**1. Tilting at Windmills in Puerto Rico**

The company, Windmar, has purchased land adjacent to the Bosque Seco de Guanica in Puerto Rico. Their plan is to build a small windmill farm to generate electricity that can be sold to the public utility, the Autoridad de Energia Electrica. Windmill technology is considered desirable because wind is an abundant, clean, and renewable resource. But local opposition has stalled this effort. Concerned citizens object, first of all, to being excluded from the public hearings that were held to assess Windmar's windmill project. Opponents also claim that windmill technology can kill birds on the endangered species list and damage the fragile ecosystems protected in the Boseque Seco de Guanica, an important nature preserve in Puerto Rico. They also suspect that the windmill project has the ulterior motive of attracting industrial development into southern Puerto Rico. What risks accompany windmill technology, and how can they be dealt with ethically?

**2. The real price of cell phones**

Recently, a series of microwave antennas have been built in Puerto Rico in the Atalaya hills between the western cities of Mayaguez and Moca. Different kinds of antennas serve different purposes; some provide citizens with cell phone service while others make it possible to track hurricanes and other weather developments. The problem is the impact on the people who live in the surrounding areas. Many antennas have been built within five hundred yards of private residences with some as close as one hundred yards. Local residents were not consulted when the decision was made to build them. They claim that they have suffered a disproportionate number of health problems caused by the EMFs (electro-magnetic fields) generated by the antennas. Construction and repair activities occur at all hours, day and night, disrupting sleep and other normal activities. How should the cell phone companies, government agencies, and other stakeholders respond to these health and safety concerns? How should the possible risks to health and safety associated with antennas be assessed and communicated?

**3. No Copper Mines in Puerto Rico**

Starting in the mid-1950's, several international mining companies have attempted to receive permission from the Puerto Rican government to construct mines for gold and copper. Orebodies located in the mountainous central region of the island, have attracted several proposals for mining projects ranging from large to small scale. Concerns about water pollution (produced by tailings or mining waste products), air pollution (accompanying the proposed copper smelting plants), and disruption of the agrarian lifestyle still alive in central Puerto Rico became focused into considerable political and environmental opposition. Several mining proposals were defeated as citizens' interest groups formed and intensively lobbied the government not to permit mining. One mining site, located in the Cala Abajo region, has been reclassified as a nature preserve to block further attempts at mining. Mining could benefit the areas around the proposed mining sites by generating much needed jobs and tax revenue. But these benefits come accompanied by increased risks to the environment as well as public safety and health. How should these risks be assessed? Under what conditions, if any, could they be deemed acceptable? What processes should be set into place by the government to ensure adequate public participation in determining whether these risks are acceptable? How should risk information be communicated to a public which is isolated and still largely illiterate?

**4. "No" to the Coal Plant**

In the early to mid-1990's, a consortium of U.S. and Spanish power generation companies proposed an electricity-generating plant for the Mayaguez area that employed co-generation technology fueled by coal. Not only would this privately owned plant sell the electricity it produced to the Autoridad de Energia de Electrica; it would also sell the steam by-product to the two local tuna canning plants that had been operating in the area since the 1960s. But local opposition arose to derail the project. Coal is a non-renewable resource that produces noxious by-products that contribute to acid rain and global warming. Geologists pointed out that the plant would be located dangerously close to an active earthquake fault. Environmental groups raised concerns about water pollution, especially further deterioration of the already endangered coral reef in the Mayaguez Bay due to the discharge of the heated water employed to cool the components of the proposed plant. In televised public hearings, company engineers testified on design modifications to keep endangered species such as manatee from being sucked into the plant through water intake pipes. On the other side of the debate, the Puerto Rico energy utility, the Authoridad de Energia Electrica, predicted energy shortages beginning around the year 2000. (These warnings have been vindicated by the frequent brown-outs and black-outs that residents currently suffer through.) They also argued that the western part of the island needed its own energy-generating facilities to hold onto crucial industries like the textile and tuna canning plants located in the area. Finally, they turned to the use of coal to generate electricity as an effective substitute for petroleum which is used to generate most of the electricity used by Puerto Ricans. Since the rejection of the project, the textile industry has all but disappeared and one of the two tuna canning plants has relocated to Taiwan. Can government play the role of "honest broker" between private industry and a suspicious public? Should public utilities contract with private industry to meet energy and other infrastructure needs? What are the environmental risks of co-generating technology? How can these be responsibly communicated to the public? How should all stakeholders weigh environmental, safety, and health risks against infrastructure expansion and economic development?

**5. Ethical Issues in Risk Management for Business**

Each of these cases raises risk issues that cannot be settled by process alone but require substantive debate focusing on the fragile ethical values embedded in the surrounding socio-technical system. The stakeholders have at times worked together but more often engage in conflict over seemingly incompatible yet essential interests. Private industry has designed these projects to respond to real, market-based needs. For example, Puerto Rico desparately needs clean, renewable and sustainable sources of energy to protect its fragile environment and reduce its dependency on foreign oil. Yet other stakeholders, especially a public with complex and vital interests, have banded together to oppose these and other initiatives. Local residents demand a right to a livable environment, raise health and safety concerns, and assert civil rights based on distributive justice, free and informed consent, and due process. Past experiences with ambitious but poorly designed and executed business and government projects have consumed social capital and undermined public trust. Continuing development under these conditions has proven difficult. The Puerto Rican government has consistently been in the middle attempting to mediate between these contending parties. Can government play the role of "honest broker" and help lead conflicting stakeholders to political and social consensus? Can government lead the substantive ethical debate into applications of distributive justice, informed consent, and sustainable environmental value? Or should it step out of the way and let the public and private industry fight it out on their own? What role do free (or semi-controlled) markets have to play in mediating this conflict? This module will help you explore these problems through the prism of risk. You will study the different aspects of risk and learn about their ethical and social implications. The final objective is to help you manage risk ethically through responsible assessment, perception and communication.

**Three CSR Challenges**

*Introduction: Patricia Werhane discusses how six corporate organizations deal with three CSR challenges: (1) carrying out oil drilling in a corrupt political environment, (2) working with suppliers who impose sweatshop conditions on employees, and (3) addressing the HIV/AIDS challenge in Africa. Each challenge elicits two corporate responses, one from a shareholder or stakeholder perspective, the other from an alliance perspective. Shell Oil's response to political corruption in Nigeria will be compared with Exxon/Mobile's response in Chad and Cameroon. Nike's answer to public criticism of the employment practices of its third world suppliers will be compared to Wal Mart's reputedly heavy-handed treatment of its employees and suppliers. Finally, while the pharmaceutical industry has developed an expensive drug cocktail to treat HIV/AIDS in patients in developed nations, the NGO (Non Government Organization), the Female Health Company, has designed a program to distribute of condoms to prevent infection in the first place. These paired corporate responses to CSR challenges are not provided in support of the position that the superiority of the alliance approach is a "no-brainer." Instead, they provide you with a menu of CSR strategies that you will evaluate using the CSR framework you will develop out of the social contract that between business and society. These three CSR challenges come from Werhane (2007)*

**6. Operating in a Corrupt Environment**

A big challenge facing multinational corporations is how they should respond to local corruption. Both Shell Oil and Exxon/Mobile sought to carry out drilling operations at sites plagued by corrupt local and national governments. Shell took a shareholder approach arguing that their primary CSR was to their stockholders and that involvement in corrupt local politics would be tantamount to paternalism. Exxon/Mobile, on the other hand, adopted a more active approach. They took expensive measures to mitigate the environmental impact of their operations. They also hired and provided technical training to local residents. Finally, they worked to ensure that the revenues they introduced into the local communities were not lost through political and business corruption.

* What are the CSRs of multinational corporations that operate in corrupt local environments?
* Are these fashioned around the minimal obligation of creating no additional harm? Or should they expand to preventing harm (if possible) that others are about to inflict?
* To move even further up the ladder of responsibility, do multinational corporations have positive, supererogatory responsibilities that consist of adding value to the communities they do business in?

**7. Vicarious CSR: Responding to Supplier Sweatshops**

Vicarious responsibility occurs when one agent accepts responsibility for actions executed by another. For example, under agency theory, the principal bears overall moral and legal responsibility for the action since he or she has originated it. Although the agent executes the action, he or she is responsibility only for executing the action faithfully and treating the principal's interests as his or her own. In this context, can we hold corporations such as Nike and Wal Mart vicariously responsible for the morally questionable actions of their suppliers? If so, then under what conditions? Nike fell under siege when the press found out that its suppliers based in the third world imposed harsh, sweatshop conditions on their employees, including child labor. Nike could have argued that this was beyond the scope of their repsonsibility. How could they be held vicariously responsible for the actions of another? Their job was to produce shoes at the lowest possible price to deliver an affordable quality product to customers and to maximize shareholder value. But Nike went beyond this minimal responsibility to carefully vet suppliers and to work with them to improve working conditions. Thus, they expanded the scope of their CSR to include improving working conditions for, not only their employees, but also the employees of their suppliers. Wal-Mart has been identified by Collins and Porras (Built to Last) as a highly successful and visionary company. It has certainly led the way in providing consumers with high quality products at surprisingly low prices. But the savings it provides to customers and the high returns it guarantees investors are purchased at a high price. Wal Mart prevents its employees from joining unions which has lowered their wages and restricted their health and retirement benefits. Wal Mart employees are also expected to work long hours for the company. While it provides cheap, high quality products to its customers, Wal Mart pushes suppliers narrowing their profit margin and placing upon them the responsibility of supplying product just-in-time to meet demand. In its earlier days, Wal Mart targeted small towns. Their competitive practices forced less aggressive, local business to leave. While they have brought considerable benefits to these communities, they have also seriously changed established business and social structures. Finally, Wal Mart, like Nike initially, exercises minimal supervision over their suppliers many of whom are oversees. Wal Mart suppliers also have been known to impose harsh working conditions on their employees.

* From a broader CSR perspective, is Nike maximizing stakeholder value? Is it redistributing burdens and costs from customers and investors to its suppliers and their employees? Does CSR allow this redistribution of the corporate wealth form the shareholders to other stakeholders? (Think about Friedman's arguments here.
* If it is necessary to trade off stakeholder stakes as both Wal Mart and Nike do, which trade off is more just? Nike's distribution of its wealth from its stockholders to the needy manifested in its efforts to improve the working conditions and income of the employees of its suppliers? Or Wal Mart's distribution of benefits to its stockholders and its comparatively prosperous customers?
* Which model would Friedman prefer under the his version of the shareholder view of CSR? Explain and evaluate.
* Which model would be preferable by Evan and Freeman under the stakeholder view? Who are Nike and Wal Mart's stakeholders? What are their stakes? How should the wealth produced by these two corporations be distributed among their stakeholders?
* Werhane, in her alliance model, argues for the importance of a CSR model that decentralizes the corporation and facilitates morally imaginative solutions. Why does she argue that Nike's program is than Wal Mart's from this perspective? What could Wal Mart do to improve its CSR on the alliance view?

**8. Facing the AIDS Challenge in Africa**

The widespread and devastating effects of the AIDS epidemic in Africa are well known. But what are the responsibilities of corporations in the face of this terrible CSR challenge? Should they do business as usual and allow others who are perhaps more qualified respond to this pervasive social problem? Or should they recognize a broader responsibility to channel their wealth, knowledge and expertise toward mitigating this social problem? Pharmaceutical corporations invest huge amounts of money in research and development. The market place is a good place for both encouraging this necessary risk and for distributing it among several groups and interests. Developing new medicines requires costly research. So Friedman's question is highly pertinent here: does imposing CSR on a corporation do more harm than good because it interferes with the delicate mechanism of the market? At any point along the way, the product may not meet expectations, a competitor may beat the pharmaceutical to the market, the regulatory process may delay or even prevent sale, and so on. The rewards from patenting a successful medicine are astoundingly high. But heavy, possibly devastating losses are also possible. Adding CSR to the mixture may be the formula for corporate disaster. Pharmaceutical corporations also face daunting challenges from regulatory agencies such as the Food and Drug Administration. New products must be exhaustively and painstakingly tested to avoid problems that have arisen in the past such as the Dalkon Shield and Thalidomide. Again, considerable effort must be expended in exploring the middle and long term consequences accompanying product and drug use, and all of this before the product can be marketed and profits made. Government regulation also raises another problem. Is government prodding necessary to force corporations into a proper CSR posture? Or should corporations be allowed to develop voluntarily their own CSR responses?

In the case at hand, pharmaceutical companies have invested considerable resources to carry out research into medicines that control HIV infection and prevent it from developing into full-blown AIDS. But these treatments are very expensive and bring with them considerable side effects. An anti-AIDS chemical cocktail can cost patients in developed nations between 15 and 20 thousand dollars per patient per year. This is far beyond the financial resources available to a typical HIV/AIDS patient in Africa. Some NGOs and critics of the pharmaceutical industry accuse the latter of gouging victims and drawing excess profits from the misfortune of others. A spokesperson for "Doctors Without Borders," for example, claims that the AIDS treatment "cocktail" that costs U.S. patients 15 to 20 thousand dollars could be made available to Africans at less than 300 dollars per patient per year. Pharmaceuticals, according to their critics, need to rethink their CSR, cease operating as for-profit businesses, and make these drugs available to third world sufferers at cost.

* What are the CSRs of multinational pharmaceutical corporations for making HIV/AIDS drugs available to victims in the poverty-stricken nations of Africa? Are they responsible for charging what the market will bear? Assuming they have the right to recoup their heavy investment in research, should governments, recognizing the necessity of compensating drug companies for their research, buy these drugs and redistribute them at little or no cost to those who can't afford them? Or should the pharmaceuticals charge more to those who can pay and less to those who cannot? (This redistributes the burden of cost from the haves to the have nots.)
* Many NGOs have taken the stance that their responsibility lies in pressuring drug companies to do the right thing and donate medicines to patients who cannot pay. This is their corporate social responsibility, and the pharmaceutical industry certainly has enough money to do this. But others have tried to reframe this issue using moral imagination. Treating individuals for HIV infection once they have contracted it is expensive no matter how you look at it. But, redefining the problem, can moderate and affordable measures be taken to prevent the spread of the disease?
* This is the imaginative approach taken by the Female Health Company which has initiated a widespread effort to distribute condoms to those at risk for contracting AIDS.
* How does the approach of the FHO exemplify Werhane's alliance model? How should pharmaceutical companies respond to this kind of initiative? Is it necessary to frame the relation between the pharmaceutical industry and NGOs as an adversarial relation or should broader alliances be formed that coordinate the efforts of these groups?

**9. Arthur Andersen**

Once a highly respected company, Arthur Andersen no longer exists having gone bankrupt in the wake of the Enron disaster. Arthur Andersen provided Enron with consulting and accounting services. The consulting division was more successful but the accounting division, with its long tradition of outstanding ethical service, was the corporation's backbone. Arthur Andersen signed off on Enron's use of mark-to-market accounting which allowed Enron to project optimistic earnings from their deals and then report these as actual profits years before they would materialize (if at all). They also signed off on Enron's deceptive use of special purpose entities (SPE) to hide debt by shifting it from one fictional company to another. With Arthur Andersen's blessing, Enron created the illusion of a profitable company to keep stock value high. When investors finally saw through the illusion, stock prices plummeted. To hide their complicity, Arthur Andersen shredded incriminating documents. For federal prosecutors this was the last straw. The Justice Department indicted the once proud accounting firm convinced that this and previous ethical lapses (Sunbeam and Waste Management) showed a pattern of unabated wrongdoing. Arthur Andersen was conficted of obstructing justice on June 15, 2002 and closed its doors shortly after.

AA Timeline (Taken from Smartest Guys in the Room)

1. 1913--Founded by Arthur Andersen: "think straight, talk straight"
2. Stood up to Railroad company in early years. When asked to change accounting standards, Andersen said, "There is not enough money in the city of Chicago [to make AA give into client demands]"
3. 1947-1963--Leonard Spacek became president of AA succeeding Arthur Andersen.
4. Spacek helped motivate the formation of the Financial Accounting Standards Board. AA also served as conscience of accounting profession criticizing the profession and the SEC (Securities and Exchange Commission) for "failing to square its so-called principles with its professional responsibility to the public."
5. 1963-1989--Slow erosion of standards and development of competition between accounting and consulting divisions. (Consulting division was developed to take advantage of a profitable direction in the financial induistry.)
6. 1989--Consultants achieve relative autonomy as "separate business unit." (McLean: 144)
7. 1997--Consultants break from firm.
8. 1988-1991--Arthur Andersen receives 54 million in fees from Enron
9. 2000--Enron pays AA 52 million. The lion share of this was for consulting fees.
10. June 15, 2002--AA found guilty of obstruction of justice. "Today's verdict is wrong....The reality here is that this verdict represents only a technical confiction." (McLean: 406)

**10. Hughes Aircraft**

Howard Hughes founded this company at the beginning of the twentieth century. Hughes became a regular supplier of military hardware to the U.S. military. In the 1980's this included parts for surface to air misiles and fighter aircraft. One division specialized in computer chips designed to convert analogue information to digital for use in guidance systems and decision support systems. For example, these chips interacted with radar to help pilots of fighter aircraft avoid enemy missiles and also served as an essential component for missile guidance systems, the so-called smart bombs. Hughes had won the competitive bids for these highly profitable military projects but they had also committed themselves to tight delivery schedules with inflexible deadlines. And on top of this, the U.S. Airforce demanded that these computer chips and the systems that integrated them be rigorously tested to show that they could withstand the severe environmental stresses of battle. Hughes soon fell behind on the delivery of these computer chips causing a chain reaction of other delays both within the company and between the company and other links in the military supply chain. The environmental tests carried out by quality control under the supervision of Frank Saia had worked hard to complete the time-consuming tests and still remain on schedule with deliveries; hot parts (parts in high demand) were pulled to the front of the testing line to keep things running but soon even this wasn't enough to prevent delays and customer complaints. Giving way to these pressures, some Hughes supervisors pushed employees to pass chips without testing and even to pass chips that had failed tests. Margaret Gooderal and Ruth Ibarra resigned from the company and blew the whistle on these and other ethical failings that had become rampant in Hughes. So the corporate social responsibility question becomes how to change this culture of dishonesty and restore corporate integrity to this once innovative and leading company. (Background information on Hughes can be found at computingcases.org.)

**11. Patricia Dunn v. Tom Perkins on Corporate Governance**

When Patricia Dunn became a "non-executive" chairman of Hewlett-Packard's board on February 7, 2005, she brought with her an outstanding reputation in corporate governance. Her top priorities were to oversee the election of a new CEO after the firing of Carly Fiorina whose management of the recent acquisition of Compaq had lost her the HP board's support. Dunn also was determined to stop leaks to the press from high-level HP officials. She viewed the latter task as a fundament component of the post-Enron corporate governance approach she felt was needed as Hewlett-Packard moved into the 21st century. But her formal take on CG was at odds with powerful board member and successful venture capitalist, Tom Perkins. In his opinion, too strict an approach to CG stood in the way of HP culture and took focus away from competing with Dell and IBM as well as staying on the cutting edge in the development of new technology. As the leaks continued, Dunn's investigation into their source (most likely a discontented HP board member) became more active and rigorous. And the disagreements between her and board member Perkins deepened; their incompatible views on CG (and other disagreements) led to Perkins's resignation from the HP board. Things became critical when Perkins received a letter from A.T. and T. informing him that an account had been established in his name (but without his knowledge or consent) using the last 4 digits of his social security number and his private phone number. During the HP-led investigation into the press leaks, a private investigation firm used an illegal technique known as "pretexting" to obtain confidential information about HP board members and news reporters including private phone and social security numbers. Perkins reported this to the SEC, and Patricia Dunn, as chairman and de facto head of the leak investigation, was indicted on four criminal charges including identity theft.

Dunn focused on incompatible views of corporate governance as one of the causes of the rift that had developed between her and Perkins's: "Tom's model of governance may be appropriate in the world of venture capital, but it is outmoded and inappropriate in the world of public company governance." (Stewart, 165) She also made clear her strong views on board members leaking confidential information shared during board meetings to the press: "The most fundamental duties of a director--the duties of deliberation and candor--rely entirely upon the absolute trust that each director must have in one another's confidentiality. This is true for trivial as well as inmportant matters, because even trivial information that finds its way from the boardroom to the press corrodes trust among directors. It is even more critical when discussions can affect stock prices....Leaking "good" information is as unacceptable as leaking "bad" information--no one can foretell how such information may advantage or disadvantage one investor relative to another." (Stewart, 156)

**Questions on all three cases**

* How can successful corporate governance programs be integrated into companies with free-wheeling, innovative cultures without dampening creative and imaginative initiatives?
* How does one make sense of the fundamental irony of this case, that a conscientious pursuit of corporate governance (attacking violations of board confidentiality) can turn into violation of corporate governance (violation of the privacy and persons of innocent board members)?