Business Regulation Simulation

Janice M Brownlee
BUSINESS REGULATION SIMULATION

Janice M. Brownlee

University of Phoenix

Managing Enterprise Risk

MBA/560

Julie A. Rice, Attorney At Law, Facilitator

November 8, 2008
Businesses are changing everyday as companies move quickly to stay ahead of the competition. According to the University of Phoenix Simulation (2008), Alumina, Inc. (AI) is faced with allegations of polluting water near a river that supply’s a large area of a community. Al is a 4billion dollar company operating in 8 countries making up 70% of the sales in the USA. Recently, a local resident claims that the polluted water from an incident of five years ago has resulted in her daughter developing leukemia. The local media is making a field day of the story adding fuel to the fire. AI has to implement damage control to keep the public and current customers in good standing. A key differentiation of success for organizations is competing to recruit and retain consumers who buy the products and services offered. The concepts of environmental regulations of state and federal laws will be discussed on how AI deals with allegations of environmental safety and consumer concern.
The primary stakeholders of Alumina, Inc. can be categorized into three main groups: 1) The Executive Staff of Alumina, Inc., 2) The Board of Directors, and 3) Consumers of Alumina respectively all have a common interest in the future of the company. The executive team’s interests are expanding the product lines and market share of the aluminum industry. The rights of the executive team are to create an innovative business strategy that promotes the integrity of Alumina. Developing practices that drive performance including setting standards, offering financial and non-financial rewards. The executive team has the rights of the consumer to insure continued quality products that are cost saving and environmentally safe. Currently, the company is embroiled in a controversy with allegations of a local resident claiming a past incident of five years ago has resulted in her daughter having leukemia. The value component of the executive team will come from strategic damage control to maintain consumer loyalty in light of recent events.

The second stakeholders are the shareholders of Alumina who a financial interest in the alleged questions which have led to a possible lawsuit by the local newspaper and mother whose daughter is an alleged victim. Rights of the shareholders of Alumina go directly to the Board of Directors with presenting a sound damage control plan that analyzes the risks and options available for a successful result. Values of the shareholders are the results of assessing the views of the Board and moving forward with releasing a partial report to The Erehwon Reporter to show that the company followed the proper rules five years ago to correct the problem of contaminated water.

The third stakeholder and most viable are the consumers of Alumina who want assurance that the company is making every effort to rectify the allegations that question the integrity of the
company. Consumers are a valuable component essential to the continued profitability of the company.

Alumina has ethical right to the company to insure consumer safety and with the latest turn between the mother and the local newspaper making the decision to release a partial report from the five year old incident shows the concern for the environment and the community. The states and the federal government of the United States of America jointly administer and enforce laws related to environmental safety. The EPA (Environmental Protection Agency) is a federal agency that enforces environmental regulation. (University of Phoenix, Simulation, 2008) Alumina was able to avoid potential loss of revenue by using the exemption rule of the Freedom of Information Act (FOIA) that gives companies the right to withhold sensitive business information and other data deemed confidential. Using this option gave Alumina the leverage needed to satisfy the public and the media. The American Arbitration Association mediated between the parties to settle out of court giving the plaintiff equitable damages and Alumina the ability to move on to other company concerns. Companies often use this option to put an end to the problem.

Alumina Legal Process Q & A

Q: Did the organization actually violate or break any laws, rules, or regulations as alleged?

A. Alumina made a mistake five years ago and corrected the problem with positive results. This move quieted any consumer concerns and makes for better public relations for the company. Alumina was not charged with breaking any laws, rules, or regulations once the EPA reviewed the results of the report of the cleanup and found no reasons to file charges. Maintaining good community relations is equally important. In times of crisis, having local
community support is a big differentiator in determining the issues addressed. The press in this simulation hammered Alumina with inaccurate information, creating a strong consumer concern.

Q. If a party in a potential legal matter requests records from a governmental agency pertaining to the organization, should the organization object to the agency’s release of any of the organization’s information?

A. From the simulation, Alumina initially objected however, under exemption four of the Freedom of Information Act (FOIA), Alumina could only submit the information showing the EPA tests that were taken during the five year old incident which caused an environmental crisis.

The data satisfied the accusations of the plaintiff and the media resulting in an out of court settlement. An example being in the merger between InBev and Anheuser Busch, Anheuser was forced to show data stating that the company stock was worth more than the price InBev was offering to close the merger. (FOX Business, 2008, p. 1)

Q. What factors should be considered in deciding whether the organization should defend itself in court, attempt negotiations, or seek alternative methods to resolve the dispute? By going through mediation with the American Arbitration Association (AAA) Alumina incurred decreased costs of legal fees. This option was a time saving measure for the company to keep productivity moving for continued revenue. (University of Phoenix-Simulation, 2008)

Alumina and the plaintiff are prime candidates for interest-based negotiations which consist of the following seven elements:

1) Communication-The plaintiff makes claim that a past incident involving Alumina contaminated Lake Dira the main water supply of Erehwon has resulted in her daughter developing leukemia. Alumina shows that the problem was solved years ago and the company stands by the report filed with the EPA.
2) Relationship-The PR executive of Alumina thinks both parties should speak face to face but the COO and chairman disagree.

3) Interest-Both parties have a vital interest: Alumina wants quick resolution and for the public to feel safe about the drinking water.

4) Options-Alumina looks at alternatives other than going to court, while the plaintiff and local newspaper seek punitive damages and public outcry.

5) Legitimacy-Alumina has legitimate data to support the clean up of five years ago and implements the Fair Information Act to only give information showing stated facts.

6) Alternatives-Both parties agree to use arbitration as a means of resolving each party’s issues.

7) Commitment-Alumina makes a public commitment to the community to continue using safe measures to keep Lake Dira environmentally safe by conducting independent tests. This alternative can help both parties’ come to a understanding that makes all involved happy.(Reed-Shedd-Morehead-Corley, (2004), p.118-119)

For example, the tomato scares that caused all grocers and restaurants to remove all tomatoes from the shelves. The Food and Drug Administration (FDA) saw tomatoes as the prime suspect of the salmonella outbreak. But in this case, no case can be filed since the culprit’s not a person or company.(Harrop, 2008, p.1)
<table>
<thead>
<tr>
<th>Alternative Solution</th>
<th>Risks and Probability</th>
<th>Consequence and Severity</th>
<th>Mitigation Techniques and Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retraction of Erehwon Reporter story</td>
<td>• Consumer satisfaction-high</td>
<td>Retraction of story retracted however, met with another sensationalized story. An angry plaintiff continues her claim of passed contamination of five year old incident is the reason for her daughter’s illness.</td>
<td>• Alumina gets retraction from Erehwon Reporter</td>
</tr>
<tr>
<td></td>
<td>• Loss Profits to Alumina-high</td>
<td></td>
<td>• Submits report showing positive results</td>
</tr>
<tr>
<td></td>
<td>• Gaining new customers-low</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased Traffic causing pollution of Lake Dira</td>
<td>• Increased population-high</td>
<td>Consumer concern creates a panic within the community. The EPA issues test of the lake resulting in extreme levels of PAH. The scare of polluted</td>
<td>Implement clean up plan immediately to ease the panic of the community.</td>
</tr>
<tr>
<td></td>
<td>• Pollutants in Lake Dira-high</td>
<td></td>
<td>• Comply with government regulations to clean up the lake.</td>
</tr>
<tr>
<td></td>
<td>• Environmental hazard-medium</td>
<td></td>
<td>• Alumina assures</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Mediation through arbitration

<table>
<thead>
<tr>
<th></th>
<th>Water can cause serious illness to humans and animals.</th>
<th>All problems solved to reassure community that the water is safe.</th>
</tr>
</thead>
<tbody>
<tr>
<td>More media backlash - high</td>
<td>Consumer concern over lawsuit creating decreased confidence of Alumina to reach a viable solution.</td>
<td>Using the arbitration reduces potential legal costs of Alumina</td>
</tr>
<tr>
<td>Lawsuit from plaintiff and newspaper - high</td>
<td>Lost profits for Alumina - high</td>
<td>Resolving situation creates satisfaction among all parties</td>
</tr>
<tr>
<td>Lost profits for Alumina - high</td>
<td></td>
<td>Alumina restores confidence for the company and community.</td>
</tr>
</tbody>
</table>

Potential risk treatments are evasion (exclusion), cutbacks, (alleviation), preservation (approval) and shift (purchasing indemnity). The risk is high with a major project on the line showing projected profits for Alumina. The cost to the company is low only when successful and the severity is minimal as long as shareholders get a return on the investment. Events can occur that form situations that result in further investigation for a resolution to take place. (Ross-Westerfield-Jaffe, 2004, p. 145) The solution for Alumina is creating a strategy that promotes quality control in environmental safety. The consequences and severity are high as shareholders are nervous as Alumina works to improve products and increase profits while regaining consumer acceptance. When the results of the report proved that the plaintiff had a viable claim
to seek damages, using arbitration was the key to put the issue to rest for Alumina and the plaintiff. Maintaining good community relations is vital to any company in time of a crisis and any lack of support can make a big difference in the profitability of the company. (University of Phoenix-Simulation, 2008) The values of Alumina are quality products and environmental safety. Having a potential lawsuit brought against the company, Alumina developed damage control strategies to put the company back in good standing with the community, businesses, and consumers who use Alumina products. Following the proper measures of EPA test and arbitration will show how Alumina values the community and environmental safety. The executive team of Alumina must provide an effective strategy and policy for potential expansion of the company to the US and abroad.
References


University of Phoenix-Simulation (2008), Retrieved November 5, 2008 from http://ecampus.phoenix/content/eBookLibrary/content/Print