

RESOLVING ETHICAL BUSINESS CHALLENGES*

Mary, a recent college graduate from Stanford University, works for JSYK Incorporated, a realty company that represents clients interested in either buying or selling businesses. As a "business broker," Mary's job is to arrange sales just like a normal realtor. On the outskirts of town, a small building used for manufacturing sat idle for over a year. The realtors called it Moby Dick because no one could find a buyer for it; either the price was too high or the building did not quite match the buyer's needs. Dozens of potential buyers had come and gone. It did not help that the building was owned by Ted St. Clair, a 65-year-old miser that lived in the town all his life. The man had a reputation for hoarding every last dime. Ted made Dickens's Scrooge look saintly. While JSYK Incorporated told Ted more than once he needed to lower the price if he wanted to sell the building, Ted always refused.

One hot afternoon Reverend Smith, a retired minister, contacted JSYK and asked if he could look at the property. Because Mary was in the office it was given to her. While they inspected the building, the conversation came around to what Reverend Smith would do with the building. He had recently formed a nonprofit corporation to aid troubled youth and wanted to convert the building into a recreation center. Mary knew Reverend Smith because she formerly attended his church. She knew of his honesty and integrity as well as his decades of service.

When Mary returned to the office, the Reverend was seriously talking about the building and how it could be refitted for his purposes. As they talked, the Reverend asked about the machinery still in the building. Some of the machines at the manufacturing plant were in poor condition and required an estimated \$100,000 to repair. Reverend Smith had no use for them and would need them removed.

After preliminary discussions, Mary said she would contact the owner. "Reverend, I believe the seller is asking for a \$250,000 down payment on this \$1,000,000 sale."

"I can't afford that much," replied the Reverend. "I've been saving donations for a number of years and I only have \$150,000."

"If I may ask," asked Mary, "How are you going to pay the balance?"

"Well, I've spoken to some older church members, and they told me that if I could make the down payment, they would cover the rest."

"I'll try to work with you on this. Give me a few days and I'll call you," said Mary.

As Reverend Smith left, George, the owner and CEO of JSYK, came into the office. "What did Reverend Smith want?" asked George.

"He's actually interested in Moby Dick, and I believe it matches his needs perfectly."

"That's great!" George replied. Then he noticed Mary's face. "So what's the problem?"

"You and I both know Ted will not come down on the price." Mary quickly explained the situation, with George listening intently. After she was done, George said, "Mary, this is what you are going to do. I want you to convince Ted that repairing those machines is important to the buyer. DO NOT tell him who it is. Tell Ted the buyer wants the machines, but the repair estimate he calculated is \$150,000. Tell Ted you know you can get the buyer to buy if the down payment was reduced to \$150,000 and the asking price to \$950,000. Finally, tell Ted he would be making an additional \$50,000 for not having to do the repairs."

"I don't know about this," said Mary. "It doesn't feel honest, and besides Reverend Smith has not approved the deal, nor do I believe he would want me to lie on his behalf."

George replied, "Mary, the Reverend is going to do something good with that building. You and I both know Ted will never get more than this. We're just helping him make the best deal possible."

Mary still was not certain. Although Ted was a miser, it did not feel right to lie. Besides, she wondered what Ted would do after he found out the Reverend had no use for the machines.

QUESTIONS | EXERCISES

1. How is top management supporting a culture of ethical or unethical behavior?
2. Discuss the alternatives and duties Mary has as a representative for both the buyer and seller.
3. If realtors have a code of ethics that requires truthful and transparent information, what should Mary tell George, the owner of JSKY?

*This case is strictly hypothetical; any resemblance to real persons, companies, or situations is coincidental.