CASE: Riding a Fine Line

“Just keep doing business the same way you’ve been doing it. Don’t tell them anything has changed.” Such were your direct instructions from the new CEO of your company concerning how you should conduct business with a longtime supplier which your company plans to quit using in a few months.

You are the manager for a bicycle manufacturing business that has annual revenues of $4 million. Your business is one strategic business unit within a diversified company with revenues of $1 billion. Your new CEO has decided he wants to liquidate your unit and use the cash from that liquidation for other “more profitable” business opportunities. You currently have approximately $2 million in inventory. If anyone learns that your company will be discontinuing the bicycle line, that inventory will immediately lose half of its value. Retailers would have to discount the bicycles significantly if the line were discontinued.

You have been the primary contact with the major supplier of parts for your bicycles for many years. This supplier is based in a small town in Brazil, and it is a family-run business. When you started working with the company, it employed five people and was a supplier to several companies. Today it employs twenty-eight people and provides a majority of its products to you and generates the majority of wealth for its small village. The company has been an excellent supplier. When you’ve had unexpected spikes in demand, the supplier has worked very hard to get you your needed parts as quickly as possible. After several of these spikes, and in order to serve you better, it began building inventory so it would always be able to meet your needs immediately. This has helped you to be profitable. You also began providing the supplier with historical sales figures to help it to predict coming demand, and have continued providing this information for several years.

Under the CEO’s plan, you will continue to manufacture bicycles for the next three months and then discontinue manufacturing and only sell bicycles until your inventory runs out. He does not want to inform the market in any way that you will be discontinuing the line. Thus you’ve been instructed not to inform the supplier. Of course, you realize and have explained to the CEO that this supplier will continue to build inventory tailored to your use that will be worthless if you don’t buy it. This will most definitely put this supplier out of business. However, if the supplier knew that you would only be using about three more months of inventory, it would immediately stop production and look for others who could use its manufacturing capacity—thus surely tipping off the market to your impending change. The supplier could probably find other business, but at the very least it wouldn’t spend all that time and money building worthless inventory. You feel you have a responsibility to tell the supplier that you will no longer be buying from it. But your CEO says, “We have no legal contract with the company. It’s their problem, not ours.”

You have tried to come up with several other possible scenarios to help out this company while you make this change, all of which have been rejected by the CEO. He is adamant about his position. You also have a non-disclosure agreement with your company, preventing you from disclosing any important company information. You will continue to be the contact with this company until all business is completed with them. You have always thought of yourself as a very ethical person. Now you ask yourself, “What would an ethical person do in this situation?”

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