

Note

After the first case on Medtronic Inc. that was an “evaluation-oriented” case our friend from Peru offers a “decision-forcing” case.

LIFE OR DEATH FOR “EL RANCHO CHICKEN FARM”

Author: Eduardo Schmidt, SJ

Professor of Business Ethics

Universidad del Pacífico: Lima, Perú

(This case is based on information provided by a former student.)

The “El Rancho Chicken Farm” is located about ten miles from “Ciudad Capital”, the capital of Latinia. It has very modern installations and is one of five large farms that provide chicken for more than 95% of the population. “El Rancho Chicken Farm” is a family owned enterprise that has a business philosophy oriented toward the maximization of short-term profits. According to this philosophy, long-term results are to be measured by adding up the profits obtained over a period of years. Since they have limited experience with raising and marketing chickens, the owners have hired Carlos Crow as the general manager of the farm. He has worked with chicken farms for many years and would like to run the business as though it were his own. However, he knows all too well that the only way to conserve his job is to produce the results desired by the owners.

The economy of Latina is experiencing an economic crisis. In order to control a serious balance of payments deficit and an abysmal fiscal deficit, the government of Latinia has taken control of all banking operations in foreign currency. This means that in order to purchase anything that must be imported, all companies must obtain authorization to buy dollars from the Central Bank of Latinia at the official exchange rate. This official rate is always considerably below what could be obtained in the black market. Since most of Latinia is either too high or too low in altitude, too wet or too dry, too hot or too cold to be able to grow anything, local producers cover only 20% of the demand for balanced chicken feed. The other 80% must be imported. To make matters worse, the government has established price controls for products considered to be “basic necessities”. Since “chicken” is included in this category, the government determines the price at which chicken can be sold to the public.

When the government took control of foreign exchange, representatives of the “Ministry of Economics and Trade” met with representatives of the five largest chicken farms. During a series of meetings, an agreement was reached concerning how many chickens should be necessary in order to supply the market demand at the official, controlled price. The representatives of the five chicken farms proposed that permission for dollars needed to purchase and import grain be based on market share determined by a recent study undertaken by an independent research firm. The government representatives agreed that this would be a fair arrangement. Based upon this agreement, each chicken farm was authorized by the “Ministry of Economics and Trade” to purchase from the Central Bank the amount of dollars necessary to import their respective quotas of grain.

Having obtained this agreement with the government, representatives of the five chicken farms met on their own to establish a gentlemen's agreement that would maintain the "status quo." They all agreed not to raise more than their allotted quota of chickens or to lower prices. This agreement seemed to set up a "win-win" situation that would favor all five farms as well as the consumers who would be able to purchase chicken at the official market price. Another advantage of this agreement was that it would make black market operations on the part of intermediaries much more difficult. In Latinia most chickens are sold fresh every day in neighborhood markets.

At first it seemed as though all five chicken farms were respecting the above-mentioned gentlemen's agreement. However, three months later there was a rather sudden and significant increase in the number of chickens reaching the market place. This increase was so significant that it brought about a decrease in the price of chicken at the expense of the profit margins of the intermediaries and those who sold chickens in the neighborhood markets. The government proudly announced that this decrease in price proved that the austerity measures it was taking were indeed benefiting the man in the street.

As was to be expected, around this same time chicken feed became scarce in Latinia. When Carlos Crow tried to purchase additional feed from the only local provider, he discovered that the price had doubled! Even at this new price, the local provider could only offer him half of the amount of chicken feed that he usually purchased every month. It was obvious to Carlos that the only solution would be to obtain more dollars in order to import additional grain.

Conscious of the need for concerted action, Carlos Crow called for an urgent meeting of representatives from the five largest chicken farms. The atmosphere at this meeting was tense and full of mutual distrust. Everyone was asking the same question: "Where are the excess chickens coming from?" All those present denied having violated the gentlemen's agreement concerning levels of production. The representative of the largest farm, "Oveja Negra", suggested that the increase might be coming from informal, small-scale providers whom it would be very difficult, if not impossible, to locate. This explanation did not sound very convincing to Carlos Crow. Such a large and sudden increase would only be possible if the small-scale providers were organized as a network and financed by someone who really knew the business. Thanks to certain personal contacts who had provided him with confidential information, Carlos Crow knew that the largest of the five farms, "Oveja Negra," was responsible for the increase. However, he said nothing at the meeting since he had no "smoking gun."

Being a practical man, Carlos Crow suggested that instead of continuing their mutual recriminations, it would be best to look for a quick solution. It should be noted that from the viewpoint of cost/benefit, chickens of the type raised by the five farms should be taken to market forty-seven days after hatching. If they are sold earlier, profit margins decline due to underweight. The same occurs if they are sold later since additional feeding only serves to keep the chickens alive with no significant weight increase.

The solution that Carlos Crow presented was to ask the government for permission to obtain additional dollars in order to import more chicken feed. It was agreed that each farm would ask for a fifteen percent increase in the amount of dollars that they had been authorized to obtain for purchasing and importing chicken feed. Since a good friend of Mr. Crow held a key position in the "Ministry of Economics and Trade" it was agreed that he would do the paperwork for all five farms. The only reason that the others accepted working through Mr. Crow was that if they were to try to obtain authorizations on their own, the government bureaucracy would cause delays that would be catastrophic.

The next day Carlos Crow met with his friend, Alberto Magno, at the "Ministry of Economics and Trade." When Alberto Magno asked what had happened, Carlos told him that he was almost certain that "Oveja Negra" was responsible for the crisis but that it would be very difficult to prove it. Upon hearing this explanation, Alberto remarked that this would not be the first time that "Oveja Negra" had gone back on its word. Both men agreed that it would be good to teach "Oveja Negra" a lesson. Alberto Magno offered to see to it that part of the increased quota that would normally be assigned to this disloyal competitor be assigned rather to "El Rancho Chicken Farm." However, there was a catch: the person in charge of assigning the increase in quotas would have to be "properly motivated". The proper motivation would be one hundred dollars. Carlos Crow considered that this punishment was certainly warranted and the price was certainly reasonable; however, he did not accept the offer due to the fact that he feared the reaction of all of the other farms should they discover that he himself had benefited from such an arrangement.

Given the atmosphere of mutual distrust that had arisen, it was not surprising that each chicken farm reverted to their former policy of aggressive competition. Nor was it surprising that each farm decided to purchase at once as much chicken feed as possible instead of staying with their original schedule for importations. Each farm made their own arrangements to import quickly as much grain as possible from nearby countries. Whoever managed to obtain chicken feed first would be able to survive the crisis. Those who suffered delays for any reason would probably be forced to go out of business.

As if he did not already have enough problems on his hands, Carlos Crow received a visit from Harold Hawk, a representative of the one and only association of chicken wholesalers. Harold stated that due to the drop in the sale price of chickens, the profit margin received by the wholesalers had been greatly reduced. Harold Hawk also noted that he was well aware of the problem caused by the lack of chicken feed. He offered to continue buying the same number of chickens each day from "El Rancho Chicken Farm," provided that they give the wholesalers, whom he represented, one chicken free for every ten chickens purchased. Carlos Crow did some quick calculations. "El Rancho Chicken Farm" is the most efficient of the five farms. However, it must continue to sell chickens every day during the crisis, even if the birds are a bit underweight. If he accepts the proposal of Harold Hawk, he will break even during the duration of the crisis: if not, the losses will be so great as to endanger his job and possibly put in danger the existence of "El Rancho Chicken Farm." Carlos Crow decided to bide for time in order to carefully consider this proposal. He explained that he would have to consult with the owners before accepting such an offer. Harold Hawk agreed to return two days later for an answer.

Carlos Crow had just finished his meeting with Harold Hawk when he received an urgent telephone call. It was from a "dynamic agent" who worked in the Port Facility at Ciudad Capital. "Dynamic agents" in Latinia could best be described as "bribe facilitators." When someone in business wants to get around the rules, he or she can pay one lump sum to a "dynamic agent" who then pays off all of those who must cooperate in order to grant the request. This "dynamic agent" explained that he was aware of the crisis that had arisen due to the lack of balanced chicken feed. He said that he realized that each of the five farms would be importing grain that would arrive on a different ship. Furthermore, he knew that all five ships would arrive within a period of 48 hours. He reminded Carlos that there was only one dock equipped with special suction machinery capable of offloading bulk quantities of grain. The normal procedure at the port specified that ships should be unloaded according to the order in which they arrived. However, the "dynamic agent" stated that for a modest fee of \$2,000 he could arrange things so that the ship containing grain for "El Rancho Chicken Farm" would have absolute priority upon arrival. Otherwise, said ship would have to wait until all of the other ships took advantage of his "services." The proposal was all too clear: either pay \$2,000 to get ahead of the line or pay nothing and be the last one served. The difference in time could well make or break "El Rancho Chicken Farm". Once again, Carlos decided to bide his time. He asked that the "dynamic agent" call again the next day for an answer.

Carlos Crow finds himself in a very uncomfortable position. He has always taken pride in the fact that he has been able to conduct business without paying bribes of any type. However, the present situation in which he finds himself presents challenges difficult to meet without violating his principles. And yet, there must be some ethically acceptable way to solve each problem. As he sits down at his desk to ponder the situation, he remembers something that his professor of business ethics said at the end of the course: "When it is a question of facing up to ethical dilemmas, be as shrewd as you are when it is a question of defending your own pockets." "Creole shrewdness:" the creative ability to use one's ingenuity in order to get around seemingly insurmountable problems; that would be the answer. But "how"?

Please advise Carlos!