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LEIZ CASE STUDY #7

Corporate Ethical Dilemmas and Relational Decision Making

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LEIZ CASE STUDY SERIES

Relational Economics in Practice. An Introduction and User Guide

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The research program of relational economics constitutes the core of the Leadership Excellence Institute Zeppelin | LEIZ. Building on the publications of the Springer series "Relational Economics and Organization Governance" and the annual conferences of the emerging relational economic community, a theory is developing and establishing itself that represents a paradigm shift in the field of economics: the unit of analysis is no longer the actor or the market, but the relational transaction in its complex, polyvalent, uncertain, context- and time-dependent constitution. The aim behind this is to come closer to an understanding of the real conditions and consequences of economic action. For this reason, and in view of the fact that the corresponding conceptual description tools are now available, it seems highly plausible and expedient to focus even more on examples of application. If relational economics has the declared aim of depicting economic realities as precisely as possible, then such an undertaking of practical application should not only be productive in terms of concrete recommendations for decisions, but should also, in turn, further confirm the relevance of the theoretical concept.

The series of case studies presented here aims to offer nothing more and nothing less: We invite students, practitioners and colleagues to join us in trying out what relational economics has to offer in its application to real case studies. The analytical tools available for this purpose are briefly presented below in order to provide our readers with a kind of instruction manual without implying that real-world complexity can be dealt with in a one-size-fits-all manner. Rather, the analytical steps proposed here are intended to help describe a relational transaction as a basis for then working out more contextand time-specific options for action. This is carried out using the stakeholder model as the basic analytical structure, which is complemented in the respective cases by further case-specific methods derived from the toolbox of relational economics.

The attitude of a thorough and competent detective is required if one really wants to capture and describe a relational transaction appropriately: identifying and analysing the stakeholders involved, their resources and interests, and above all their mutual interaction, which, in turn, changes them, play a central role before further theoretical building blocks of relational economics can be applied. Accordingly, this analysis step also forms the common denominator with which the analysis of all the case studies collected here finds its starting point. For this reason, the stakeholder model is placed in the foreground in this user guide and is now briefly explained - other models are then introduced in the individual case studies and discussed in the application of these cases.

Stakeholder Model of Relational Decision Making

The theory of relational economics defines a firm as a nexus of stakeholder interests and invested stakeholder resources and corporate action via relational transactions that combine, in a cooperative and productive manner, the interests and resources of the stakeholders involved. The fact that, in particular, this takes place across cultural and sectoral boundaries is emphasised here and is related to the claim to take the real complexity and uncertainty of economic activity into account – thinking, for example, of global value creation networks or of the requirements from the ESG discussion.

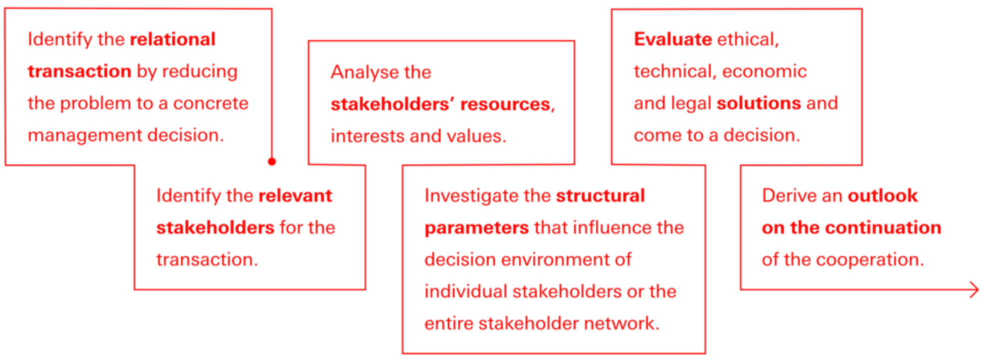
In order to derive a management decision in a specific constellation – for example, in the situations depicted in the LEIZ case studies – the stakeholder model provides the basic framework (Wieland 2020: 97ff.) and is presented here in a condensed form for the given purpose. The application of this model reveals the time- and context-specific microstructures of the relational processes and structures. It comprises six steps:

1. **Reducing the problem to a concrete management decision**. This concrete management decision ideally is a clearly narrowed down yes/no/alternative decision. This decision is the relational transaction that is to be analysed in the subsequent steps.
2. **Identifying the relevant stakeholders with reference to the transaction**. This includes the identification and prioritisation of the involved individual or collective stakeholders. Depending on the transaction, the stakeholders can be, for example, employees, management, customers, suppliers, investors, competitors, NGOs, political institutions or the public.
3. **Analysing the respective stakeholder resources, interests and values**. This entails a thorough look at the polyvalent constitution and motivation of each stakeholder. Such resources and interests could be, for example, economic, political, moral or professional, and the values can be, for example, performance values, communication values, cooperation values or moral values, that need to be combined and balanced.
4. **Investigating the problem along the structure of the decision environment**. This requires checking the relational transaction in-depth via the following eight structural parameters (Wieland 2020: 99):
   I. Decision-making stress (for example, due to political or media pressure)
   II. Intrapersonal values conflicts (for example, conflicting values arising from role-based expectations)
   III. Inter-organisational values conflicts (for example, ideals held by the collective actors that are non-negotiable for them)
   IV. Intercultural values conflicts (for example, differences in the moral doctrines of different groups)
   V. Information deficits (for example, regarding the scope and consequences of an assigned task)
   VI. Communication deficits (for example, resulting from the type of communication between the network partners)
   VII. Responsibility diffusion (for example, who is responsible for creating and solving a given problem and on what grounds)
   VIII. Rules deficits (for example, resulting from the lack of private or state regulation, or from its unenforceability).

5. **Evaluating ethical, technical, economic and legal solutions and reaching a decision**. In most cases, this decision combines ethical, technical, economic and legal approaches by evaluating the transaction-specific advantages and disadvantages of the available decision logics and considering their interdependency.
6. **Deriving an outlook concerning the continuation of the cooperation.** The question here is what new commonalities have been formed and to what extent the stakeholders involved have changed as a result of the transaction (Baumann Montecinos 2022).

FIGURE 0

An outline of what such an analysis could look like in general terms



Source: own illustration.

Thus, the foundations have been laid for working on the LEIZ case studies. We will be delighted if this material is used to promote learning and exploration of relational economics, particularly in its strength of practical application. Feedback from and exchanges between lecturers would be more than welcome.

Literature

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LEIZ CASE STUDY #7

Corporate Ethical Dilemmas and Relational Decision Making

Josef Wieland
Jessica Geraldo Schwengber

Introduction

This case illustrates an example of an ethical dilemma that companies may face when operating abroad. Such ethical dilemmas may arise from different values, beliefs, norms and cultures and may require appropriate management, leadership with integrity, and compliance with regulations. Ethical dilemmas are also linked to corporate responsibility. Current academic, social, political and legal debates are putting pressure on global companies to take extended responsibility, where extended means covering the entire supply chain. This can be seen in international standards such as the SDGs, the United Nations Global Compact and the standards of the International Labor Organization (ILO), but also in public laws such as the German Supply Chain Act and the European Corporate Sustainability Due Diligence Directive (CSDDD), which holds companies responsible for human rights violations in the supply chain.

Case Description

John is the production manager of the major American sporting goods manufacturer “FIT”. He relies heavily on his earnings and expects to pay his mortgage loan for his new family home with the bonus he receives for good performance. His company produces football jerseys and cooperates with the supplier Good Sports Inc. (GSI), which is based in Emergia.

GSI is located in Seokwok, a relatively remote city in Emergia, and supplies shirts to Europe, North America, and South America. The business is currently thriving, which means that GSI employs around 500 seamstresses. Sewing shirts is highly sought-after work as machines cannot produce the specific type of shirts required by FIT. Consequently, this work is assigned to the villages surrounding Seokwok at a piecework rate. In this region, sewing shirts at home has a long-standing tradition and is undertaken by all family members, typically including children. Often, children contribute to the overall household income necessary to afford food and imported pharmaceutical products. A local law permits child labour in certain critical industries for survival, such as farming or shipping; however, sewing is strictly prohibited for individuals under 21 years of age. Despite this, police presence in the remote town of Seokwok is quite rare.

In recent years, FIT has robustly implemented a code of conduct that practically forbids child labour. FIT feels that it and its products are committed to the "physical, mental and social development of children all over the world." All suppliers have also had to sign the agreement. To ensure that all service providers comply with the new regulations, a global foundation monitors the factories. This process is mandatory for FIT to receive a prestigious fair-trade certificate.

Next month, John is set to visit GSI to establish new processes. His assistant Peter has already visited the plant and observed children delivering baskets of shirts to the storage area. The local production manager suggested that Peter address potential issues with inspectors. This might entail a small under-the-table gift for the inspectors. According to John's calculations, without production in Seokwok, there will be no financial return for FIT in the next two fiscal years. John is contemplating his next steps.

Challenges

The case describes an example of a trade-off between financial bonuses and integrity, which also sheds light on the questionable nature of corporate policies that primarily reward their employees based on financial results. The case further highlights the complex challenges associated with differences in values, beliefs, traditions, economic situations, legal frameworks, and practices. In certain cultures, and contexts marked by high poverty, children are also expected to contribute to household income, underscoring the complexity of addressing various local situations in a culturally sensitive manner. This case also demonstrates the legal challenges involved. A law (for instance, in the case of Emergia, a law prohibiting child labour in the welding industry) or a signed agreement (as seen in the case of a Code of Conduct) is necessary but not sufficient. This illustrates the difficulties in enforcing the law. Reputation poses another issue. If the case is made public by, for example, an NGO, this can lead to reputational problems, which, in turn, can have legal repercussions and result in financial losses. Another concern is corruption, which carries both legal and ethical implications.

In general, the case illuminates the diversity of contexts in different cultural, social, and economic settings and the paradox that, on the one hand, consumer demand is increasing for products that follow sustainable practices (which include respect for human rights in the value chain). On the other hand, it also sheds light on the reality of the countries where these products are made, which may cause readers to reflect and perhaps raise their awareness.

Questions

1. Should John give the gift under the table?
2. Who are the stakeholders involved?
3. What resources, interests and values do the stakeholders bring along?
4. Which environmental parameters are relevant to the decision-making process?
5. What ethical, technical, economic and legal solutions are possible?
6. Should the cooperation between GSI and Fit be continued? If so, what should be the prerequisites for continued cooperation?

Discussions

The stakeholder model of relational decision-making presented in the introductory section can provide a method for discussing possible solutions to ethical dilemmas.

Below is an example of applying the various steps of the model. The aim of the discussion is not to define a universally valid solution but one possible solution among many. Other solutions may also work.

1st step (concrete management decision):

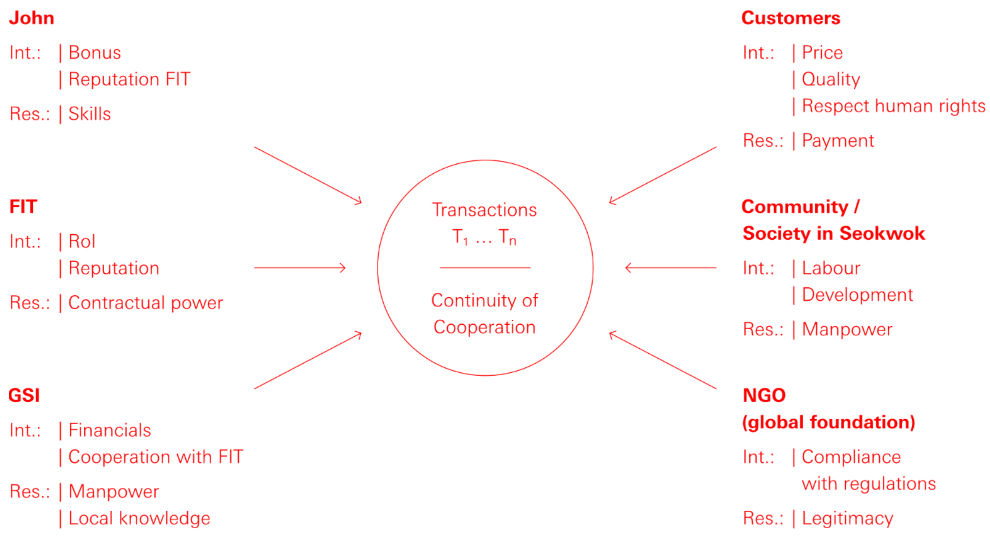
The first step involves a specific management decision: “Should John make the gift under the table?” The answer is “no.” The arguments to support this answer are further developed by analysing the next steps.

2nd and 3rd steps (identification of stakeholders, their resources and interests):

The figure below shows the relevant stakeholders and some examples of their interests and resources.

FIGURE 1

Identification of relevant stakeholders, resources and interests



Source: Own illustration based on Wieland 2020.

4th step (environmental/structural parameters):

Regarding the decision-making environment, the following parameters should be considered in the decision-making process:

Environmental stress: In the case being analysed, this may arise from the economic conditions in Emergia, where children are compelled to work to support the family income, as well as the level of corruption in the country.

Intrapersonal value conflict: This may be the case for John, who has to deal with the trade-off between his need for a performance bonus to pay his mortgage and his integrity, prompting him to do the right thing.

Interpersonal/inter-organisational value conflicts: These may occur between John and the local manager (at the individual level) and between FIT and GSI at the organisational level.

Intercultural value conflicts: Between American/Western culture and Emergia culture.

Information deficits: FIT possessed little to no information concerning the children's involvement with GSI.

Communication deficits: The fact that FIT was unaware of the situation at GSI illustrates a lack of communication between them.

Dispersion of responsibility: GSI is accountable for failing to enforce the signed agreements (no child labour), while FIT is responsible for not overseeing the enforcement (agreements/regulations are necessary but not sufficient if they are not implemented/enforced).

Rule deficits: The analysed case comprises both public rules (laws against child labour) and private rules (FIT's code of conduct). The issue lies not in the absence of rules but rather in the lack of enforcement.

5th step (evaluation of solutions):

Possible solutions can be ethical, technical, economic, and/or legal. The table below provides an overview of the possible solutions for the case being considered. Please note that the solutions are not "one-size-fits-all" but examples. Other solutions may also be possible.

FIGURE 2

Dimensions of Potential Solutions

Ethical	Technical	Economic	Legal
Replace local manager. Provide opportunities to local children (e.g., through scholarships for children that attend the school; educational program to enforce compulsory education, improvement of healthcare); cooperation with local NGOs.	Compliance training. Improve communication. Strengthen compliance office.	Incentives not only connected to economic performance.	Ensure laws and code of conduct enforcement. Include in the contract with local suppliers (e.g., GSI) minimum wage standards and working hours to allow parents better economic conditions. Pro-active contracting to set work and educational standards beyond local legal requirements.

Source: Own illustration.

6th step (outlook on the continuation of the cooperation):

John should not give the gift covertly. Since it involves child labour, neglecting child welfare would be unethical. Childhood assistance is covered in Article 25, section 2 of the International Declaration of Human Rights. The abolition of child labour is also addressed in Principle 5 of the United Nations Global Principles and in the ILO Declaration on Multinational Enterprises, to name just a few examples. From a legal standpoint, the case states that Emergia has laws against child labour in the sector where GSI was operating. Responsibility for human rights violations (including child labour) in the supply chain has recently been incorporated into some laws at both national and supranational levels. This applies to the German Supply Chain Act and the European Corporate Sustainability Due Diligence Directive (CSDDD).

However, abolishing child labour without taking the needs of local children and parents seriously can impact the lives of local families without necessarily improving their living conditions. In certain cases, it could also have negative consequences, for instance, by reducing overall family income. Solutions that genuinely address the needs of children can also include measures that provide alternatives for children and their families. This may involve collaborating with local NGOs on initiatives such as educational programmes, improving healthcare, and offering scholarships, to name just a few. Ensuring better working conditions for parents can be another measure to alleviate the family situation and reduce pressure on the children. This presents an opportunity for the company to engage in proactive contracts with local and international stakeholders, acting not only as a standard taker but also as a standard setter.

Regarding the under-the-table gift, it constitutes corruption, which is illegal in many Western nations, and companies operating abroad can also be held accountable in certain cases (e.g., the UK Bribery Act and the Foreign Corrupt Practices Act in the USA). If the case comes to light, it could lead to a scandal resulting in significant financial losses and reputational harm, in addition to the previously mentioned legal repercussions. A “gift” would be a solution that fails to improve the conditions of children and families yet may carry legal ramifications and is ethically dubious.

In essence, the ongoing cooperation should align with ethical, legal, and economic principles.

Literature

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Keywords

child labour, code of conduct, corporate ethical dilemmas, cultural complexity, due diligence regulations, international and national labour standards, labour protection laws, local solutions, relational decision-making, risk of reputational loss, setting and taking, unintended consequences of compliance enforcement.

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