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CLASSROOM ENCOUNTERS

In Corporate Ethics, No Easy Answers

By Joe Sugarman

It's 1994 and IKEA, one of the world's largest furniture sellers, is embroiled in controversy. It's been revealed that the company has been buying rugs in India and Pakistan that were produced by child labor. For a company that prides itself on its "do-good" corporate creed, the fallout could be devastating.

Now a German TV station wants to do a live interview, and corporate is looking for a damage-control strategy. As the company's lead attorney, what do you advise?

That was the scenario recently played out in Professor Robert Rhee's Corporate Ethics Seminar. Rhee had the 15 students in the class break into groups, with each assuming the role of a board member, a manager, and an attorney. The questions at hand: Should IKEA accept an invitation to discuss the problem on live TV? Has IKEA's response to the problem been adequate? And, what should the plan be moving forward?

"This case study shows the full context of the problem, not just as a discrete legal problem concerning private contracting between the corporation and its suppliers but as a large scale, unavoidable social problem that modern corporations routinely confront," says Rhee. "This case fully contextualizes the issue of child labor, and it goes beyond the legal issues: Have the suppliers complied with IKEA's contract? Is there a violation of United Nations human rights declarations? What about local Indian laws? The students see the problem from the perspective of the corporation and what factors or goals should influence the corporation's actions and responses."

Once the students break into their groups, they debate possible courses of action. "You can get destroyed during a live TV interview," says second-year student Brian Hoffman. "Maybe we should issue a statement first or do a press conference."

"Wait, we need to find out all the facts first," says Michael Raykher, also in his second year. "Is it systemic? What if the same issue pops up elsewhere?"

"Good, you're thinking like a lawyer," interjects Rhee, who wanders around the room visiting each group. "As good lawyers, we want the facts straight."

"What about getting a third-party auditor to oversee and ensure the producers aren't using child labor?" suggests Saiga Atta, a third-year student.

"But we just discussed issues of bribery in different cultures," notes classmate John Stant, "and it's more prevalent in India. A local person might never say something is wrong."

Professor Robert Rhee brings a wealth of business experience to his corporate ethics course.

Rhee, a former vice president in investment banking at Fox-Pitt, Kelton (a unit of Swiss Re) in New York and an M&A investment banker at UBS Warburg in London, brings a wealth of experience to the classroom. He typically employs in his seminars Harvard Business School case studies, which, he says, "are rich in facts and do not have nice, prepackaged solutions and analyses of the problem found in appellate case opinions." Other recent cases the class has studied include the Hewlett-Packard board spying scandal, the Ford Pinto case, the Bank of America-Merrill Lynch merger during the financial crisis, and the collapse of Enron.

"These cases always make for very interesting classroom discussion," notes Rhee. "We discuss the problems in a broader context, and we try to figure out the role of lawyers, the law, and legal advice. For example, legal advice in the boardroom is typically connected to some transaction, such as a merger or acquisition, but in the Hewlett-Packard case [the 2006 board spying scandal], we talked about how a lawyer in that situation can use legal advice on fiduciary duty strategically to reorient the board toward a healthier social norm and dynamic." Students seem to enjoy the scenarios. "The case studies show real-world implications in a corporate context," says Raykher. "And Professor Rhee is always bringing his experiences into the context of the story." Experiences, he hopes, that will make his students more effective lawyers in the business world.

"At the end of this course, I hope that students understand the social impact of large public corporations," Rhee says. "Some corporations are the size of some countries and they have significant social impact. I hope that my course contextualizes the problem of corporate ethics beyond discrete legal rules and doctrines."

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