



European Forum on Paradox and Pluralism

Nova SBE Twinning Project

MANAGING PARADOX MINI-CASE SERIES

Café Swoop!

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Nova School of Business and Economics

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THE CASE

Sunny morning in downtown Lisbon

Another sunny morning in downtown Lisbon and Johanna couldn't be prouder. Just a couple of years back she had become a co-owner of one of the locations of the trendiest coffee-shop franchises in Europe, "Swoop!". Together with her business partner Diogo, and with some family help, she had successfully beat the competition to serve one of the most popular and affluent neighborhoods in Lisbon. The Swoop! franchiser was quite demanding and rigorous, monitoring the activities of all its franchisees, from quality control to pricing and advertising.

Despite initial financial difficulties, the old "location, location, location" marketing adage seemed to be working after all. The renovation investments were now almost paid off and in their spare time Johanna and Diogo talked about the possibility of expanding to a second location in Coimbra.

As Johanna approached the coffee shop that morning, she noticed an unusually high number of customers already lining up to the front door. "Success!" she thought. "Our new spiced mocha is a hit." Before having a chance to approach the door and start serving the eager customers, her phone rang. It was Diogo:

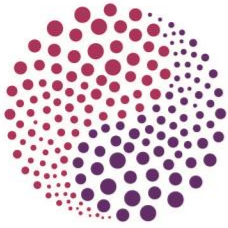
"Johanna, have you opened the café yet?"

"Almost! And you won't believe what is happening."

"I know what is happening. Drop everything and come to my place immediately. Whatever you do, do not open the café".

Johanna was dumbfounded by Diogo's request, who had left the call providing no chance for a rebuttal. As she turned her eyes away from the phone and back to the storefront, Johanna realized Diogo's urgency. The line forming at the door was long alright; but it was not made up of eager customers. It was made up of protesters. Johanna grinned and slowly made a retreat to go meet Diogo.

Advertising campaign... gone right?



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“There is blundering and then there is this!” Diogo said in an urgent tone. “I knew it would backfire, and I think we’ve got our answer.” Diogo was referring the recent fliers they had distributed across Lisbon. The fliers featured various actors, each explaining why Café Swoop! was their preferred coffee shop in Lisbon. One of the fliers, however, had generated an argument between Diogo and Johanna. It featured a family of women stating that the Swoop! coffee shop made them feel welcome and at home. Diogo was afraid the whole thing would backfire, whereas Johanna was hoping it would attract attention.

And it had. More than 20 protesters were now lining up in front of Swoop!, effectively stopping operations for the day, and one employee had already texted Johanna about the flier, stating that it was “irresponsible” and “just plain wrong.” Diogo was flustered. On top of a sinking feeling that their operation was no longer, he did not remember approving the flier, although Johanna insisted he had. “This is just a small misunderstanding; don’t you remember giving me the go-ahead?” Johanna asked. “I gave the go-ahead for the fliers, but not this specific one” retorted Diogo. In his mind, the ‘small misunderstanding’ probably meant the end of the whole operation.

A question of principle

On top of the business impact of the flier, Johanna and Diogo also had opposing views on the content of the flier. Diogo saw it could advance society’s norms, even though he felt it had been a terrible business decision. Johanna, on the other hand, was a bit uncomfortable with the flyer’s content, but she still believed it could be great for business. Johanna and Diogo appreciated the irony of the situation.

“Isn’t this crazy?” asked Johanna. “Above all, I thought you’d be happy about our ‘societal intervention’...”

“Not at the cost of our shop” replied Diogo. “Never mix up business and values!... The role of companies is to make money; not to change society’s norms! We cater to society’s needs; we do not go about changing them.” continued Diogo.



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Johanna interrupted: “Look, the TV!” Morning news was on, and the show was covering the protest live. Swoop! had made it to national television. Diogo’s mood was visibly changed. He checked his phone and sure enough, Swoop! was trending in all social media channels.

“You’re a genius!” Diogo told Johanna. “Our sales are going to triple after this!”

Johanna was elated but also confused in Diogo’s ability to separate business from values, as she was also getting a feeling of having “sold out”. Just then, her phone rang. “It’s Masie” – Johanna said apprehensively – “from Swoop! headquarters.”

Discussion Questions

- How do you feel about the flier campaign? Articulate one of two reasons to support it or criticize it.
- Revisit the previous question, this time from the point of view of someone who has opposing views to yours about the flier in question. What reasons would that person provide for/against the campaign?
- Should companies serve customers’ needs and values first and foremost, or should they also have a role in steering society’s values?

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TEACHING NOTE

The case discusses a fictional Café Swoop! But is based in real cases, such as the one reported in the news piece “Russian LGBT+ community dealt blow after supermarket pulls lesbian advert.” (Seddon, 2021).

1. Teaching Objectives

Swoop! is a case about the intersection of business goals and personal values. It aims to foster debate about the following issues:

- The role of companies in society.
- The tensions between organizational orientations
- The freedom and responsibilities of business managers.
- The relations between managers’ views and business actions.

Teaching goals include:

1. Clarifying different views on firms’s societal responsibilities.
2. Outlining responsibilities of managers to different stakeholders.
3. Providing insight into the effects of societal intervention by companies.
4. Problematizing the paradoxical tensions between different groups of stakeholders.

2. Proposed Lecture Structure

We discuss three discussion topics below, which progressively deepen the discussion towards the underpinnings of the questions in the case.

2.1 *Company Responsibility*



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A possible way to start the lecture is to ask 3 students to briefly answer the 3 discussion questions laid out in the case. A small grid with the results can be added to the whiteboard. Students may converge on the appropriateness of the flier as well as on the idea that companies have a societal role.

After taking down student's views, it is probably useful to visit the following question:

- "If our company always says the right thing and communicates to society in ways we think are best, will our business thrive?"

Some students will be tempted to answer with an emphatic "yes", but this is easily contradicted by imagining a manager who has niche preferences and offensive views. It's unlikely that businesses will always benefit by advertising the owner's views. This opens up the idea of paradoxes and tradeoffs: a company may not always want to intervene in all that it can. It has a responsibility with a number of stakeholders, including its investors and employees. These are not just moral responsibilities: Many of them are legally binding. This is a good time to ask students what they think headquarters will tell Johanna on the phone call described at the end of the case.

This is a good time to put forth the first message, which is that businesses have responsibilities, and these tend to vary with firm size and other factors. Societal intervention may come at the risk of failing to pay salaries. As for Swoop!, it appears that Johanna and Diogo did not ask headquarters about the campaign, and may be lucky to keep their franchise, given the authoritarian description of the franchiser near the beginning of the case.

2.2. *Company goals*

After company responsibility is discussed, posing the following question may be useful: "Is the sole role of firms maximizing profits?"

This is an old debate in many fields of study. Classical and recent views can be found in Friedman (2007) and Shin et al. (2021). While most students will feel comfortable with a simple "no", there is a chance for the lecturer to play the devil's advocate: While it is



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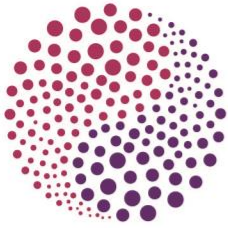
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easy to provide a negative answer to the question, it is much harder to explain “why” in a compelling fashion.

Here are a few possible reasons that find easy rebuttals:

Reason against profit maximization	Rebuttal
Solely maximizing profits isn't ethical.	Companies should maximize shareholder welfare. Then, each shareholder can be ethical with the returns of their investment. It's not for the company to cater to each shareholders' individual ethical system.
Profit maximization leads to resource depletion.	There are rules and regulations established to prevent those. As long as the company abide by them, it is doing its work regulations. It's up to the authorities to draw those regulations, no companies. Besides, if we don't do it, our competitors surely will.
Companies have an opportunity to do good while doing well.	It's better to leave it to shareholders to decide what is good for society.
Corporate Social Responsibility (CSR) is good for company profitability.	This is a confusing statement, but easy to unwind: If CSR is indeed profitable, then companies should pursue it. If it is not, then companies should shy away from it.
Profit maximization likely leads to a bad working environment.	If the environment is bad, employees will leave, and we will have not maximized profit. If on the other hand they stay, it means we're still providing better conditions than the competition, while returning our investors their money.

It may be worth explaining that this is also a legal issue. Depending on the specific country and region, the law sometimes describes firms' sole purpose as the maximization of shareholder welfare. There is room for interpretation, however, since one can imagine that polluting natural resources may not maximize shareholder welfare. Thus, the term “maximizing shareholder welfare” needs to be interpreted in light of market practices and shareholders' expectations. It is a legal grey area.



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Finally, there are at least two strong arguments in favor of students' likely view that firms should not always maximize profits, but they may not be the first ones to come to mind.

1. When companies are privately-held: In this case, it's the owner's capital that is being used to operate the company. As long as no misrepresentation takes place (with employees, for example), then the company can intervene freely, within legal regulations.

2. Companies (and other institutions) act as ways of coordinating resources: Even if a number of shareholders wants to renovate a national park, it will be extremely challenging to coordinate donations credibly and ensure that these are well managed to pursue this goal. Because companies have centralized resources, they may be more efficient in addressing shareholder concerns that require coordination.

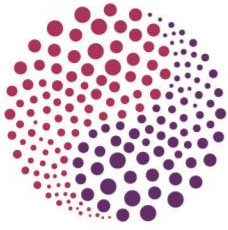
Of course, the instructor may choose to include other points of view.

The case can be used, in summary, to problematize the tensions, tradeoffs and paradoxes between organizations and society. Given plurality and competing interests, as the case discusses, addressing the motives of one group can collide with the interests of another group. It might be considered that segmentation can lead to clarification, but the values and ethical considerations associated with the decision can still lead to contestation. Paradox theory helps to clarify these tensions, but it does not offer prescriptions.

Areas: marketing, business and society.

Keywords: Role of corporations, business and society, marketing paradoxes

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