

# Revenue vs. Customer Satisfaction

A case study for use in teaching in Engineering & Business Ethics

## Abstract

This case study examines a dilemma between providing the best product for a customer and maximising profit for a company.

## Teaching Format

1 - 2 hours, small group discussions

## Practicalities

This case study is aimed at students who have studied some ethics before. It is a good introduction to ethical issues arising in business.

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## Relevant Ethical Concepts & Issues

- Professionalism
- Honesty
- Integrity

More information about these concepts and issues can be found in the 'Glossary of Terms'.

## Partners in producing this resource

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## Revenue vs. Customer Satisfaction

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Charles North is a software architect for Flex Technologies Ltd, a large company with an established reputation. He is currently writing a tender bidding for work for Replicant Insurance. Replicant need a capability which will enable Independent Financial Advisors (IFA's) to access their products. This capability will not just enable IFA's to purchase Replicant products but also has some account management features. The job for Replicant has two components: (i) to develop a front-end capability enabling IFA's to access products and (ii) to integrate this into Replicant's existing back-end systems infrastructure.

Charles does some background research into the project and concludes that Flex already have the existing technology to undertake the back-end aspect of the job. However, he is not entirely sure about how to approach developing the front-end aspect. There is software in existence which could be applied to this aspect of the project but it would require a lot of tailoring in order to make it suitable for Replicant's purposes. In essence, Flex would have to develop a custom-built application which would need a lot of development and testing. This would be expensive for Replicant but lucrative for Flex.

One night after work, Charles goes for a drink with one of his colleagues, Karen Ellis. Karen has heard that a Spanish company, Seguroware, are also bidding for the Replicant job. She tells Charles that Seguroware are an independent software vendor (ISV). ISV's sell applications which they have built for a particular business purpose; Seguroware already specialise in delivering applications for the insurance business so they will more than likely be able to offer a front-end solution quite easily, and at a lower cost than Flex. Karen knows, however, that Seguroware have very little experience in developing back-end applications; Seguroware are unlikely to be able to compete with Flex on this front. Flex are also a more established company than Seguroware and so are more reputable in the marketplace than their Spanish rivals.

The following day, Charles returns to writing the tender. He looks again at the costings for the front-end capability; they are very high, and while he is confident that Flex can deliver both components of the project, he can't help but feel that the best technical solution is to be found by combining the resources of Flex and Seguroware. This way, the customer would get high specification front- and back-end capabilities. He also feels that Flex's lack of experience with the insurance sector may put them at a disadvantage when it comes to securing the bid, even though their technical expertise is superior in some respects to that of Seguroware; joining forces definitely has its advantages. Charles does not work on commission, but taking this route will reduce the company's revenue by about 50% due to loss of licensing and implementation fees.

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## Questions

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- (i) Flex and Seguroware are the only two companies in competition for Replicant's business. What options do Replicant have in terms of who they give the business to? How good is each of these options in terms of providing value for money and a good technical solution? What are the advantages and disadvantages of each of these options?
- (ii) Charles must decide whether to bid for all of the business or whether to come up with a joint bid in which Flex and Seguroware develop the back- and front-end application respectively. What should Charles do? Give reasons why this is the best course of action.
- (iii) Suppose that Charles decides to go for the joint bid, would he have failed in regard to any duty or obligation? What reasons are there for thinking that Charles ought to promote the financial success of Flex?

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## Tutor Notes

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This case study examines a dilemma often at the heart of any business decision; whether to prioritise maximising revenue for one's company, or whether to put customers' needs first; sometimes the optimal solution to the customer's problem will not necessarily be the one that brings in the most revenue for the business.

To begin with, students should be given time to read the scenario then split into small groups of 5-8 people to discuss the questions. Groups should be given 15-20 minutes to discuss the questions at which point they should report back to the class as a whole and the discussion can be continued. Below are summaries of the kinds of answers to expect and the ethical issues that will be raised in relation to each question. These can be used to prompt further discussion and are also given in brief on the student handout. The handout can be used as a basis for concluding the case study and should be distributed to students at the end of the session.

**(i) Flex and Seguroware are the only two companies in competition for Replicant's business. What options do Replicant have in terms of who they give the business to? How good is each of these options in terms of providing value for money and a good technical solution?**

Replicant have three options:

- Award the job to Flex: This will not be the cheapest option given the amount of time that Flex will have to spend developing the front-end application; this time spent will be reflected in the price that Flex charge. It also does not offer the optimum technical solution; Charles is not confident that Flex can offer a front-end solution as good as that of Seguroware.
- Award the job to Seguroware: This may be cheaper option than going with Flex, depending upon the amount of work that Seguroware have to do on the back-end but as Seguroware lack the expertise there may be holes in this back-end solution.
- Award the job to both companies: This delivers the optimum technical solution and may also be the most cost-effective; Flex and Seguroware already have the existing technologies to build the front and back-end solutions which will cut down on development and testing time required to deliver the solution.

*The aim of this question is to get students to realise which option is best for the customer, Replicant. The dilemma arises once it has been established that the best solution for the customer and the most lucrative option for Flex are not one and the same. The joint solution offers the customer the best balance between performance and value for money, but the best option for Flex is to offer their products only and not join forces with Seguroware as this brings in more money.*

**(ii) Charles must decide whether to bid for all of the business or whether to come up with a joint bid in which Flex and Seguroware develop the back- and front-end application respectively. What should Charles do? Give reasons why this is the best course of action.**

Students will probably split fairly equally between the two options here. Here are reasons which could be given in favour of each option:

**Tender for all of the business:** This option will bring in the most money for Flex. It also provides the customer will a good workable product, even if it is less than perfect. By not taking this option, Charles would have to explain to the sales director why he effectively turned down such a large deal; it is surely part of Charles' job to pursue the deals that are best for Flex. However, an individual bid may not be successful due to Charles' and Flex's lack of experience with the insurance industry; this may therefore be a higher risk option than the joint tender with Seguroware.

**Produce a joint tender with Seguroware:** This provides the customer with the best product. It is also the tender that Replicant may be most likely to accept given that the price will be lower than the one that Flex can offer. It may also be the most financially beneficial solution for Flex in the long-term; by being upfront and honest with Replicant in this job Flex may gain a reputation for trustworthiness and putting customers first. This may lead to repeat business in the

future from Replicant and Replicant may also recommend Flex's services to other companies. However, given that Flex already has a good existing reputation as a company, it may be thought unlikely that Replicant will ever discover that a joint solution was a possibility, and so there is no reason to think that offering Flex's services only will definitely have negative consequences for Charles or the reputation of Flex.

One other reason for pursuing the joint tender may be because it is regarded as the honest thing to do; in Charles' expert opinion, the joint tender will result in the better product for Replicant and, as a professional engineer, perhaps he has a duty to offer his clients thorough and honest advice. (This is discussed further in the next question.)

**(iii) Suppose that Charles decides to go for the joint bid, would he have failed in regard to any duty or obligation? What reasons are there for thinking that Charles ought to promote the financial success of Flex?**

There are two main reasons to think that Charles ought to promote the financial success of his company:

**Self-interest:** Making money for the company benefits Charles personally; if the company goes bust then Charles loses his income. This gives Charles a good reason to go for the individual contract with Replicant, as this will make the most money for Flex and in turn, benefit Charles. However, it is rare that one deal makes the difference between the success and failure of a company, so while Charles has a good reason to make sure that Flex stays afloat, there doesn't seem to be any reason why he should push for more money in this particular case, as long as his work generally brings in revenue for Flex. Also, if Charles does pursue the option that brings in the most money then Flex may not win the deal and so risk making no money at all.

**He has an obligation:** Questions of self-interest aside, it could be argued that Charles has a duty to promote Flex's financial interests: Even if Charles has nothing to gain or lose personally from a deal, he still has a good reason to pursue the deal that makes the most money for the company because, as a company employee, that is what it is his job to do. By pursuing the joint bid, Charles would therefore fail in his duty to make money for the company. However, few people would argue that it is Charles' duty to promote Flex's financial wellbeing at all costs; no one thinks that financial success is the only thing to be considered when contemplating a business deal. For example, few people think that employee safety should be compromised in order to make a company money. So, if Charles does have an obligation to make money for Flex (and it seems sensible to think that he does) then the question at issue in this case is whether there are any other duties or obligations that Charles has which outweigh his duty to make money for Flex. This is where considerations about honesty or the professional duty to be honest are relevant. Although one may agree that Charles should do his duty as an employee of Flex, one might argue that in this case the professional duty to be honest with the client outweighs this other duty. However, one could question whether offering only Flex's products to Replicant would constitute dishonesty on Charles's part. Presumably, Replicant only expect companies to offer their own products and so they would not think that Charles' tender purported to offer the best possible solution to Replicant's needs, but merely the best solution that Flex can provide. This means that Charles would not be dishonest in putting forward the individual bid.

## Conclusion

The reason that this case illustrates an ethical dilemma is that there are competing duties that Charles has: the duties to his employer and his professional duties as an engineer. It seems that Charles cannot fulfil all of these duties at once. The main duty that Charles has to his employers is to act as an agent for the business, and to promote whatever is in that business's interest, mainly by endeavouring to make money on behalf of the company. As an engineer, Charles is required to act honestly and with integrity, and this may extend to providing customers with a fair and honest service. Fulfilling this duty seems to dictate that Charles should offer the joint bid to Replicant as this offers the best product and the most value for money. Fulfilling his duty to Flex on the other hand requires bidding for the whole job as this will bring in the most money.

### **What actually happened?**

Charles managed to set up a meeting with the Spanish company to discuss how the two companies could best collaborate on the project, putting the back-end connectivity together with the rival's application to build a whole solution. This combined solution was regarded as the lower risk approach, both in terms of being most likely to be accepted by Replicant and in offering the solution that would be least likely to fail in any respect. Also, Flex felt that they did not have the business expertise to engage with the business directors with a background in insurance in Replicant to articulate why their solution was better in business terms than that of Seguroware. This meant that going for all of the work could have resulted in losing the deal and so no income at all for Flex and consequently this option was rejected as being too risky. The joint bid was accepted.

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## Student Handout

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### Charles's Dilemma

Charles's dilemma is that the best solution for the customer and the most lucrative option for Flex are not one and the same. The joint solution offers the customer the best balance between performance and value for money, but the best option for Flex is to offer their products only and not join forces with Seguroware as this brings in more money. Charles therefore has to choose between doing what is in the customer's best interest, or doing what is in his company's best interest and there are good reasons for choosing either option. As a supplier and as a professional engineer, Charles has a duty to serve the needs of the customer and a duty to be honest so he has a reason to look after the customer's best interests. However, as an employee of Flex Charles also has a duty to be loyal to them and promote what is in their interests. It is tempting to try and remedy the dilemma by saying that the interests of the customer and Flex are both best served by pursuing the joint tender (the customer is happy and Flex get a good reputation for being 'ethical') but Flex would be losing out on a lot of money, and it is not clear that any enhancement of their reputation would make up for this. The dilemma comes down to working out what duty should take precedence and this will be dependent upon how one views the role of business, and the role of ethics within business.

### Business Ethics

Business ethics is (unsurprisingly) concerned with the ethical issues that apply to business, mainly by considering what counts as morally right and morally wrong behaviour in business. Central to addressing these questions of right and wrong is deciding upon the role of business; what is the function of business within society? Once this question is answered then the *responsibilities* of business and hence what standards of behaviour we can reasonably expect from businesses becomes much clearer. Below are given some different conceptions of the function of a business, each of which results in a different idea concerning the responsibilities of businesses.

- **Business is Business**

According to this view the role of business is to make a profit and nothing else. After all, profit is essential for a business to run at all. This entails that the right thing for a business to do is whatever produces the most profit for the company. In Charles's case, this view says that he ought to pursue the deal that makes the most profit for Flex. This view is largely untenable, however because it suggests that 'anything goes' in business and this is just not true: no one believes that profit should come above all other considerations such as safety, for example and it is legitimate to demand that the behaviour of businesses should be kept within certain moral boundaries. For example, this view would license bribery and extortion if it was profitable to engage in these practices, when clearly such behaviour is unacceptable.

- **Businesses Should Comply with the Law**

A more moderate view is that while it is legitimate for businesses to pursue profits, they should not do so if this would entail breaking the law. The law enshrines certain moral standards of behaviour by criminalising immoral conduct (such as murder) and enforcing moral conduct by means such as safety and employment law. This view entails that businesses must maintain those minimally permissible moral standards that are enshrined in law but they are not required to do anything over and above this. The law does not legislate against all moral behaviour however, and so this means that businesses are not required to adhere to all moral standards. For example, the law does not legislate against all instance of lying, so this would make lying justified under some circumstances, if profit is improved as a result of this. In Charles's case, he would be doing nothing illegal by pursuing the individual tender and so this is a legitimate action if profits are improved as a result.

- **Ethics is Good Business**

Whilst the previous view claims that businesses can sometimes act immorally, as long as they do not break the law, this view claims that good ethics and good business go hand in hand. So while the law may not require businesses to always maintain the highest ethical principles, the businesses that do so will be rewarded with higher profits. This view is increasingly popular in a world where people's consumer choices are often made on ethical grounds- whether the good have been sourced sustainably, whether the workers involved have been paid a fair wage etc. So while businesses do not necessarily have a responsibility to behave ethically, they will profit if they do engage in ethical conduct.

Kaler and Chryssides claim that having a business which behaves ethically can expect relations with consumers and the public, employees and other businesses: Consumers have been known to boycott companies with unethical policies, and ethical employers can expect loyalty and increased productivity from their employees. Also, an ethical reputation makes other businesses more likely to trust your company, and therefore engage in business dealings with you. In Charles's case this means that pursuing the joint tender is the best way to go, as doing the right thing will get Flex a reputation for being ethical, and enhance their future profits as a result of this.

This view then seems like a solution to the "ethics vs. profit" dilemma: the way to maximise profit is to behave ethically as a business. However, it simply is not always the case that there is never any conflict between the moral and the commercial; sometimes ethics is bad business as taking the ethical stance may entail turning down a profitable business deal because it involves bribery, for example. Also, this view sees ethical behaviour as something that we should engage in because it pays to do so. This is perhaps missing the point of ethical behaviour: we should do the right thing because it is the right thing, not because it benefits us.

- **Ethics for its Own Sake**

This leads on to the view that ethical conduct should be motivated from a desire to do the right thing. Joel Marks says that "Ethics is not about rewards. If one does 'the right thing' in order to achieve personal gain, then one is not really acting on the basis of integrity." (See <http://www.philosophynow.org/issue51/51marks.htm> for full text) Businesses should therefore behave ethically because they want to fulfil their responsibilities to do the right thing. This kind of view is echoed by the increasingly popular 'stakeholder' theory of business. This view sees different groups of people as having a stake in a business in the sense that their well-being is dependent upon this business. These groups will include shareholders and employees who have a direct stake in the business, but also other groups like customers, suppliers, local residents and society in general. This means that businesses have a responsibility to consider the interests of these stakeholders when making decisions. Applying this view to Charles's case means that the "ethics vs. profit" dilemma is resurrected; if Flex has a duty to its shareholders as well as its customers, whose interest should come first?

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## Further Reading

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### Business Ethics

- Chryssides, G. & Kaler, J. (1993) *An Introduction to Business Ethics*, Thomson
- Regan, T. (ed.) (1984) *Just Business: New Introductory Essays in Business Ethics*, New York: Random House.
- Article by philosopher Joel Marks on why 'business ethics' might be a misnomer:  
<http://www.philosophynow.org/issue51/51marks.htm>

### Professionalism

- Armstrong, J., Dixon, R. & Robinson, S. (1999) *The Decision Makers: Ethics for Engineers*, Chapter 3.
- Harris, C., Pritchard, M. & Rabins, H. (1995) *Engineering Ethics: Concepts & Cases*, Chapter 2.

### Honesty

- Martin, M. & Schinzinger, R. (2005) *Ethics in Engineering*, 4<sup>th</sup> edition, New York: McGraw-Hill, chapter 7.

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