Dilemma: Right vs. Right

Dilemma: How to Keep the Chips from Falling?

Mr. Potato Chip Company has been a well-respected New England manufacturer for many years. Recently the company has decided to expand into new markets to assure a competitive advantage. To do this, they will need to attract new investors, and to accomplish that, they will need to show they are capable of producing a solid return on investments each year.

In keeping with these objectives, a policy has been instigated which reduces the finished products' inventory to a rock bottom level each June 30th, which is the end of the company's fiscal year. Why? The lower the inventory, the less money is tied up. This situation, in turn, tends to put the company in a better cash position at year end, which means that more money can be passed on to the stockholders as earnings per share.

As the recently hired production manager, Jane realizes there is a downside to this policy. With inventory levels on June 30 lower than at any other point during the year but with demand for potato chips higher than usual, the net result is an inability to meet the total customer demand for various types of potato chips. In fact, once inventory levels are reduced, it will take more than one month to get the process back to normal and running smoothly again.

The effect, Jane predicts, will be both lost sales at year end and a number of operations problems associated with a low-inventory situation.

For Jane, the dilemma is whether or not to confront senior management with these problems. Should she question outright the wisdom of the policy?

Analysis

She knows, on the one hand, that it is right to provide short-term, bottom-line performance for the company's stockholders. After all, they own the company, and there is nothing inherently wrong with reducing inventory levels, particularly given the need to attract new investors. And, is it really her place to question the decisions of senior management, especially being a new manager?.

But isn't it also right, she reasons, to protect the longer-term interests of the company by providing customers with what they want when they want it? Perhaps if stakeholders were aware of the effects of this policy, they would reconsider being concerned with only the short-term bottom line. If ending the policy will result in more sales, might that not also result in greater earnings per share for stockholders down the road?

Applying the ends-based principle — the greatest good for the greatest number — Jane identifies the "greatest number" as being the customers and the factory workers. The stockholders and senior managers are relatively few in number. So the greatest good would be to change the policy.

As for the rule-based approach, what might the rule be? Do what you need to do — even if it results in some extra costs and customer dissatisfaction — to meet critical strategic plans? Don't play games with numbers at year end no matter what? Always have

enough products in stock to meet the maximum expected customer demand?.

If Jane applies the care-based, or reversibility, principle and puts herself in the position of others, she can readily see that the workers and investors will choose the long-term approach, whereas senior management and the stockholders may well choose the short-term approach. But is a short-term focus really desirable, even from the stockholders' perspective?

Note: This and other dilemmas on this site come to you without their real-life resolutions. We encourage you to think for yourself about how you might resolve them, since the nature of each dilemma is highly individualistic. In sharing these dilemmas, we do not endorse them in any way, but rather offer them for your consideration.

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