 2 ---- 3 ---- 4 ---- 5 ---- 6 ---- 7

**[THIS IS A "BOTTOM LINE" TYPE QUESTION, AND IS MEANT TO WRAP THINGS UP RATHER THAN SPARK MUCH ADDITIONAL DEBATE.]**

# MODULE 10: Stakeholder Focus: Communities

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## Core Module Issues:

- **When, if ever, is a company obligated to “give something back” to a community in which it operates?**
- **Are communities equivalent to other kinds of stakeholders, like employees and customers?**

### Module Teaching Notes

Good communities and good businesses often go hand in hand. An attractive community offers a company an enhanced ability to attract and retain good workers. And major employers can drive growth and increase a town's tax base. I cited Round Rock, Texas in the textbook. You might want to add tales of dramatic growth closer to where you are.

I don't talk a lot about the dynamics of rapidly growing areas, but if it is an area of interest for you, you might create an interesting aside.

But does the relationship end there? Is a company every obligated to give something back to the communities in which it operates? If so, how far does the obligation stretch? These are the questions presented in this module, as we turn our attention fully to communities as stakeholders in a firm.

The scenario in this module looks specifically at the decision to close (or not close) a bookstore. There is no compelling reason to leave the store open, except, perhaps, out of a sense of obligation to the community in which it is located and for which it fulfills a specific need.

Before addressing the scenario, though, I like to present the four situations outlined in the textbook's background for this module and have a discussion. When should a company's leaders consider keeping a location open “for the sake of the community”?

1. A location is profitable, but it is likely that the company could generate a larger profit with a similar location somewhere else.
2. A location is breaking even but shows no signs of possible improvement
3. A location is losing a small amount of money.
4. A location is losing a large amount of money

I am always a fan of getting students' opening positions before presenting specific cases.

A couple of thoughts on the scenario questions...

Question 2 is one that often generates a lot of discussion. It is the first that asks students to weigh different stakeholders head-to-head.

And, one added idea that you might piggyback onto question 5. I came across an interesting article on “food deserts” after writing the textbook. In many areas, especially in inner cities, it is difficult to find fresh produce and other healthy food options within a reasonable number of miles of one's home. Many community activists are seeking remedies to the situation. You might end the discussion by presenting the idea of food deserts, and see if the class' ideas change any from the bookstore hypothetical.

## Discussion Points for Scenario Questions

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1. Do you agree with the general proposition that companies owe a duty to the communities in which they operate? Rate it below.

**No duty at all** ←-----→ **Significant duty**

1 --- 2 --- 3 --- 4 --- 5 --- 6 --- 7

**A. LOW RATING – WHY? DON'T COMPANIES DEPEND OF STABLE COMMUNITIES?**

**B. HIGH RATING – WHY? DON'T TOWNS GET A LOT OF BENEFIT ALREADY FROM BUSINESSES SIMPLY OPERATING, EMPLOYING RESIDENTS, AND PAYING THEIR TAXES?**

2. Rank the following stakeholders. Place a “1” by the stakeholder that you think corporate leaders should give the most consideration when making decisions, a “2” by the second most important group, etc.

\_\_\_\_\_ **Shareholders /owners**

\_\_\_\_\_ **Communities in which the company operates**

\_\_\_\_\_ **Employees**

\_\_\_\_\_ **Customers**

**A. WHAT WAS YOUR TOP CHOICE? WHY?**

**B. WHAT WAS YOUR BOTTOM CHOICE? WHY?**

3. Is there a shorter-term “substitute” action that would be easier than continuing to operate the Laredo bookstore that would be acceptable? Would making a sizeable donation, say \$50,000 or \$100,000, to local libraries be a reasonable alternative?

**A. IS KANT RIGHT? IS THERE AT LEAST SOME DUTY TO ACT HERE?**

4. In your opinion, would the moral obligation to keep the Laredo location open be any different if it would likely lose money if it were kept open? Would it be any different if the location would still be profitable if it were kept open – perhaps just less profitable than other locations?

5. Are there other kinds of “last in town” companies that have an obligation to remain open if the location is no longer profitable but the corporation that owns the location is very profitable? What if the company is the last Grocery store? Cable TV provider? Fast food restaurant? Bank?

**A. [INSERT FOOD DESERT IDEA, IF YOU WISH, WITH “GROCERY STORE”].**

**B. WHICH ARE “SPECIAL”, AND SHOULD REMAIN OPEN (IF ANY)?**