Management 3610 Ethics Assessment Case

Jon, Rick, and Beth had been friends for a long time and their relationship had been very profitable. They met while each was working toward an MBA at the esteemed Jennings School of Business – Middle Tennessee State University. Together, the three developed a business plan for a company that would acquire businesses and after graduation they "gave it a go." Their company, Raider Inc., had purchased several distressed companies and had either developed them to become "cash cows" or had sold them for great profit. Beth's strength was marketing, Rick was a finance specialist, and Jon was the management guru who developed strategy and kept the group on task.

Another company, Pacific Life Books (PLB), appeared on the radar as a possible acquisition candidate. Jon, Rick, and Beth visited the company and had gathered information related to their particular business discipline. This was not their "first rodeo." The trio worked methodically, not wasting time by stepping on the turf of another. It was now time to compare notes and determine if proceeding to acquire the company was a good move.

Jon called a meeting of the three to consider the possibilities. As was their norm, the three met in Raider Inc.'s conference room to deliberate. These intense sessions took most of a day and sometimes spilled over into another. In front of them lay all the related information: financial statements, marketing reports, lease agreements, etc.

Pacific Life Books was a publishing company which specialized in novels related to life on the American West Coast under the theme "life near the ocean". Beth reported that the company's brand was solid and could be the basis of a strong marketing effort going forward. Rick identified the cause of the company's distress. In an effort to lower unit costs, PLB typically procured large quantities of books from its supplier; the result was a large growing inventory that continually drained PLB's cash coffers. Jon provided insight into the organizational chart and management culture at PLB; vast improvement opportunities were available on that front. However, if a sale of PLB wasn't consummated soon, PLB's existence was threatened.

After much deliberation, a potential strategy was developed. Raider Inc. would purchase equity in PLB, converting it to a privately owned C-corp, and the previous owners would continue as minority owners. The inventory would be reduced through the utilization of new "digital printing techniques" designed to produce smaller quantities at lower unit costs. Jon would intervene as a "consultant", working a couple of days per week, coaching the remaining management team on how to organize, lead, and control the business. The prospects were good, with the strategy developed by the Raider Inc. team, that PLB would soon be generating cash.

Then Rick asked, "What about Johnson Printing?" Johnson Printing had been a loyal and trusted PLB vendor, continuing to provide novels during lean and prosperous times as a true strategic partner. Johnson Printing had inventoried books and allowed extended terms on its accounts receivables with PLB. Without Johnson Printing's support, PLB might not have survived the last few years, much less enjoyed growth in the book segment of its business. PLB owed Johnson Printing $250,000. This represented PLB's largest accounts payable, by far.

"Of course, we'll default on that unsecured debt," Jon quickly replied. Jon's answer didn't surprise Rick. Rick countered, "I am not sure I am completely comfortable with that. Johnson Printing is a small company, a blow that big could put them out of business." Surprised that Rick would question the strategy, Jon stated, "We'll give them the opportunity to do business with us in the future. As for the $250,000, if they choose to pursue legally we'll just bankrupt PLB and continue to execute our strategy. As for you, me, and Beth, we'll be protected by the C-corp status of both PLB and Raider Inc." (Note: Generally, when one company buys another, they legally assume both the assets *and* the liabilities.)

Rick paused and said, "I know we've successfully executed this type of maneuver, walking away from a company's previous debt, several times in the past. I recognize that we've never suffered legal recourse from vendors we've defaulted on. But several loyal vendors have suffered much because of our actions; we drove more than a few out of business. We've made a lot of money buying and selling companies... a lot of money. In the first few years, the only way we could do a deal like this was to default on the accounts payable. But now, is it necessary that we put another good vendor in distress to get this deal done?"

Questions for Ethics Assignment:

1. What is the ethical issue in the case? What makes this an ethical issue?

2. Who are all of the stakeholders that are impacted by the ethical issue in the case? Discuss how the ethical issue impacts each stakeholder.

3. Discuss at least three solutions for Raider Inc. to solve the ethical issue. Be sure to discuss the impact of those different solutions for the organization and stakeholders.

4. Recommend a course of action for Rick to resolve the ethical issue. What steps should he take? Be sure to discuss the benefits and risks of this course of action.

5. Assuming that the leaders of Raider Inc. do not want their employees to behave unethically, what are several (at least three) things that can be done to improve the ethical climate? What steps can the managers at Raider Inc. take to guide employees to make more ethical decisions?