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THE CHICAGO MERCANTILE EXCHANGE: REDEFINING CORPORATE GOVERNANCE

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CASE DESCRIPTION

The primary subject matter of this case concerns corporate governance. Secondary issues examined include the view of the fit between strategy, management and culture. This case has a level of four, appropriate for senior level courses. The case is designed to be taught in two and one-half class hours and is expected require three hours of outside preparation by students.

CASE SYNOPSIS

This case examines the governance practices at the Chicago Mercantile Exchange (The "Merc"). As opposed to most of Corporate America, the ideas of corporate governance at the Merc question the entire notion of an "independent" Board of Directors found in most organizations. With the recent events at Tyco, Enron and WorldCom, this practice is at least troubling, and at most, dangerous. This case will require students to grapple with the concepts of board effectiveness, board composition and the potential dangers of "board inbreeding".

THE THEORY

Corporate governance represents the relationship among stakeholders that is used to determine and control the strategic direction and performance of organizations. (Lynall, et. al., 2003; Hillman, et. al., 2001).

The board of directors is a group of elected individuals whose primary responsibility is to act in the owners' interests by formally monitoring and controlling the corporation's top-level executives (Fama & Jensen. 1983). As a result, if the board of directors is appropriately structured and operates in an effective manner, it can protect owners from managerial opportunism—the tendency to put a manager's interests above the interests of the firm (Baysinger & Hoskisson, 1990).

The composition of boards differs; however, most experts agree that a board should consist of the following members; insiders, related outsiders and outsiders (Zajac & Westphal, 1996). Insiders are represented by the firm's CEO and other top-level managers. Related outsiders are individuals who are not involved in the firm's day-to-day operations, but may have a relationship with the company. Examples might include the firm's legal counsel, a large customer or supplier, or a close relative of one of the firm's top-level managers. Outsiders are individuals who are independent of the firm. They are neither involved in the firm's day-to-day operations, nor do they have other relationships with the firm.

Because the primary role of the board of directors is to monitor and ratify major managerial actions to protect the interests of owners, there is a call by advocates of board reform that outsiders should represent a significant majority of a board's membership.

The drawbacks of outside boards: because outside directors do not have day-to-day contact with the ongoing operations of the firm, they must obtain detailed, in-depth information about the quality of management decisions. Generally this information is obtained through frequent interactions, often developed over time, with inside directors (generally, at board meetings). In the absence of rich information, boards may be forced to emphasize financial rather than strategic controls. Potentially, This means that outsider-dominated boards—because they lack sufficient information—will evaluate managers, not on the basis of the appropriateness of their actions (which the board ratified) but based on the financial outcomes of those actions (Tosi, et. al., 2003).

Because of the board's importance, the performance of individual board members as well as that of entire boards is being evaluated more formally and intensely. As a result, many boards have voluntarily initiated changes, including:

– increasing the diversity of board members' backgrounds
– strengthening internal management and accounting control systems
– establishing and consistently using formal processes to evaluate the board's performance (Marshall, 2001).

The findings from research regarding the effectiveness of board involvement in the strategic decision-making process are mixed, indicating the following:

– Board involvement in the strategic decision-making process may improve firm performance because it provides the firm's managers with access to outside opinions, and outside directors should be more objective and more interested in protecting shareholders' interests.
– Boards are more likely to be involved in strategic decisions when the firm is smaller and less diversified, since information regarding strategic actions is more readily available and both the scope and size of the firm are manageable.
– Boards are less active in large, diversified firms.
– The board's access to sufficiently rich information on appropriateness of strategic actions in large diversified firms is limited.
– Board assessments may be limited to evaluating financial outcomes (rather than appropriateness of action).

Research shows that boards working collaboratively with management:
– make higher quality strategic decisions
– make decisions faster (Simmers, 2000).
– become more involved in the strategic decision-making process.

Recent research suggests that inside director performance increases if they hold an equity position.

THE SITUATION

As quoted in Business Week, Gregory P. Taxin, chief executive officer of institutional adviser Glass, Lewis & Co. states that "Public companies must have a preponderance of directors whose interests are only in serving the public shareholders" When most directors have "potentially other interests at heart, the public shareholders con no longer rely on that board" (Weber, 85). Most academicians and practitioners would agree. This is not the case at the Chicago Mercantile Exchange (The "Merc"). The Merc is a giant market for futures contracts. For most of its 107-year history, the Merc was a club run by and for its members. When the Merc went public, members still wanted to run the show. As electronic trading loomed, many also wanted the floor to survive, and, in spite of this, the member-friendly board has obliged, allowing 70% of the Merc's trading to become electronic. While the Merc is thriving, it is debatable whether the floor could survive without such backing. Because of, or in spite of this, the Merc has developed a corporate governance policy that is exceptionally flexible. Their CEO, auditors, exchange consultants are not independent. However, traders on the floor, executives at firms that have done business there for twenty-five years, and most importantly, a past chairman who draws $200,000 a year, plus fees, as a special board adviser can be independent. The mindset at the Merc is that there is no "special relationship" in this case.

In order to comply with NYSE listing standards, the Merc's Board must have a majority of independent directors. But most of the directors–those in office when the Merc went public and ten elected since, are not, according to anyone's standards, truly independent. Of the twenty directors, thirteen earn their livings from the exchange as employees, paid advisors, or executives of member firms. Only seven are outsiders, including a former member and another whose firm is a big client of Merc futures. Merc Chief Executive Officer Craig S. Donohue argues, "The industry knowledge on our Board has helped guide us and insured harmony, trust, and confidence as we've gone through dramatic changes." (Weber, 85).

Due to its interpretation of "independence," the Merc meets the NYSE's listing standards. The Merc's regulator, the Commodity Futures Trading Commission (CFTC), is working on board composition guidelines. The SEC doesn't oversee the Merc, and a proposed rule requiring board independence does not affect futures markets.

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LEADERSHIP IN COMPENSATION PLANNING

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CASE DESCRIPTION

This case describes a compensation situation in which a hospital director seeks to retain and motivate employees by revising the method of assessing performance of physical therapists. Starting with job analysis to describe excellent job performance, employees are asked to revise the performance management process for the purpose of allocating pay increases. This case highlights the compensation challenges presented by the tight labor markets in some healthcare professions.

This case is designed for human resource management and health service management classes. It is appropriate for junior, senior, and masters business students. A key lesson centers around how to retain and motivate employees in situations where pay raises are limited. The case demonstrates the basic human resource management techniques of job analysis, performance management, and compensation systems in the context of budget constrained healthcare organizations. Students working this case will learn the very careful consideration and the detail of analysis required when changing employee compensation. The case stresses that employee involvement is a key factor in the design of compensation systems.

CASE SYNPOSIS

This case describes the process that a hospital department director used to change the department's compensation system. The tight labor market for physical therapists created a situation whereby doing nothing to the compensation system would quickly result in turnover of the best physical therapists. Forced by this situation to make changes, the director began with job analysis and then involved employees in creating a performance scoring plan by which the department could make decisions about pay raises. The goal of this revised compensation plan was to retain and motivate physical therapists to excellent performance as defined by the manager and the employees.

INTRODUCTION

The director of physical therapy at St. Lucas hospital was reviewing his notes for an important meeting with his department. Barry Barnes had called a meeting of all 20 physical therapists (PTs) and the topic was one of interest to all of them -- revising their compensation plan. He had attempted to manage the grapevine by saying that he wanted to explain to everyone all at the same time to avoid confusion.

Prior to the meeting, the director reflected on his decision to make changes to the compensation system. Specifically, he was seeking the development of a new process to assess performance for the purpose of allocating raises. Leading employees to change the compensation system was challenging, but doing nothing would probably result in high turnover. Pay compression (the high starting salary of new hires compared to the salaries of incumbents) and current shortages of PTs created a situation in which the best PT could leave the organization and get higher pay at the next organization.

The PTs were all on time for the meeting. The director explained the agenda of the meeting. "I've called this meeting for the purpose of seeking your input and participation in a process of reviewing our compensation plan. First, I'll present where we are now. Second, I'll update you on budget realities at this hospital and the cooperation I have from administration. Then I'll present my proposal for updating the compensation plan for physical therapists. Are there any questions at this time?"

"How much of a raise do we get?" joked one physical therapist.

The director took the question seriously, "How much of a raise are you getting? That is a good question. Let me address that up front. I've met with hospital administration. Due to budget constraints, we are under a pay raise freeze for one year. That is the bad news. The good news is that after one year, a budget for pay raises for physical therapists has been approved. Part of what I'm proposing here is to spend this next upcoming year, while we are under a pay raise freeze, to create and gain approval for a revised compensation plan. My idea is that we can implement a new compensation starting in the next budget year." (The director did not mention that the merit raise pool was estimated to be 3% per physical technician.)

At this point, the questions started flying "Are some people not going to get raises?" How much of a pay raise pool becomes available in a year?" "Who determines who gets what?"

Barry tried to reassure and settle the meeting. "Let me tell you what I am proposing. I've been working on updates to our compensation plan. I'm here today to get your input and your help in finalizing a proposal which will be approved."

JOB ANALYSIS AS A STARTING POINT

"I started by asking the following questions: What are the differences in work behaviors between a good physical therapist and an excellent physical therapist? What are the things that PTs do that should be considered when assigning raises? I answered by listing things such as community service, hospital service, leadership efforts, additional education."

A few people brightened up at this point. "Oh yes, I sit on the hospital safety committee, would that count?" "Six of us are working to complete our terminal degree online." One woman complained, hearing all these extra effort activities, "I have a new baby at home, I don't have the time for extra committee work or an online degree program."

EMPLOYEES DEFINE AND MEASURE EXCELLENT PERFORMANCE

Barry then clearly stated the purpose of this meeting. "I am asking for a group of you to meet and work on a final plan about how we can make decisions for allocating pay raises. First, we'll need to look at the current job description on file for the physical therapist position. Our main task is to clearly define excellent performance by a physical therapist. Who would like to continue to meet for the purpose of creating a performance scoring plan which can be used to assign pay raises?" All of the physical therapists raised their hands.

CASE QUESTIONS

1. What are some of the advantages and disadvantages to employee involvement in the compensation process?
2. What information does this group need?
3. Use library and online sources to get information about the job description for physical therapists. What are some average salaries for physical therapists?

RFI / RFP CASE APPLICATION OF INFORMATION SYSTEM PURCHASING PRINCIPLES

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CASE DESCRIPTION

The primary subject matter of this case concerns using an Request for Information (RFI) and a Request for Proposal (RFP) as part of an organizations purchasing principles as they relate to purchasing a new information system for a small business. Secondary issues to be examined include identification of technology issues for a small business and the design of a new system. The case has a difficulty level of five. The case is designed to be taught in three class hours and is expected to take approximately fifteen hours of outside student preparation.

CASE SYNOPSIS

Students are presented with a business scenario in which they need to have a new information system installed for a small company where they have just started working. Students are asked to review the scenario, create an organizational overview to be used as part of an RFI, create a functionality list for a new information system, create an internal memo to justify the expenditure on the new system, and outline what the possible responses to an RFP might be.

GETTING STARTED IN THE THOROUGHBRED HORSE BUSINESS: A CASE STUDY REVIEW OF SOME BASIC ACCOUNTING PRINCIPLES

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CASE SUMMARY

This case introduces beginning accounting students to some common accrual accounting concepts in an interesting setting. It addresses the issues of cash flows, profit and loss, revenue and capital expenditures, product and period costs, fixed assets, depreciation and cost of goods sold. Due to the variety of concepts covered, it is appropriate to use during the second half of the course after students have been exposed to these areas. Each of the three sets of questions should take about 30 to 45 minutes of class discussion time. Out of class preparation is about two hours.

SYNOPSIS

The case centers on the breeding and racing operations of a small Thoroughbred horse business. The owner has little accounting knowledge and asks her CPA friend for help in evaluating her degree of success in the business. The business has two distinct operations, racing and breeding. Students are asked to apply accrual accounting principles and identify the product and period costs for each operation and recommend a depreciation period for the capitalized costs. Students also compute cash flows and net profit or loss for each operation and reconcile the two.

The Thoroughbred breeding industry is primarily a manufacturing business with the brood mares serving as production equipment and the foals serving as inventory. Racing operations are similar to many other businesses with fixed assets (racing stock) and operating costs (board, transportation, vets, race entry fees, jockey purses, etc.). Both activities are extremely risky business ventures since there are no guaranteed markets or customers. Revenue streams for both types of activity are highly unpredictable and depend as much on luck (e.g. racing success or favorable breeding combinations) as on good business practices. In this case, the owner financed her operations with a large bank loan so the concept of cost allocation and indirect costs for interest are also introduced.

Instructors are given sufficient background information on accounting and reporting issues in the Thoroughbred industry to allow adequate feedback and guidance to the students. Although the case is presented on a full accrual basis, in reality most Thoroughbred horse business are not public companies and primarily report only on an income tax basis which is generally cash-based. Some basic, relevant tax issues are presented as background for instructors to add depth and interest to class discussions. Short summaries of the history of the Thoroughbred breed, naming foals and the Triple Crown of racing are provided for interest.

APPLYING ERGONOMICS FOR A LOCAL COMPUTER SALES AND SERVICE CENTER

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ABSTRACT

Small retail businesses in local towns have fewer employees working for long work hours. However, little has been done to study if these small retail stores are acquainted with terms of ergonomics and human factors and suggest improvements to make them aware of the advantages of incorporating these laws of work (Ergonomics). A study was performed at a local computer store located in the Northeastern Louisiana region of the U.S. The study showed that the ergonomic aspects have not penetrated to the retail market comprising of small businesses. Information was shared and improvements were suggested in regards to design of works space and work methods.

Keywords: Retail Businesses, Ergonomics, Workspace, Work Methods

"MISUSE" OR "THEFT" OF UNIVERSITY FUNDS: A CASE STUDY

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ABSTRACT

The former Director of Auxiliary Services at a northwest university was recently indicted for making unauthorized expenditures during a three-year period, including purchasing tools, supplies, and building supplies for personal use. A forensic audit performed by a regional CPA firm listed the alleged $4,740 of illegal expenditures as well as $73,000 of other questionable expenditures made by the Director of Auxiliary Services (Director). The prosecutor said his office charged the Director with only the $4,740 amount because those were purchases that were determined to explicitly be unauthorized and criminal.

The other questionable expenditures identified in the forensic report included expenditures for other university activities, church youth functions, and various community activities. The forensic report stated that the university has to decide if these expenditures were appropriate use of public funds and if the Director misused his budget to benefit these activities.

As Director of the Auxiliary Services, he was responsible for overseeing all university services that generated revenue, such as the bookstore, dining services, the golf course, the athletic facilities, and student housing. The expenditures were allegedly made within a special budget account with an annual budget of $154,000, which could be spent at the discretion of the Director.

The forensic examination determined that the Director used University funds for personal gain. He admitted in a signed statement to using University funds to purchase tools worth $1,200 to $1,500 and in materials to remodel his kitchen worth $1,200 to $1,800. The examination found a total of $4,700 of these expenses.

The auditors also found $73,000 of other questionable expenditures made by the Director. $20, 584.24 of Auxiliary Services funds were used for Jazz Fest expenditures. According to the report, the evidence indicates that the Jazz Festival and Jazz Choir budgets were tight and the Director used funds from his account to supplement the Jazz related expenditures. The report included several e-mails from the Director of the Jazz Festival requesting funds from the Director of Auxiliary Services. Note that the two men are members of the same church.

The Director also allegedly paid $3,500 from the Auxiliary Services budget to sponsor football game day events. These expenditures should have been paid by the Athletic department budget.

Also included in the report were expenditures for organizations that the Director has a personal interest: (1) $6,614 in expenditures that went towards youth functions of the church that he is a member, (2) $1,200 in funds that were given to the local little league association for advertisement while his son was playing in the organization, and (3) $10,500 in sponsorship for an annual community musical event in which he was a founding member.

The students will be asked to address several ethical issues in the case. They will be asked to relate the specifics in the case to the Association of Certified Fraud Examiners' Uniform Occupational Fraud Classification System. The Director allegedly engaged in fraud schemes that should be classified as corruption (conflicts of interest), asset misappropriations (fraudulent disbursements for personal purchases and theft of inventory), and fraudulent financial reporting (expense understatements in specific budgets). The students will also be asked to discuss the affects of the fraudulent reporting in this case. The university administration decided not to discontinue

the Jazz Festival and even paid bonuses, based on the Festival showing a profit, instead of losses that had occurred in prior years.

This case will be appropriate for the senior-level auditing course. It can be used during the discussion of SAS 99, auditor's responsibility in assessing fraud risks. The case is very relevant in today's business environment of unethical behavior, especially since it illustrates both fraudulent financial reporting and misappropriation of assets.

MANULIFE FINANCIAL AND THE JOHN HANCOCK ACQUISITION

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CASE DESCRIPTION

This case mainly deals with the opportunity for Manulife Financial to acquire the legendary John Hancock Financial Services, Inc.. Students must consider both financial and non-financial aspects of the acquisition decision. Secondary subjects include a host of other financial and strategic issues facing Manulife Financial. The case would be relevant for either a senior undergraduate or graduate course in strategy or financial management as it requires analysis and support drawing from both disciplines. The case is designed to be taught in one to two class hours and is expected to require approximately five hours of outside preparation time. Students need to be familiar with financial management concepts and strategic analysis and formulation.

CASE SYNOPSIS

In June 2003, Dominic D'Alessandro is facing his most challenging time since becoming CEO of Manulife almost ten years prior. D'Alessandro must not only decide where to invest Manulife's large cash reserve now that a competitor, Great West Life, became the successful bidder for Canada Life Financial, he must also look at the strategic direction he is to set as consolidation in the financial services industry comes to a close. There are many investment alternatives, including the relatively safe bond market; but, more risky and rewarding options may be required if D'Alessandro wants to continue Manulife's legacy of exceptional financial performance. Aside from the investment and related strategic decisions, D'Alessandro must contend with an appreciating Canadian dollar, the increased re-insurance risk made evident by the events of September 11th, 2001 and the emergence of the Sudden Acute Respiratory Syndrome (SARS) in the Asian continent. In short, D'Alessandro must pursue an investment course that is strategic, and formulate and implement a plan that will ensure the future profitability of Manulife Financial in the short and long run.

INTRODUCTION

June 2003. It has been almost ten years since Dominic D'Alessandro was appointed President and CEO of Manulife Financial. There have been many changes at Manulife during his tenure and today Dominic D'Alessandro is currently facing a different future with room to maneuver. Manulife has a large cash reserve that was accumulated to bid for Canada Life Financial. D'Alessandro must decide where to invest the cash now that a competitor, Great West Life, won the bid. There are many options, including the relatively safe bond market; however, a more rewarding option is required if D'Alessandro wants to continue Manulife's exceptional financial performance. The three most viable alternatives are: 1) attempt to takeover another insurance company or 2) lobby the government to ease restrictions and merge with one of the big five Canadian banks or 3) formulate a new strategy since industry consolidation is ending.

Whatever course is chosen, D'Alessandro must devise a plan to face an apparently less certain world. The risk of terrorism is much larger than originally thought since the September 11th, 2001 attacks and the war in Iraq now has investors seeking greater security. The Sudden Acute Respiratory Syndrome (SARS) scare in Asia reminds health officials and insurers that pandemics are not beyond the realm of possibility even in this century. Finally, the rapid appreciation of the Canadian dollar is expected to hurt profitability since Canadian services will now be relatively more expensive internationally and overseas profits will be smaller when converted into the Canadian currency. These circumstances make it difficult for D'Alessandro to achieve Manulife's objectives of earning a return of 16 percent on equity and increasing earnings per share by 15 percent per annum. D'Alessandro must convince investors that Manulife will continue as a superior performer in the face of these new market realities.

HISTORY AND DEVELOPMENT OF MANULIFE FINANCIAL

The Manufacturers Life Insurance Company, or simply Manulife, has a rich history steeped with Canadian culture. The company was incorporated in 1887 with the former Prime Minister of Canada (Canada's first Prime Minister), Sir John A. Macdonald, elected as the first President. Ten years after inception, Manulife had expanded into Asia and entered the U.S. market a few years later. Its head office in Toronto, Ontario Canada is still presently the Company's global headquarters. Throughout its history, Manulife was known as a company that anticipated change and, for example, it was the first insurance company in Canada to offer low-policy rates to non-smokers, adopt mainframe computer technology, and open an online bank. Manulife's vision is expressed as:

> *"Our vision is to be the most professional life insurance company in the world: providing the very best financial protection and investment management services tailored to customers in every market where we do business."*

Manulife experienced significant expansion during the 1980s. Growth in the U.S. was led by two acquisitions: the National Liberty Life Insurance Company and the Maine Fidelity Life Insurance. Manulife began a demutualization process in 1993 whereby shares were sold to the public and began trading on the TSE and the NYSE under the ticker 'MFC'. Manulife used proceeds from equity issues to acquire other insurance companies. The acquisitions have proven worthwhile as consolidation in industry has led to greater scale and scope efficiencies. Today, Manulife is a firm with operations spanning the globe, and divisions set up by geographic locations. The Company has experienced rapid change and growth, as reported in Canada's National Post Newspaper: *"When Dominic D'Alessandro came to Manulife, it was a staid, old-school insurer. Today, he presides over an innovative financial-services giant that rivals the banks in size, services and global ambition" (2002 and pp. 52 - 53).*

Dominic D'Alessandro has been President and Chief Executive Officer of Manulife since January 1994 and has guided the Company to nine consecutive years of exceptional financial performance, as revenues and net income have quintupled. During his tenure, D'Alessandro led the company's successful demutualization, and was named Canada's Outstanding CEO of the Year 2002. D'Alessandro has an extensive and varied background. He graduated with a Bachelor of Science degree in Physics and Mathematics from Loyola College, became a Chartered Accountant in 1971, and he was awarded an Honourary Doctorate from Concordia University in 1999. In 1975, D'Alessandro joined Genstar Ltd. where he worked as General Manager, and later as Vice President of Genstar's Materials and Construction Group. D'Alessandro next moved to the Royal Bank of Canada, in 1981 where he held a number of positions including Controller and Executive Vice President of Finance.

Manulife has generated a 25 per cent compound annual growth rate in earnings per share (EPS) over the past nine years and earned record profits in 2002. However, Manulife's financial performance has slipped in 2003. In the first quarter of 2003, the U.S. division contributed $107 million in profit, down $11 million from a year earlier, while the Canadian division profit was $94-million, up by only $1 million. The first quarter annualized return on shareholders' equity was 15.8 per cent compared to 16.3 per cent for the same period last year, while EPS, which includes a one-time charge of $15 million related to the abortive takeover bid for Canada Life Financial, increased four per cent to $0.73 from the $0.70. First quarter results did not meet financial objectives and D'Alessandro responded: "*I am pleased that we were able to perform so well this quarter given the extremely challenging conditions*" (Manulife 2003a).

THE LIFE INSURANCE INDUSTRY

Manulife's main source of revenue is premiums from Term, Universal, and Whole Life Insurance. In 2002, the Canadian division experienced an increase in premiums, while the U.S. division seen a decrease. However, the most concern surrounds the Asian division as it may suffer a decrease in revenues for various reasons. For example, the Sudden Acute Respiratory Syndrome (SARS) outbreak has become a major factor in Hong Kong and parts of mainland China. Sales activities have been hit hard in mainland China, where SARS is believed to have originated, as agents are worried about meeting clients face to face and vice-versa. Manulife is trying to bridge this gap by using the telephone and direct mail, but these do not have the same sales impact as face to face selling. SARS also has the potential to increase expenses, as claims due to sickness and mortality may increase. Thus far, its Hong Kong operation has received two or three death claims and one for hospital benefits. Although the disease seems to be under control right now, Manulife must be prepared for new waves of SARS contaminations. Manulife has made changes to their operations in the brink of SARS. Following an increase in public concern after the government took preventive measures to control the spread of the disease, Manulife is offering SARS-related insurance coverage and services, including:

1. Health insurance policyholders that contract SARS are eligible to claim for medical expenses.
2. The daily hospital income benefit related to SARS will be doubled for hospital confinement.
3. If quarantined at home, 50% of the daily hospital income be payable during the period.

INVESTMENT AND ACQUISITION OPTIONS

In the wake of all the uncertainties and emerging issues, Manulife still has to ensure that their premiums are invested in a vehicle that provides superior returns and meet financial objectives. On December 27, 2002, Manulife attempted to acquire all the outstanding common shares of Canada Life Financial to create Canada's largest insurance company. Manulife's plans were foiled when Great-West Lifeco made a takeover bid on February 17, 2003. There was an approximate $1-billion difference between the Great-West and Manulife offers. Even before Great West made an offer, Manulife failed to get Canada Life's board of directors and management on its side. To help persuade Great West to come in as a white knight, Canada Life agreed to give the company the right to match any competing offer and to pay it a break fee of $287-million or about $1.75 a share.

After failing to acquire Canada Life Financial, D'Alessandro still has a few viable acquisition/merger targets, in a market that's rapidly winding down. A potential target for acquisition is John Hancock Financial. John Hancock's CEO made it clear that he fully expects more takeovers and mergers, including cross-border deals. The second candidate is the Canadian Imperial Bank of Commerce. Having been burned by the loss of Canada Life, Manulife wants to make sure its next major transaction is nailed down solidly before it becomes publicly known. If these potential acquisitions are overly risky, D'Alessandro still has the option of the much safer bond market. D'Alessandro and the Manulife management team are aware of the risks inherent in purchasing another company. Studies show that the acquirer should have a deep understanding of the target's business and industry before negotiations (Kaplan, S., et. al.1997). It is also evident that successful acquisitions are directly related to the post-acquisition integration strategy (Singh H. and Zollo M. 1998).

John Hancock Financial Services is one of the U.S.A's leading financial services companies, providing a broad array of insurance and investment products and services to retail and institutional customers, primarily in North America with revenues over $8 billion. The Company operates its business in five segments. Two segments serve retail customers, including the protection segment and the asset-gathering segment, and two segments serve institutional customers, including the guaranteed and structured financial products and investment management. The fifth segment is the corporate and other segment. The CEO of Hancock Financial has indirectly confirmed that he sees Manulife or Sun Life Financial Services of Canada as potentially suitable merger partners.

Canadian Imperial Bank of Commerce (CIBC) is one of the largest banks in Canada, with a presence in the United States. CIBC has consistently generated profits and a combination with Manulife would provide for a host of potential synergies, cost-savings and cross-sales. However, cross-pillar mergers are currently not allowed in Canada. Many CEOs of large banks believe these maybe likely in the future by arguing that the large number of financial institutions makes the affects of a merger on competition negligible. On January 14th, 2003, Manulife attempted to buy CIBC, but then-Finance Minister John Manley cancelled the deal. Mr. Manley declined to void the federal policy that prohibits the big banks from merging with either of the two biggest insurers, Manulife or Sun Life Financial. Analysts believe that the Manulife-CIBC deal would have gone through had the government not been confronted with another merger proposal (Scotiabank and Bank of Montreal). As such, it may be worthwhile for D'Alessandro to lobby the government to lift these restrictions and allowing for cross-pillar mergers.

CIBC is the natural target. Royal Bank and Toronto-Dominion bank are too big, and neither would want to become the lesser partner in a merger. Scotiabank and Bank of Montreal were engaged in their own merger talks and may also be waiting for restrictions to ease. That left CIBC, which had two key advantages. The first was that CIBC's share price, thanks to lending losses and the ailing Amicus bank system, had fallen from about $57 to the mid-$40s, making it a less expensive target. The second was that CIBC has an extensive retail and wealth management network. Together, Manulife and CIBC would be one of the most powerful financial institutions with more than 70,000 employees, 16.5-million policy holders and customers, and annual revenue of about $33-billion. By merging with CIBC, Manulife could offer banking, brokerage, insurance and wealth-management services and products.

Investing in the bond market is a lot less risky that the other two alternatives, but bonds do not provide high potential for growth in earnings. U.S. Treasury's have fallen hard over the past three years, pushing the yield on the 10-year note from 6.79 per cent in early 2000 to a recent 45-year low of 3.11 per cent. From 1970 to 1999, the average return on long term corporate bonds has been 7.64 per cent with a standard deviation of 10.57 per cent, while treasury bills have returned 6.04 per cent with a standard deviation of 4.04 per cent. Currently, Manulife's bond portfolio is diversified across many different industries, with the highest percentage invested in the government sector.

REINSURANCE DIVISION

Reinsurance refers to insurance purchased by an insurance company to cover all or part of certain risks on insurance policies issued by that company; retrocession is a form of reinsurance involving the assumption of risk from other reinsures. A dramatic change occurred to the

Reinsurance operations on September 11th 2001, when terrorism risk appeared to be more serious than previously thought. The Reinsurance Division incurred a $145 million expense for anticipated claims in 2001. The risk of terrorism involves prospective losses of potentially high severity and unknown frequency, which makes risk quantification difficult because it reaches beyond first-party property coverage to involve other coverage's (workers compensation, business interruption) that are difficult to quantify. Since the attacks, reinsurance premiums for property and casualty have nearly doubled. Manulife recorded claims resulting from the September 11th attacks as a non-recurring expense; however, the recent war in Iraq may have increased the probability of future attacks, thus increasing the likelihood of similar losses in the future. Warren Buffett, of Berkshire Hathaway, said that insurers and reinsurers were foolish for not pricing man-made mega catastrophes before the attacks. "In effect, we and the rest of the industry, included coverage for terrorist acts in policies covering other risks - and received no additional premium for doing so. That was a huge mistake, and one that I, myself, allowed. Had the attack on New York been nuclear, it is likely that most of the U.S. insurance industry would have been destroyed" (Berkshire Hathaway 2001).

RISING CANADIAN DOLLAR

On May 20th, 2003, the Canadian dollar climbed above 74 cents US, the highest it has been since the autumn of 1997. In general, economists claim that once the exchange rate starts to move, it's virtually impossible to predict where it will find its next equilibrium. The belief at Export Development Canada (EDC) is that as the world economy gradually returns to normal during 2003 and into 2004, the Canadian dollar will slowly make its way back to the US 70 cent level, possibly a little higher. Manulife's profits are going to be negatively affected from the recent resurgence of the Canadian dollar value against the U.S. dollar. Analysts predict that Manulife's profits could fall by as much as 9 per cent in 2004 ($129 million) if the dollar remains at its current level of 73.28 cents relative to the U.S. dollar. Estimates are based on projected profits from Manulife's foreign operations that have to be converted into Canadian dollars for accounting purposes. Manulife doesn't hide the fact that "*the Company may be exposed to losses resulting from adverse movements in foreign exchange rates due to the fact that it manages operations in many currencies and reports financial results in Canadian dollars*" (Manulife 2002). Manulife has a policy of reinvesting its U.S. profit in the U.S., so it technically does not lose money on the currency conversion; however, it could affect the company on an accounting basis, since Manulife is required to report its results in Canadian dollars. The effects of the appreciating Canadian dollar are already visible. In the first quarter of 2003, premiums and deposits were up four per cent, but excluding the impact of the dollar, the growth rate would have been eight per cent. Acquisitions could also help to mitigate any loses as a rising Canadian dollar makes it more affordable to purchase a U.S. insurer.

STRATEGIES FOR THE FUTURE

As Dominic D'Alessandro sits in his office in late June 2003, he knows that is was time to make decisive decisions regarding the future of Manulife Financial. The current market conditions and uncertainties require a thorough analysis of all relevant external and internal factors, assessment of feasible options, and formulation of a renewed strategy that is accompanied by an equally compelling implementation plan. The formulation and implementation of a plan must address the issues facing Manulife as well as to set a new direction for the company now that industry consolidation is coming to an end. Many questions need to be answered including these three major groups of questions:

1) Where should the large cash reserves be invested? What is the feasibility of Manulife acquiring John Hancock Financial, or merging with the Canadian Imperial Bank of Commerce? Would the safer bond market be the best place to invest the money?
2) If further acquisitions prove the best option, how would Manulife Financial handle the post-acquisition strategy to ensure that Manulife adds value in its offerings in different markets over the long term?
3) What, if anything, should be done with respect to the environmental factors such as appreciation Canadian dollar, the increased risk of SARS and other potential pandemics?

All of these circumstances will make it difficult to achieve Manulife's current objectives of earning a return of 16 percent on equity and increasing earnings per share by 15 percent per annum. D'Alessandro must determine how he can convince shareholders that Manulife will continue as a superior performer in the face of these difficulties. Finally, there is the nagging suspicion that much of Manulife's success is owed to the aggressive acquisition spree engineered over the decade past. What must be done to ensure a bright future for Manulife in the next decade, assuming it will not include many more acquisitions?

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PREPARING THE MASTER BUDGET FOR THE SOUTH CAROLINA PUBLIC BROADCASTING COMPANY

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CASE DESCRIPTION

This case requires students of a Masters of Arts in Administration (MAAA) program, who had heretofore had little or no exposure to accounting, to construct a cash budget for a not-for-profit organization. While the level of difficulty is a modest 3/5, it is designed to integrate knowledge gained in a one-day 6-hour block of instruction in accounting and finance conducted as part of the university's MAAA program. Among the major goal of the program is to both demonstrate the mechanics of budgeting, and to demonstrate that management can exert some control over the cash flows so as to minimize cash shortages. The participating students are largely working professionals of not-for-profit organizations such as those of museums and art galleries. Most have had only the most modest exposure to accounting. The case requires about 1.5 hours of in-class time to complete.

CASE SYNOPSIS

As with many not-for-profit (NFP) organizations the South Caroline Public Broadcasting Company (SCPBS) receives a major portion of its capital and operating funds from public solicitation. In this case, the corporation initiates a fund drive not only to cover its existing operations, but also to funds new programs. In addition to the recurring expenses of the corporation, there are also a number of expenses associated with each fund drive that are addressed through the exercise. Throughout the MAAA program and the case, major points are made about the importance of cash flow as opposed to revenue. The case also demonstrates techniques management can employ to optimize the budget. Optimization techniques include referring to prior experience, scheduling out purchases of supplies, scheduling out capital expenditures etc., and accelerating cash inflows. Finally, the case demonstrates that budgeting is especially important to NFPs because they may experience restrictions on cash accumulations to which for-profit firms are not subject

SITUATION

In not-for-profit (NFP) organizations, people often rise to middle management positions by virtue of their experience within the organizations, and perhaps not because of specific experience in their new jobs. This can be especially true in the cases where personnel that are promoted into a position that entails accounting responsibilities. People interested in careers working in museums, local theatre or communications will typically have only the most modest accounting education**,** or that experience may not be with an NFP.

In our case an experienced non-accountant manager, Laura Bauer (Jack Bauer's sister), is promoted into the Chief-Financial-Officer's position for the South Carolina Public Broadcasting Company. During her 15-year career with the company, Laura had started as the weather girl. Later Laura was proved to be very successful at producing programs and selling advertising. Three yeas ago she was named manager of the marketing department. In 2005, largely due to her outstanding results in marketing the station's products, she was offered the position of Financial Vice-President where one of her tasks would be to supervise, and work with, the small accounting office.

In late 2005, when Laura first accepted the position she examined the company's proposed programs, capital requirements, expected donations etc. for 2006. The Accounting Department had developed a set of pro-forma quarterly income statements and balance sheets for 2006. Those statements indicated that the revenues and donations would be adequate to cover all of the expected expenses and capital requirements of the company for that year,

Towards the end of December, the Board advised Laura that they wished to initiate a new fund campaign in January 2006 for the purpose of funding the purchase of new video series at a total cost of $400,000. Laura immediately sought the assistance of a CPA acquaintance, Brucia Willis, Bruce Willis' sister. This first major initiative under her leadership gave Laura an opportunity to both show what she could do, and to verify that the processes in place in the Accounting Department were effective. Brucia directed Laura to have a new budget prepared. Once the budget was completed, Laura set up an appointment for Brucia to come in and examine the processes and results, and to advise Laura on any method she could employ to improve the results.

BUDGET

NFP Budgeting Problem

Following the directions of the CPA, Brucia Willis, Laura, the Chief Financial Officer of the South Carolina Public Broadcasting System Company (SC PPS), provided the accountants with the information she had gathered. The Accounting Department was to develop a new budget for the first quarter of 2006. Among the considerations were that the Board wanted to buy a series of video programs for $400,000, that the funds necessary for the purchases must come from a new funds campaign conducted in the period January through March, and that current cash balances were only $1,200. The budget should make clear the steps necessary to assure that the funds for both continuing operations and the purchase of new programs would be forthcoming.

Table 1
Projected Pledges

Column 1	Column 2	Column 3
January	February	March
1,000 member pledges	1,500 member pledges	1,800 member pledges

Pledge averages:

25% of the pledges are for $100 – half of these individuals pay in cash during the month of the pledge – the rest pay in the following month

75% of the pledges are for $200 – one fourth of these individuals pay in cash during the month of the pledge. Credit contribution collection is as follows: unfortunately, 5% never submit their pledge contribution; the remaining contributors pay 30% in the month the contribution is made, 60% pay in the month after the contribution is made, 10% pay in second month after the contribution is made.

SC PPS gives a gift to all members pledging $200. The gift is a financial planning CD by Suzie Ball, a nationally known financial planner. Suzie charges SC PPS $15 to cover shipping and handling for each CD. SCPPS pays for these disks in the month following purchase. They currently have no inventory of Financial Planning Disks. The Board would like to consider having a safety stock of least 10% next month's disks.

SC PPS expects to incur the following expenses, paid in the month they occur, for each month of the third quarter of this year:

Table 2
Monthly General and Administrative Expenses

Column 1	Column 2
Rent	$12,000
Utilities	6,000
Advertising	4,000
Broadcasting Fees	15,000
Salaries	47,000
Depreciation	3,000
Miscellaneous	2,000
Total	$89,000

CASE QUESTIONS

1. How much projected cash will SC PPS generate during the first quarter 2006?

2. How much cash will be needed to purchase the Suzie Ball CDs for the third quarter?

3. How much cash will be needed to pay for the general and administrative expenses during the third quarter 2004?

4. Prepare the Cash Budget for SC PPS for the third quarter 2004.

5. Should SC PPS order the new series?

ALZA CORPORATION: A CASE STUDY CONCERNING R&D ACCOUNTING PRACTICES IN THE PHARMACEUTICAL INDUSTRY

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CASE DESCRIPTION

The primary subject matter of this case concerns variable interest entities (VIEs), accounting for research and development (R&D) arrangements, and consolidated financial statements. The case has a difficulty level of four for five, appropriate for senior or first-year graduate level. The case is designed to be taught in one class hour and is expected to require three hours of outside preparation by students.

CASE SYNOPSIS

This case illustrates the innovative off-balance sheet financing techniques used by ALZA Pharmaceuticals Corporation in the 1990s to fund its R&D activities. The case shows that, although ALZA technically adhered to generally accepted accounting principles (GAAP) in effect at the time, its financial statements failed to reflect economic reality by overstating revenues and net income. The case is a prime example of how accounting for VIEs prior to current GAAP failed to capture economic reality. The case details two of ALZA's R&D funding arrangements, illustrates the accounting practices used to capture them, and evaluates the manner in which their results were reported in the financial statements. Furthermore, the accounting and reporting procedures used will be compared to those required by ARB No. 51, Consolidated Financial Statements, FASB Interpretation No. 46(R) Consolidation of Variable Interest Entities—an Interpretation of ARB No. 51, and EITF 99-16, Accounting for Transactions with Elements of Research and Development Arrangements. This comparison will help students understand the relevance and need for the new pronouncements.

LORI COLLIN AND IMÁGE BEAUTY SALON

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ABSTRACT

The primary subject matter of this case concerns Lori Collin, who was raised in a Christian home, but the home was abusive and she left at a young age to marry not one, but two abusive husbands. At the same time, she started a successful business and worked to provide a stable home for her children and herself while also working to regain her faith. The case presents Lori's history from her point of view and how she eventually found what she needed to succeed both professionally, personally and spiritually.

Creating and successfully operating a small business is a challenge for virtually all entrepreneurs. In particular, the challenges facing women can often seem insurmountable. Lori Collin was raised in an abusive Christian home, yet she eventually returned to her faith in her own way and has continued to feels God's presence in her business operations. Yet she married two abusive men and nearly lost her children, business and life while trying to keep her family and its major source of income afloat. This case study chronicles the trials and tribulations of one woman that weaves common threads for many students; from spiritual loss and awakening to abusive relationships to substance abuse to the value of family. The teaching note reviews the pivotal points in the case; entrepreneurship and spirituality, reputation building, and resource-based theory.

When considering the fast-changing roles of women and men in our society and around the world, positive tales of overcoming the worst of gender inequalities and dysfunctional relationships can be powerful tools in the classroom. The dramatic growth of Christian businesses is also gaining increasing attention; however, this case is not about a Christian business, rather a faith journey. This case is designed for an undergraduate entrepreneurship or management class and is based completely on Lori's own words.

DEALING WITH AUDITOR CHANGES-- THE UNUSUAL CASE OF CALLAWAY GOLF COMPANY AND ITS FOUR DIFFERENT AUDITORS IN ONE YEAR

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ABSTRACT

While most publicly held companies go years without changing auditors, Callaway Golf Company (Callaway) changed auditors four times in one year. The unusual series of events that led Callaway to have four different auditors in one year provides an interesting setting to discuss Generally Accepted Auditing Standards as they pertain to auditor changes. Additionally, the Securities and Exchange Commission (SEC) has disclosure rules that apply to the company and to the auditor when an auditor change takes place. In this case the student will be exposed to actual SEC filings (Form 8-K) detailing the events surrounding the auditor changes as well as the auditors' filings with the SEC regarding the auditor changes. As the SEC filings are reviewed, the rules governing Form 8-Ks will be reviewed. The student will be exposed to the Code of Professional Conduct as it relates to confidentiality issues. Finally, client acceptance issues that auditors must deal with will be addressed.

AUNTIE ANNE'S PRETZELS: A KNOTTY PROBLEM

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CASE DESCRIPTION

This case involves growth and management issues, and is appropriate for small business and management, especially strategic management, courses. A secondary issue is the owner's social motives for the business, thereby making this case appropriate to a discussion of entrepreneurial goals and social responsibility. In addition, it traces the birth and growth of a new business into an international franchise system. It is a level 2 case designed to be covered within one class period and is appropriate for small business or management classes.

CASE SYNOPSIS

Auntie Anne’s is a family owned and operated business that holds a strong commitment to customer satisfaction. The company focuses on product quality, strong support to its franchisees, and a commitment to relationships that will help in the long-term growth of the franchise system. Auntie Anne’s success can be seen in its growth from a farmers’ market stand to the expanded franchise system it offers today. Founder Anne Beiler started the business as a means to fund charitable work. She is now considering not only the possible expansion of Auntie Anne’s to include a new café format, but also the direction of the charitable aspect of the business. This case study will examine Auntie Anne's past and possibilities for the future.

INTRODUCTION

Auntie Anne's Pretzels started selling soft pretzels atas a single stand at a farmers' market in Pennsylvania, selling soft-pretzels to shoppers. Through the development of its franchise system, Auntie Anne's now offers customers its productscustomers can purchase Auntie Anne’s products at more than 850 outlets in 43 states and 13 international countries including Japan, Thailand, Malaysia, Saudi Arabia, the Philippines, and England. The company’s sales have been growing every year as has the price of a franchise outlet, paving the way for Auntie Anne's current status as segment leader..

The story of Auntie Anne's begins with founder Anne Beiler, whose overall goal for the business was to make enough money to fund a counseling center that would help people of Amish background find psychological help and healing. Anne and her husband Jonas had become interested in mending people’s lives after their daughter died in a tragic accident. They wanted to help people the way his fellow friends and neighbors had helped his family. As a family business, Auntie Anne's Pretzels' goals were closely intertwined with the goals of the founders, so it is important to understand the Beilers in order to understand the company.

BIOLGRAPHY OF ANNE BEILER

According to her autobiography (Beiler, 2002), Anne’s story begins on January 16, 1949, on a farm in Lancaster County, Pennsylvania. Born to Amish parents, she grew up without using electricity and with a horse-drawn buggy as the only means of transportation. As the third of eight children, Anne gained a lot of experience baking and loved doing it. When she was 12 years old she baked her own cakes and pies for a Philadelphia market stand where she worked with her parents. By the age of 14 she had her first job as a waitress in a truck stop, where she developed her philosophy that kindness and a smile would open the door to anyone's heart.

Anne met her future husband, Jonas Beiler, at a friend's birthday party and they were wed in 1968. They moved to Texas and lived there for 20 years. Upon returning to Pennsylvania in 1987, Anne managed a soft pretzel stand at a farmers' market in Maryland. After seven months, she and Jonas purchased a booth at the farmers' market in Downington, Pennsylvania, where they sold pizza, stromboli, ice cream, and hot hand-rolled soft pretzels.

As she worked with the stand, Anne noticed the pretzels were the most popular item and they appealed to people of all ages. She set out to develop her own pretzel, and for two months Anne tinkered with the recipe but with disappointing results. Just when she was about to give up, Jonas suggested some ingredients his mother used when he was a young boy. They added them to the pretzel mix and a "new" recipe was created--the Auntie Anne's pretzel. The hot, salty treat was a hit with customers. Long lines of people who wanted only pretzels and fresh lemonade formed in front of the stand. Within a year they opened a second stand and then a third and fourth. The Beilers' garage became an office and family and friends helped her mix batches of pretzels, paint signs, construct booths, and deliver ingredients, in addition to working at the market stands. The familiar pretzel logo on the Auntie Anne's signs came from a photocopy her sister Becky made of one of the actual pretzels.

The success of the stands made the news and Anne received her first request for a franchise. She knew nothing about franchising but decided to try it, learning the business by trial and error. The first franchise outlet went to her brother in 1989 for $2,500. Cousin Sam Beiler was another of the first franchisees. In a few years the price for a franchise rose to $7,500 and by 2005 it had risen to $28,000.

Auntie Anne's 2003, sales were approximately $234 million, and rose to $247 million in 2004. Same-store sales were up 2.1% during this time with an average check of $3.45. Although it is segment leader, Auntie Anne's faces competition from several other franchises. The Pretzeldog, the most successful new product in many years, takes Auntie Anne's closer to the sandwich market, yet, like a pretzel, is easy for consumers to eat on the go.

COMPETITION

Although the pretzels sold by Auntie Anne's have their own special taste, they are not the only such product on the market, and franchises are common in this industry. Two of the largest competitors, Pretzel Time and Pretzelmaker, are owned by Mrs. Field's Famous Brands. Each brand has more than 200 units, which Pretzel Time mostly in the east, and Pretzelmaker in the west. Customers spend an average of $3.90 at each on items such as cheese stuffers (pretzel dough wrapped around cheese cubes), pretzel bites (small bits of pretzel with toppings) and pretzels around hot dogs.

In addition, Wetzel's Pretzels, with well over 200 locations, is a national competitor with 2004 sales of almost $45 million. Same-store sales were up 7.5% from $346,000 to $372,000 between 2003 and 2004. Wetzel's pretzels weigh 6 ounces, 50% more than competitors' average 4 ounce pretzels. The pizza pretzel, topped with cheese and pepperoni, and a pretzel wrap with a hot dog and cheese are two items that are, like Auntie Anne's pretzeldog, closer to the sandwich category.For example, Hot Sam's, Pretzel Plus and Bavarian Pretzel are not as well known in all locations, but offers similar products and similar prices.

The quickest and easiest way for potential competitors to set up a soft pretzel outlet is to go through a type of generic company such as Pretzel Plus. This company provides supplies and ingredients needed for a potential entrepreneur to open a pretzel shop under any name (not restricted to Pretzel Plus). To open a 500-1,000 square foot franchise outlet with this organization, a total investment of approximately $80,000 to $103,000, with a minimum net worth of $150,000, of which $40,000 needs to be in liquid assets. The franchise fee is $12,000 with 4% royalties.

Another up and coming potential threat to the Auntie Anne franchise is Hot Sam Pretzel Bakery based in Cleveland, Ohio. Hot Sam offers traditional Bavarian-style pretzels as well as a sweeter, soft-dough variety. Hot Sam Pretzel Bakeries currently operates 140 company-owned stores located in malls and expects to add five to eight more. It is now targeting the Tri-State area in its first-ever franchising plans. The biggest challenge that Hot Sam faces is transforming its corporate structure into a franchise system. The company must scrutinize its programs for site selection, lease negotiation, store openings, and retail operations.

Auntie Anne's is the current leader in the soft pretzel business, but it does face competitors that would like their own piece of the market. This may hinder Auntie Anne's future ability to charge premium prices as the market comes closer to saturation. In addition to the Pretzeldog, a hotdog wrapped in pretzel dough, Auntie Anne's is now considering expanding its operations with a new café concept. Unlike the typical pretzel outlets that offer no seating, each Auntie Anne's Café would seat approximately 30 people. Similar to other modern cafes, these would serve gourmet coffee, offer a lunch and light dinner menu (sandwiches, pizzas, breads, soups, etc.), and provide wireless internet access. Most items on the menu would be made from the same pretzel dough, but prepared in different ways. The first Auntie Anne's Café has already opened in Lancaster, Pennsylvania. Others may be opened if this one proves to be a success.

CHANGE IN OWNERSHIP?

Charitable work is Anne and Jonas Beiler's passion. Auntie Anne's was not created to make the Beilers rich, but to support their charitable projects. In 1992, Jonas opened the doors to the Family Resource and Counseling Center, which is still in operation. The company also funds a non-profit organization, the Angela Foundation, named after their daughter that was lost to them years before. Anne feels that this is the part of the company that extends the belief to give back a portion of the gifts God has given her and her husband.

Now Anne is considering selling Auntie Anne's to her distant cousin Sam Beiler, who is also the President and C.O.O. of the company. He has been part of the Auntie Anne's family since 1989 when he became one of the company's first franchisees. Since then he has concentrated on opening 137 foreign stores and overseeing 37 company owned units. If the company is sold, it is likely that he will take it in a new direction. Sam Beiler has already stated that he would like to open about 40 pretzel stores a year. He also plans to introduce the Auntie Anne's Café slowly to see if it will be profitable. With the right marketing and products the Auntie Anne's Café may be a very profitable franchise.

By selling the business she created, Anne will have the time she wants to work towards her long-term goal of helping families in need. Anne and her husband would also be able to work to open a family center that will provide help to children in their hometown. However, Anne wonders if her strong beliefs in commitment, giving, and customer satisfaction will continue to be instilled in employees if she leaves.

If Sam buys Auntie Anne's, he will be purchasing a brand that is synonymous with good quality, reliability, and profitability. He will have to maintain the good reputation that the company currently holds. Since he has succeeded in the past with providing more business opportunities for Auntie Anne's, he may be able to further succeed with the business. However, the question remains as to the future of Auntie Anne's Café.

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E. M. MAPALAD AND THE MAPALAD BUS LINERS, INC.: THE BUSINESS ENDED DESPITE A TALENTED ENTREPRENEUR

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CASE DESCRIPTION

The primary subject matter of this case is entrepreneurship. Secondary issues examined in the case include strategies involved in family business startup, growth, and decline, including profit-maximizing strategies (revenue maximization in particular), as well as international business environments and their impact on businesses, in general, and family businesses, in particular. This case has a difficulty level of three and up, appropriate for junior level and beyond. The case is designed to be taught in two to three class hours in a management or international business course, and is expected to require about three hours of outside preparation for students, consisting mainly of reading the case and familiarizing themselves with the business implications of a Martial Law regime.

CASE SYNOPSIS

The case is about E. M. Mapalad, an entrepreneur, and the successful transportation business he created in the Philippines after World War II and operated for more than 50 years. The case traces through the history of his business, from its beginning as a surplus U.S. Army jeep that was leftover from the war to a fleet of thirty five full-sized buses at its peak in 1965-1972. In doing so, the case illustrates an example of how a highly motivated and very talented entrepreneur started his businesses from limited resources, and how his skillful management of these and additional resources and his ability to identify and pursue opportunities made him the number one bus operator in Manila twenty years after he started his business. The case also shows how a drastic change in the political environment adversely affected his businesses and drove this once motivated, dedicated and successful entrepreneur to give up on the business that he created.

This case secondarily provides a glimpse of the transportation industry in the Philippines between 1945 and the 1980s for which no explicit study exists and for which data are generally not available. It also gives a personal account of the political, economic and cultural environments faced by the entrepreneur and how these environments affected a number of his major business decisions.

CASINO CITY, INC. V. U.S. DEPARTMENT OF JUSTICE: CAMPUS ACCESS TO INTERNET GAMBLING AND THE FIRST AMENDMENT

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CASE DESCRIPTION

The primary subject matter of this case is the concept of "standing" which mandates that, under Article III of the United States Constitution, each litigant is permitted to pursue his or her cause of action only if it presents a genuine "case or controversy," in the absence of which the federal district courts lack jurisdiction to adjudicate.

This case also explores United States statutes declaring internet gambling to be illegal, and examines whether First Amendment protection of commercial speech precludes government restrictions on advertisements promoting internet gambling.

Finally this case reviews the rapid growth of the online gambling industry, the swiftly increasing participation of university students in online gambling, the ethical implications of marketing efforts designed to entice university students to engage in internet gambling, and the Federal income tax consequences of gambling online.

This case would be appropriate for use in business law/legal environment of business, internet marketing, or e-Business courses with a difficulty level of two or three depending on the course.

CASE SYNOPSIS

Michael A. Corfman, the founder and CEO of Casino City, Inc., a Louisiana corporation that operates gaming websites that disseminate information about gambling, initiated a lawsuit against the United States Department of Justice (DOJ) seeking declaratory judgment that prosecution by the Department of Justice for accepting advertisements for internet gambling operations on CasinoCity.com violated its First Amendment right to engage in commercial speech..

Casino City's website attracts individuals seeking gambling information, and gambling establishments throughout the world advertise on Casino City's website, providing Casino City with substantial advertising revenues.

Casino City claims that the Department of Justice threatened to prosecute broadcasters who accept advertisements for online gambling for aiding and abetting illegal activities, and issued subpoenas to media outlets, internet portals, public relations companies and technology companies to obtain information about advertisements purchased by online casinos and bookmaking companies. Casino City also alleges that these threats of prosecution infringe upon Casino City's right to engage in commercial speech contrary to the First Amendment.

This case analyzes (1) the requirement in Article III of the United States Constitution mandating that Federal courts can entertain only those causes of action that present a genuine "case *or controversy," (2) the protection accorded to commercial speech under the First Amendment, (3) the legality of internet gambling, (4) the rapidly increasing participation in online gambling by university students, and (5) the ethical implications of marketing efforts designed to entice university students to engage in internet gambling.*

Careful discussion of the case should enable the students to better understand (1) the concept of "standing" and "ripeness" which prohibit courts from exercising jurisdiction in hypothetical claims prematurely presented for court resolution; (2) the legal and ethical implications of the vastly expanding business of online gambling; (3) the application of First Amendment protection of commercial speech to internet gambling advertisements; (4) the rising participation of university students in online gambling and dangers posed by those activities through the increasing incidence of pathological gambling; (5) the effectiveness of marketing strategies which promote online gambling; and (6) the Federal income tax consequences of gambling activities.

HANDLING DIFFICULT SITUATIONS: FOUR ROLE PLAY CASES

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CASE DESCRIPTION

The primary subject matter of these role play cases is the communication skills needed to handle difficult situations – among clients, consultants, and team members. Since difficult situations often stem from people having different goals, different approaches, and/or different personal styles, diagnosing and attending to these differences are secondary issues. Resolving difficult situations and retaining the relationship often requires planful dialogue – communications that: (1) are open to and respectful of the others' point of view,(2) treat others' as equals in the situation, and (3) seek to understand the others' views and the assumptions underlying those views. The role play cases have a difficulty of five. Each of the four role play cases is designed to be used within 30-40 minutes. No outside preparation is necessary.

ROLE PLAY CASE SYNOPSIS

CASE 1: Jan Whijting, a newly promoted team leader, recalled to a group of interns, "We had done previous phases of work that led to a new client strategy. There were four teams facing off against various senior clients in order to define the techniques and costs associated with implementation of the new strategy. As time went on, the client, Moesha Haughe, proved less and less willing to provide us with information and cost estimates. It became very adversarial -- I used up all my good will, and even called on a partner to try to get them to cooperate."

CASE 2: Terry Marquette, a second-year analyst, was having trouble with the client. This was Terry's first experience as a team leader – one that would not be forgotten. It started when Irmi Dunne, the client's e-business expert, mentioned to the team something to the effect of "not being really happy about working with them, and prefers another consulting firm."

CASE 3: Dale Zand, a seasoned executive and ex-consultant, was hired to serve as the vice president of the new online business unit that was being formed. In addition to hiring Dale, Sara Sharp, President of Premier Publishing, brought in a consulting firm to develop an Internet strategy to take her business-to-business publishing company into the online world. The offline business was struggling with declining growth in circulation. Three days after Dale arrives, he asked to meet with the consulting team to discuss the project scope. Dale proceeded to redefine the engagement without Sara's approval, to the dissatisfaction of the consulting team engaged to do the work.

CASE 4: Luis Cruz was excited about meeting the new job manager, J.C. Marshall. J.C. had joined the firm last month from industry to lead this consulting engagement -- working on new products and a media channel strategy for a major entertainment company. So far it has been a positive experience. The project is going well, your client seems satisfied, and the hours have been reasonable. Then J.C. asked to meet with you. The meeting did not go as expected. After a few pleasant comments, J.C. became direct and autocratic. You tried to discuss the current situation and your good relationship with the client, but he didn't seem to hear it.

JAN WHIJTING (CASE 1)

Jan Whijting, a newly promoted team leader, was recounting to a group of interns a client experience that stretched the team to the limit. As Jan recalled, "We had done previous phases of work that led to a new client strategy. There were four consulting teams facing off against various senior clients in order to define the techniques and costs associated with implementation of the new strategy. There was a marketing team, a distribution team, a servicing team, and a technology team. My client face-off reported directly to the CIO."

"We were tasked with evaluating what the technology requirements were for the new strategy. Given the new marketing, distribution, and servicing approaches, as well as any shortcomings in existing technology, we needed to determine what projects were necessary, including timelines and costs."

"At the start, my client counterpart, Moesha Haughe, was very enthusiastic about working with us, and was proposing an aggressive timeline for completion. We began to review technology requirements and planned projects. We also began to question some of the budget assumptions for the projects, and to question the need for many of the projects."

"As time went on, the client proved less and less willing to provide us with information and cost estimates. It became very adversarial -- I used up all my good will, and even called on a partner to try to get them to cooperate."

"It became obvious to me that it was only the technology team client counterparts that were not cooperating. All of the other teams were easily getting their cost/project estimates; our documents were blank. It began to feel as if my team was part of a hostile takeover, given the lack of cooperation."

TERRY MARQUETTE (CASE 2)

Terry Marquette, a second-year analyst, was having trouble with the client. This was Terry's first experience as a team leader – one that would not be forgotten. It started when Irmi Dunne, the client's e-business expert, mentioned to the team something to the effect of "not being really happy about working with them and prefers BCG."

Terry was aware that the relations with Irmi had been deteriorating before this announcement, and had spoken to the team about it. During these discussions, the team confirmed that Irmi had cancelled two meetings with specific team members – and neither had been rescheduled. The team was becoming disenfranchised and isolated. The work was still interesting, but interactions with the client were strained. As they had only two more weeks of work on this engagement, Terry was thinking that it might be best to 'wait it out'.

Then the OIC, Paul Allison, came into the team room – apparently having just received an earful from Irmi. Irmi feels that some of the team members are uncooperative and behave in ways that say, "I don't like you." And, Irmi may be right. According to Paul, this is the first major project that Irmi has been asked to lead, and it is the first time Irmi has been on a team with us. Irmi's previous involvement in a BCG engagement seems to have contributed to Irmi's latest promotion. Apparently, BCG really supported Irmi's ideas. As Paul left the room, he said, "Even though Irmi looks young and may act immaturely – we must still cooperate."

DALE ZAND (CASE 3)

Sara Sharp, President of Premier Publishing for less than three months, brought some in consultants to develop an Internet strategy to take her business-to-business publishing company into the online world. The offline business was struggling with declining growth in circulation for many of the company's publications. Sara believed that with a vision for a more robust Internet offering, she could turn the company into a leading online content provider for business professionals.

The first step was to hire an ex-McKinsey consultant, Dale Zand, to serve as the vice president of the new online business unit, and to lead the engagement from the client side. Three days after Dale arrived, Dale asked to meet with the consulting team to discuss the project scope. Dale had recently been in a meeting with Sara and the CEO of the holding company, Worldwide Enterprises, which owned several other publishing companies. During that particular meeting Sara had been eager as the new President to share her vision for Premier's online strategy, but the conversation had quickly turned towards the state of the offline business. Sara was abruptly put on the spot in front of a group of executives by the CEO, who asked her to explain why a turnaround plan was not in place. Dale quickly sensed that this was a bigger priority for the CEO than it had been for Sara.

During Dale's meeting with the consulting team, he expressed skepticism about the grandiose online vision that Sara had asked them to research the viability of this vision. To Dale, it was more important to think about how to revive the offline business that accounted for 95% of the company's revenues.

Dale started the meeting by describing the recent executive meeting with the CEO and conveyed several thoughts about how the company should be focusing more on how to revive its offline business before coming up with an online strategy. As the project lead for the client, Dale was in a position to influence the nature of the assignment. Dale proceeded to say, "I'd like you to hold off on thinking about an online strategy. The project scope now is to help us come up with a winning offline game plan that I can take to the CEO." Dale wanted the consultants to come up with some answers before the next Board meeting, which was two weeks away.

After the meeting was over, the consulting team was confused. It had already spent two weeks on the issues and hypotheses part of the engagement, and was making good progress. To stop work on the Internet strategy now, and to redirect the effort into the traditional publishing world would be a let-down for the entire team. Several members of the team were on this particular engagement specifically because it was b-to-b e-business. It was a skill set that their passport required for their development.

LUIS CRUZ (CASE 4)

Luis Cruz, a second-year Associate, was excited about meeting the new job manager, J.C. Marshall. J.C. had joined the firm last month as an industry hire to lead this engagement – the previous job manager was leaving for another career opportunity. Luis heard that J.C. had previously worked at AT&T and Turner Communications after earning an MBA from the University of Hawaii.

This engagement – working on new products and a media channel strategy for a major entertainment company -- has been a positive experience. The project seems to be going well, your client counterparts are satisfied, and the hours have been reasonable. You have had good access to all levels of client staff, often learning as much from them as they are from Booz Allen. Lunch and dinner meetings with the client have become weekly events to which you look forward.

When the departing job manager briefed J.C., you felt his comments accurately reflected your experience: “These are a bunch of good people. Any time we’ve asked for access, data, or their inputs, it has been provided. People are responsive, and the quality of work we are doing is clearly acceptable. The report revisions that we make seem to pose no problems – the team makes them and the client accepts them. Even when we have been late on a deliverable, the client is understanding.”

J.C. asked to meet with Luis and the other Associate on the job, Molly Bello. Molly joined Booz Allen upon completing an engineering degree from the Federal University of Rio de Janeiro four months ago.

The meeting with J.C. did not go as expected. After a few pleasant comments, J.C. became direct and autocratic. You tried to discuss the current situation and your good relationship with the client, but J.C. didn't seem to hear it. Molly said almost nothing – she didn't even support you. It was as if you had done something wrong. The following captures what you recall as directives from the meeting:

Only J.C. will initiate direct client contact; if someone from the client organization wants to discuss something, they should be referred to J.C.;

The team will not be late on another deliverable – even if it means working all night;

There will be no errors in our reports – six sigma was the goal;

All report pages will be reviewed by J.C. before they are shared with any more senior BAH staff or the client; and,

All client contact will be at the office and task focused

Following this meeting, J.C. requested several additional analyses, to be completed by 9:00 tomorrow morning. The idea of doing these analyses was not new – but informal discussions with the client indicated that they would be low value added. As it was already late afternoon, someone would have to work late. You have a family-related party with your girlfriend in four hours to celebrate her father's 50th birthday.

MANAGING CLIENT RELATIONS: THE CASE OF PETER VOSEK AND JOAN CHAROEN

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CASE DESCRIPTION

The primary subject matter of this role play case is the interpersonal skills needed to handle a difficult client situation involving power and trust. Since difficult situations often stem from people having different goals, different approaches, and/or different personal styles, diagnosing and attending to these differences are secondary issues. Resolving difficult situations and retaining the relationship often requires planful dialogue – communications that: (1) are open to and respectful of the others' point of view,(2) treat others' as equals in the situation, and (3) seek to understand the others' views and the assumptions underlying those views. The role play case has a difficulty of five (graduate). It is designed to be used within 50-80 minutes. No outside preparation is necessary.

ROLE PLAY CASE SYNOPSIS

The "Peter Vosek" and "Joan Charoen" cases and roles for a role play (totaling 5 pages) discuss the same management consulting engagement from different perspectives. Peter, the officer in charge (OIC) of the engagement, and Joan, the job manager for one of the five teams on the project, relate their perceptions of the different stakeholders involved in this project and the challenges of managing these stakeholders.

In the Peter case, CRC (a top tier international management consulting firm) is hired by a chemical manufacturer to lead a large service implementation project. Early in the project, Peter's counterpart on the project, the Corporate Manager of Service, is replaced. Peter finds it difficult to maintain a good working relationship with his new counterpart, Senal Dhola. His project is falling behind schedule, and he finds himself in a situation in which he has little access to the top management team of the company. We see Peter pondering how to turn the engagement around and prepare an effective, mid-engagement presentation for the top management group.

In the Joan Charoen cases, Joan is the job manager (senior associate) for the information technology (IT) team on the project. Joan has created a collaborative environment for her team, which is composed of both CRC consulting staff and managers from the chemical company. Joan's team makes a recommendation (A case) that is rejected by the company's CEO, Shawn Walsh (B case). Joan believes the senior members of the consulting team need to actively strategize ways to gain buy-in for the project from the company's top management. After one failed attempt to convince Peter and other more senior members of the consulting team that they need to pay more attention to stakeholder management, we find Joan pondering how to "sell" her point of view (end of B case).

In the C case, Joan reveals her views on the performance of her IT team and on the quality of the overall engagement. Joan suggests that while her team performed well, the lack of stakeholder engagement at more senior levels of the project compromised the effectiveness of the overall project.

CASE CONTENT

Peter Vosek

Peter Vosek, a partner at CR Consulting (CRC), was 6 months into the largest project he had ever led. He was the officer in charge (OIC) of a service implementation project for a chemical company. Peter had five teams on this project, each with a job manager, and a senior job manager who coordinated all of the teams. From the start, Peter, a Wharton MBA, had looked forward to the challenge of this $10 million project.

Two months into the project, Senal Dhola became the chemical firm's corporate manager of service and Peter's new counterpart on the project. Senal thrived on challenges and had progressed rapidly in the chemical company. Peter was relieved when he learned that Senal was heading up the project as he had worked well with Senal in the past. Peter knew Senal from a 12-week assessment project he had did several years earlier. Senal liked CRC's work and had implemented several of its recommendations. Peter felt that Senal respected his ability. He had keep in contact over the past few years and they had lunch together twice. Senal seemed eager to take on this large project, which was in the implementation planning stage.

In their first few meetings, Peter was uncomfortable with way that Senal questioned many of the decisions that were made with the former corporate manager of service. However, after several more meetings, Senal had agreed with the plan Peter laid out and Senal even convinced the CEO, Shawn Walsh, that this was the way to proceed. For several weeks, Peter thought that he and Senal were in agreement, but then he noticed that Senal's easy-going style was becoming more distant. His weekly meetings with Senal became more formal. Senal started to ask to see every document, every interview, and each spreadsheet. Senal also excluded Peter from two key project meetings with the top management team which included the CEO, CFO, VP of Sales, and VP of Manufacturing. Peter was acquainted some members of the top management team but did not know any of them well, and he was extremely uncomfortable knowing that they were discussing the project without his input.

Peter was uncertain about how to proceed but believed that his best bet was to continue to work with their original plan. Over the next month things did not improve. When problems arose with different streams of the project, Senal showed no flexibility in working around them, refusing to work with Peter to re-structure the project in ways that would efficiently deal with the issues they faced. As a result, intermediate deadlines were missed, even though the CRC people were working longer and harder.

Six months into the yearlong engagement, Peter prepared for a mid-engagement presentation to top management. The meeting would be difficult because of his limited access. Peter thought about calling a senior partner at CRC for advice, but he believed that he could still deliver on the project if he and his people just worked harder. He would present the CEO with a step-by-step plan for getting back on track and then keep his nose to the grindstone.

Joan Charoen (A)

Joan Charoen was the job manager in charge of the information technology (IT) team on a large service implementation project for a chemical company. Her team was two-thirds client and one-third CR Consulting (CRC) staff. Joan felt her team was working well. The client members of her team were all senior managers and everyone seemed to share the project's objectives. Just yesterday one of her people said, "Hey this is great! You rarely work with clients like this!" Joan recalled, "When we got started. We invited everybody in and said, 'Well we've been given these objectives. How do we use our time against the resources we have to accomplish the task?' There was a sense of collaboration even in building the plan."

Joan, an engineer by training and a Harvard MBA, was pleased with the efficiency with which her team was operating, but she was also facing a serious challenge. There were coordination problems between IT and the Firm's logistics area. The lack of integration among the company's current systems created redundancy in some areas and inefficient processes in others. Her team had recommended establishing another top management position – a Chief Information Officer (CIO) -- who would report directly to the CEO, Shawn Walsh.

This was one of the recommendations to be presented to Shawn and the top management team this afternoon. Joan was not certain of the outcome. She had heard rumblings that the CEO was not pleased with some parts of the larger engagement. CRC was halfway through the project. She had heard that several streams of work were behind schedule and likely to run over budget. Joan was not confident that OIC, Peter Vosek, would be able to get buy-in for her team's recommendations.

WHERE IS THE REAL RISK? SEXUAL HARASSMENT AND COMPANY RETALIATION

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CASE DESCRIPTION

The primary subject matter of this case concerns human resource management, specifically sexual harassment and retaliation suits. This case has a difficulty level of three to four, and is appropriate for an upper division, undergraduate level. This case is designed to be taught in one class hour, and is expected to require two to three hours of outside preparation by students.

CASE SYNOPSIS

This case presents students with a workplace scenario, related to sexual harassment. In the scenario, an individual files charges alleging harassment. Students are asked to evaluate this situation, and discuss what would be the "right" response for the company to make. The company's actual response is discussed, as well as problems that arose from it.

INTRODUCTION

Susan* works in the Scanning department of a major corporation. She has been working for the company for several years, has a solid work history, and is well respected by her peers. However, recently, she has been having problems with a co-worker, and has reported these problems to a supervisor. The details of this problem are explained in the following case.

THE PROBLEM

Susan approached he supervisor with a problem. One of her female co-workers, was making her uncomfortable, by engaging in questionable actions. These included unsolicited shoulder massages and hugs, as well as a tendency to stand very close while speaking, and occasionally brush against her, including private areas such as her breast. She also alleged that this co-worker made sexually explicit, and inappropriate comments to her.

Her supervisor encouraged her to "work it out" and even went so far as to suggest that a promotion was riding on her ability to do so. She was unable to affect any change in her co-worker's behavior, and two days later, she filed suit with the EEOC alleging sexual harassment.

At this time, the company asked the EEOC to oversee mediation of the dispute. After weeks of effort, the mediation failed.

One week after the mediation failed, the company fired Susan, alleging that she had threatened violence to the company, and violated a confidentiality agreement. She retaliated by filing suit, alleging 1) sexual harassment, 2) retaliation, and violations of whistleblower statutes.

DISCUSSION

1) Was this sexual harassment, and if so did Susan have the right to file suit alleging Title VII violations?

2) Does Susan have a legitimate claim of retaliation?

3) What could the company have done differently?

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A METHODOLOGICAL APPROACH TO MODERN DIGITAL ASSET MANAGEMENT: AN EMPIRICAL STUDY

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ABSTRACT

The essential characteristic of a digital asset is that it is an asset and assets must be managed. The most important characteristic of a business's DAM solution approach must be an "asset orientated solution". If a twenty-dollar note is ripped in two, the result is not two ten-dollar notes - it is worthless paper. The same principal is true from a technical point of view for an asset orientated solution which implies security, transparency, flexibility and control which all rely upon the definition of an asset as an organising principle. However, literature reveals no such solutions. A new methodology, based on the principal of the value chain theory as reported by Porter (1996), for the approach to DAM was designed. The methodology was introduced to the managers of five major technology driven companies which operate in global markets and are market leaders in their respective industries.

The results proofed a high return on invested capital. A reduction of human resource input, the conception and enhancement of intellectual property, the effectiveness of the functional value chains and flatter market orientated management structures.

The implication of the results supports the hypothesis that digital assets are a valuable and essential advantage to companies.