# **Section C**

Case Notes

**Corporate Legality versus Corporate Responsibility**

**I. CASE ABSTRACT**

Mr. James Elliott, CEO and Chairman of Byte Products, Inc., presents his recommendation to the Board of Directors to purchase an existing plant in Plainville as a temporary plant until the new one is online in three years. All on the Board, except one (10–1), seem to favor the proposal. What ensues is the discussion between Elliott and Kevin Williams, board member, over the proposal to purchase a plant with the intention of closing it in three years.

Byte Products has three existing plants operating at full capacity (twenty-four hours a day and seven days a week). The new plant proposed to be built in the southwestern United States will require three years before it is fully online. This means that Byte cannot meet the anticipated demand for its products. Alternative courses have been explored: (1) license Byte products and technology to other U.S. manufacturers and (2) overseas facilities and licensing. Top management found an existing plant in Plainville, New England that would meet the company’s immediate production needs until the new plant will be online in three years. The Plainville facility had been closed for the last eight years. It would take about three months to get the Plainville plant online.

The discussion between Elliott and Williams focuses on the impact on the town and on the potential 1,200 employees of opening this temporary plant. The town and the townspeople had gone through a catastrophic closing eight years ago when the plant in question was closed. After a lengthy discussion between Elliot and Williams, a recess in the meeting is called. When the board meeting is reconvened, a major shift has taken place. The vote could be 7–4, or 6—5 for the proposal, but Elliott desires a unanimous vote. As the case ends, Williams is asked if a compromise can be reached. He responds, respectively, “I have to say no.”

**Decision Date: No Date Sales: $265,000,000**

**II. CASE ISSUES AND SUBJECTS**

**Corporate Governance**

Local Community Strategic Alternatives

Board of Directors’ Role Communications

Corporate Stakeholders Ethics and Values

Opening and Closing of Strategic Decision Making

Plants Social Responsibility to

* Impact on Town Local Community
* Impact on Employees

1. **STEPS COVERED IN STRATEGIC DECISION-MAKING PROCESS**

*(See Figure 1.5 on pages 20 and 21)*



**IV. CASE OBJECTIVES**

**1**. To discuss the social responsibilities of a corporation regarding the opening of a temporary plant and it is closing on (a) town, and (b) potential employees.

**2**. To illustrate the role of board members in strategic decisions.

**3**. To discuss the ethical issues: Should the company executives inform the town and potential employees that this is a temporary plant?

**4**. To illustrate corporate governance in action.

**5**. To illustrate the power of the board of directors.

**6**. To show how one vote of dissent can sway a vote of the board after a long discussion of the pros and cons of a proposal. Point: the initial tentative vote was 10—1, and after the discussion the vote was likely to be 7—4 or 6—5.

**7**. To discuss how a compromise may be negotiated on a strategic issue so as to satisfy all affected stakeholders.

**V. SUGGESTED CLASSROOM APPROACHES TO THE CASE**

**1**. We ask the students to vote on the pending proposal before the board. We make everyone commit to a position. What should be the role of the board in such a decision?

**2**. This case is excellent as an open class discussion case. We get a much better discussion after we force each student to take a position on the proposal. The case revolves around how executives and board members deal with questions of social responsibility.

**3**. Divide the class into two groups representing Elliott and Williams. Select students to represent these two gentlemen and allow them to debate the issues without the use of the case.

**4**. It is an excellent case as an individual test case or a written paper. It has also been used as a final exam in class.

**5**. Have the class list all the corporate stakeholders who will

be affected by this decision. List all the alternative

solutions and how each group will be affected.

1. Movie Suggestion! *Roger and Me*

* This shows the impact of closing a plant on Flint, Michigan by General Motors.
* It can be rented.

**VI. DISCUSSION QUESTIONS**

**1**. **If you were one of the board members, how would you have initially voted for the proposal? What would your vote be after the recess in the meeting? Why?**

**2. Should the Byte executives tell the town administration and potential employees that this is a temporary plant for three years?**

**3. What impact does a plant closing have on a small town like Plainville? What impact does the closing have on the employees?**

**4. Can you suggest any compromise for the present impasse?**

**5. If you were Elliott, would you call for a vote on your proposal, or postpone the vote until the next meeting?**

* Students need to remember that the proposal calls for a new plant. Elliott may want to make this a separate proposal and vote now.

**VII. CASE AUTHORS’ TEACHING NOTES**

None were available for this case.

**VIII. STUDENT STRATEGIC AUDIT/STUDENT PAPER**

A lack of solid planning and forecasting has resulted in Byte’s current facility shortage. Construction on a facility that will take three years to complete, should not begin when current facilities are working at 100 percent capacity around the clock, and demand continues to escalate. The state-of-the-art facility, to be located in the southwestern United States, will supply enough capacity to meet demand when it opens in three years, but it does nothing to stem the tide of the current crisis. Management’s concern that Byte’s market leadership is in jeopardy is valid, but they opened the door to new competition by their lack of foresight.

Elliott, Byte’s CEO, is now ready to undertake a stopgap measure, but once again without enough concern for the future. Several stopgap measures were proposed by Elliott’s staff. One stopgap measure revolves around the renovation of an abandoned factory in New England. Renovation can inexpensively be completed in three months, and attractive lease terms are available because the facility has been abandoned for eight years.

Elliott is aware of some problems with the proposed plant. The plant would never be an efficient producer of Byte products. Profitability would be low for several reasons: high labor costs, due to a strong union presence in the area; warehousing expenses; inadequate transportation links to Byte’s major markets; and suppliers would all contribute to higher costs and lower margins. However, the New England plant would be closed in three years when the new plant opened.

Another option available to Byte is licensing, both domestic and international, of Byte product and process technology. Domestic licensing would result in higher production costs and lower margins since the higher costs could not be passed on to the customer without losing market share. International licensing goes against Byte’s philosophy of remaining a domestic operation. Additionally, patent issues could not be properly protected in the international environment. Finally, both domestic and international licensing could result in lower product quality—another threat to Byte’s market share.

Considering the other options suggested to him by his staff, Elliott has chosen the temporary New England plant as the stopgap solution. As Elliott prepares his presentation for the Board of Directors, of which he is a member, he anticipates little, if any, opposition to his proposal.

Opposition did come in the single, but very strong voice of Kevin Williams, an outside director, who vehemently opposed the temporary facility on the basis of corporate responsibility. Williams stated the influx of workers and their families, approximately 4,000 people, would seriously disrupt the small New England community. New schools, businesses, hospitals, housing, and retail establishments would be necessary to care for the new Byte employees. If the temporary nature of the facility were known, the local government and banking community would not be forthcoming with the funds required to capitalize those projects. If Byte hid the temporary nature of the facility, the funding for the projects would be supplied, but in three years when the plant closed, the community could become an unemployed ghost town. Williams concluded that it was not a legal issue, but a moral responsibility.

Examining the issue from an objective position, several items appear to require discussion. The temporary plant may supply enough products to meet demand, but the location is far away from the market.

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This may ultimately cause distribution and service problems. For the employee, the temporary plant is not a good solution. Not knowing the job is temporary, many employees may begin to make a permanent home for their families: buy houses, set down roots. When the layoffs begin, due to the plant closing, the employees will be the ones to suffer. Knowing the job is temporary might encourage apathy among workers that could lead to lower quality products. It is clear that Byte would not be doing a public or community service by opening the plant, but that is not a corporation’s main concern. The question is whether or not the new facility would meet the four top priorities.

The location of the temporary plant tends to make it ineffective. Lack of warehousing facilities and transportation systems add to the ineffectiveness of the plant. Elliott has already stated the renovated plant would never be an efficient producer of Byte products. If the temporary nature of the facility is known, then morale is sure to be low. It appears that even the top four priorities of a corporation are not met by this solution.

Employee relationships may be difficult to manage. The strong union presence would require complex negotiations and labor contracts. Legal issues might arise if the closing of Byte’s plant violates a Union agreement.

A thoughtful consideration of all the issues involved, with the opening of the temporary plant in New England, reveals much conflicting information. In some ways, as compared with licensing, the temporary plant seems like the solution. In other ways it seems like Byte would just be starting more problems. Both licensing and the temporary plant share the same drawbacks: high production costs, lower margins, and that the temporary plant does not have to deal with control over the operation. In a shared facility, Byte would not have much control over production.

**Recommendations**

Opening a new temporary plant may be an ideal answer to the lack of capacity, but the New England location is far from ideal. Elliott must weigh the problems associated with the new plant to the benefits of increased capacity. If all forecasts confirm the need for the increased capacity before the new state-of-the-art facility opens in three years, then perhaps Elliott should seek an alternative location.

Since the new plant will be located in the southwest, perhaps temporary space could be found there. Another alternative would be to plan the production of the new plant to open in stages. Perhaps that would forestall some of the demand requirements. A third alternative would be to try to locate manufacturing space nearby one of the existing Byte facilities. When the temporary plant would close, job opportunities could be found in the permanent facilities. Production efficiency might increase production at the existing facilities. If no other alternative is available, then Byte should be up front about the temporary nature of the work. Byte might have to offer assistance to workers in the form of housing or credit. Byte might also guarantee jobs in the new southwestern plant to any worker willing to relocate. Byte must see the opening of the temporary plant as a means to stop the erosion of the market share, but not as a way to increase profit margins. Understanding that the facility would never boost the bottom line is necessary. Sacrifices might, or must, be made by Byte if they go with the New England plant.

**IX. EFAS, IFAS, AND SFAS EXHIBITS**

Were inappropriate for this case.

**X. FINANCIAL ANALYSIS**

Was inappropriate for this case.