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THE SUBPRIME MELTDOWN OF THE REAL ESTATE MARKET-LESSONS LOST FROM THE DOT-COM BUST

David W. Arnesen, Seattle University
arnesen@seattleu.edu
William L. Weis, Seattle University
billweis@seattleu.edu

CASE DESCRIPTION

Real estate investors quickly forgot the lessons learned from the dot-com bust that started in 2001: investments based solely on speculation, without real economic value, can not continue to grow in the long term. When the dot-com bubble started in the mid-1990's investors raced to invest in companies that not only never made a profit but in fact continued to loose more money month after month. Investors bid up IPO offerings of virtually every new tech company that came on the market. Many of these companies had little if any earnings yet investors often bid up the stock value up 100 fold for issues which could only be justified as penny stocks. By 2001 reality started to face dot-com investors. The economic fallacy that value will continue to rise simply because there is another speculator willing to pay more can only work in the short term. The lessons of the dot-com bust were clearly not learned by many real estate investors.

FINANCIAL ANALYSIS OF WRONGFUL TERMINATION: JOESEPH KIDWELL

M. Douglas Berg, Sam Houston State University
dberg@shsu.edu
Robert Stretcher, Sam Houston State University
rstretcher@shsu.edu

CASE DESCRIPTION

The primary subject matter of this case concerns the valuation of economic damages incurred by Mr. Joseph Kidwell upon his wrongful termination from Gilad Lexus of Billings, Montana. A secondary issue examined involves brand specific knowledge which is not transferable to the sales of other automobiles. The course has a difficulty level appropriate for the advanced undergraduate or first year masters students, practicing HR managers or those seeking to become forensic economists. The case is designed to be taught in one and a half class hours and is expected to require two hours of outside preparation by students.

CASE SYNOPSIS

Joseph Kidwell, a talented sales manager for a Lexus dealership, was terminated for refusing to fire an employee whom he thought was wrongfully accused of theft. The employee was later found to be innocent of the alleged theft, but Joseph had already been terminated. Joseph brought a lawsuit against the dealership for wrongful termination, the details of which are presented in this case. The reader is tasked with analyzing the economic loss suffered by Joseph due to the termination.

CUSTOMER SERVICE AT CITY STATE BANK

Jonathan Breazeale, Sam Houston State University
jbreazeale@shsu.edu
Jim Bexley, Sam Houston State University
jbbexley@shsu.edu

CASE DESCRIPTION

The primary subject matter of this case concerns some of the difficulties associated with overinvestment in negative NPV projects when capital budgeting valuation is close to zero NPV. Secondary issues examined include the importance of customer service, conduct of business in a rural environment, and the influence that the press can have on business decisions. The case has a difficulty level of three or four. The case is designed to be taught in one class hour and is expected to require an hour of outside preparation by students.

CASE SYNOPSIS

After several robberies, City State Bank has operated a drive-up only bank branch in Jones, Mississippi. Customers of the bank have been leaving in droves due to the long car line and decreased number of services offered at the drive-up. Without other convenient banking options in the area, customers are furious. They want the lobby operation reinstituted despite the marginal profitability of the branch. They have presented the CEO with a petition detailing their frustration and requesting lobby services. The CEO must now recommend a course of action to the board. He wants to make sure he has covered all the "intangible" issues that are involved in the decision to respond to his customers' request. He believes that he has three options: i) continue operating the branch as a drive-up only facility and ignore the petition, ii) close the branch, or iii) make security improvements and open the lobby for business. First, he asks you to determine whether or not each of his alternatives create value for bank shareholders. Then he asks you to focus on identifying the marginal cash flows associated with each of his alternatives (the most difficult task associated with any capital budgeting project). Finally, he asks your opinion on what he should recommend to the board of directors.

PROBLEMS AT THE JONES BRANCH

For many years, being the only banking facility in the city of Jones, Mississippi, a community of 1,500 residents, was a distinct advantage to City State Bank ("CSB"). CSB's main banking office is located in Jackson – approximately 30 miles from Jones. In 2001, the Jones branch was robbed twice within a six-month period. Other that the local excitement at the time, the event went unnoticed for about two years until CSB announced that they were closing the bank lobby and customers would have to conduct their banking business through a single drive-up window.

Pedestrian traffic is now greeted with a sign that reads "LOBBY CLOSED / Please Use the Drive-In Window / Knock for Safe Deposit Service".

Customers suspected that the lobby was closed because of the two robberies. Since 2003, there have been a number of customers who have taken their banking business to other out of town banks – about twenty to thirty minutes down the road – and the local weekly newspaper called Bill Franks, President and CEO of CSB to determine why the lobby had been closed. He noted that he joined the bank after the lobby closure so he would not speculate as to why it had been closed. Franks did point out that security and customer safety was very important.

Frustrations with the lobby closure were brought to a boil recently when Larry Smith sat in line at the drive-up window for over an hour waiting to cash a check made payable to his mother who had endorsed the check over to Larry. When he got to the teller, she stated that his mother would have to accompany him to cash the check. He went home and got his mother to accompany him to the bank. They waited in line for another 45 minutes before reaching the teller window.

With this bad experience fresh on his mind, Larry decided to solicit signatures on a petition demanding that lobby operations be reestablished. Over 900 residents signed the petition demanding that CSB either open the Jones branch lobby for full service banking or sell the branch to another bank.

Jones delivered the petition to Bill Franks, President and CEO of CSB, whose office was in Jackson. Mr. Franks was concerned that so many Jones residents expressed their concern with his bank's treatment of customers. He told Larry Smith that he would examine the issues raised in the petition and would meet with the board of directors to determine CSB's course of action. Adding to his disappointment, the statewide daily newspaper in Jackson had picked up on the story and had featured CSB's poor level of service in Jones in an article that was far from flattering. Even the mayor of Jones was quoted in the article as saying he wasn't happy with the current situation. He was concerned about the impact of the long car line on the city's traffic safety – not to mention his concerns about how could the town attract more business without adequate banking facilities.

As he prepared information for the board, Mr. Franks examined all the data upon which he could get his hands. His Jones branch was certainly losing customers. The branch had fewer accounts than the number of folks who signed the petition! Given the competitive nature of the rural banking markets in Mississippi, he could not justify selling the branch to a competitor. Besides, the press would have a field day with CSB if another bank came in to "clean up" their mess. He felt he had three options: i) ignore the petition and continue operating the drive-up only facility, ii) close the branch, or iii) improve the lobby with some added security features and open the branch for full banking services.

Ignoring the petition would only lead to the eventual demise of the branch – not to mention the continuing bad press.

Closing the branch would mean a serious blow to the local economy of Jones and the efforts of the city to attract any new businesses. Businesses were leaving Jones already! Could he contribute to the city's failure?

Spending money on the lobby was a losing proposition for his shareholders. No matter what assumptions he made or how lofty his expectations were for reestablishing a good base of customers in Jones, the NPV of his estimates was consistently negative. Only if the stars and moon aligned would this be a good option for his shareholders. The most optimistic NPV was only marginally positive, and there was a very low likelihood that CSB would generate a profit for its shareholders by spending money on the branch.

WILL THIS STORY STAND UP UNDER SCRUTINY? DEVELOPING TAX ISSUES AND AUDIT JUDGMENT IN GRADUATE ACCOUNTING STUDENTS

Valrie Chambers, Texas A&M University–Corpus Christi
Valrie.chambers@tamucc.edu
Roger Thaxton, CPA
roger_thaxton@hotmail.com

CASE DESCRIPTION

The primary purpose of this case is to help the student develop judgment in assessing what items on a federal income tax return warrant further scrutiny or verification from a skeptical party such as the IRS, opposing counsel, or bank loan officer. As secondary issues, the tax law for contract laborer vs. employee, car and truck expenses (including the auto insurance and auto depreciation), supplies expense, travel expense, meals & entertainment expense and other expenses. This case may be successfully introduced as a tax research case at the graduate level of accounting (Level 5). This case is designed to be taught in three class hours and is expected to take 6 hours of outside preparation by students.

CASE SYNOPSIS

Tax returns of self-employed individuals are often used to form part of a supporting basis for loan applications, for helping to determine the amount of child support obligations, and for many other uses. However, some self-employed people, like other taxpayers, do not always file a correct income tax return for whatever reason. The Office of the National Taxpayer Advocate (2005) recently estimated that the noncompliance "tax gap" is approximately $311 billion. According to the National Taxpayer Advocate's report to Congress self-employed taxpayers are responsible for approximately 67% or $208 billion of that federal noncompliance "tax gap." Use of an incorrect income tax return will negatively affect the quality of the decisions or judgments made based upon that return. Students are strongly encouraged to develop a sense of whether or not an income tax return is telling a reasonable story, or, if suspicious, what additional questions might need to be asked of the taxpayer. The following tax accounting case is derived from a real-life situation where child support was to be calculated as a fixed amount of a true and fair federal income tax return of a person who claimed to be self-employed. However, there are several suspicious items including the correct categorization of income and the existence of some suspicious expenses that indicate that income for federal income tax purposes is materially understated. The student, in the role of a CPA expert witness for the plaintiff requesting the child support, must identify the suspicious items for further development and establish a justification as to why those items first aroused their suspicion. The student needs not find the answer, but determine and justify which items are worth further examination.

AMOS HILL ASSOCIATES, INC. - SCARCE RESOURCE ALLOCATION AND MANAGEMENT

Alan B. Czyzewski, Indiana State University
Jeffrey Harper, Indiana State University
acczyze@isugw.indstate.edu

ABSTRACT

Amos-Hill Associates, Inc. is a veneer manufacturer in Indiana, specializing in the production of premium quality American hardwood veneers for international architectural and furniture markets. Veneer is a decorative wood product created by slicing logs in thin sheets (1/20 to 1/50 of an inch) to maximize the yield of natural wood grain material for applications in architectural and furniture products. Recently, Amos-Hill Associates acquired a new veneer slicing system, which uses a new technology, a vacuum table, to hold the flitches (half-logs) from which veneer is sliced from the log. They have been so impressed with its performance, John Chiarotti, the vice-president and general manager has requested an analysis of its benefits in increasing veneer production from each flitch and from total time the vacuum table is in operation. John is interested in determining whether purchasing another vacuum table for the plant's second vertical slicer processing line will improve production capacity. The improvement must be significant enough to justify the cost of the new vacuum table. In addition, consideration must be given to the plant's capacity for handling more veneer production and other factors.

BMI, INC.: A CASE STUDY IN PRICING STRATEGY

Prakash Deo, University of Houston-Downtown
deop@uhd.edu
Samuel Penkar, University of Houston-Downtown
penkars@uhd.edu

ABSTRACT

This case study discusses how a large manufacturing and service corporation after years of market leadership struggles with a lethal combination of a bloated cost structure and cost allocation methodology, internal rivalry among the business units and the lack of adaptability to the external environment in face of intense competition. The case analyst is required to create an appropriate pricing and marketing strategy against the backdrop of changing market conditions, and accordingly develop a cost and pricing structure for the firm's services, which are consistent with the firm's desired profitability goal. This case also contains the case solution at the end of the case.

HEDGING WITH FOREIGN CURRENCY OPTIONS AT PEARSON INC

Benjamin L. Dow III, Southeast Missouri State University
bdow@semo.edu
David Kunz, Southeast Missouri State University
dkunz@semo.edu

ABSTRACT

The primary subject matter of this case is hedging foreign currency exchange rate risk using foreign currency options. Secondary issues examined include evaluating financial risk and comparing hedging techniques to effectively manage unwanted exposure.

Pearson Inc is an Atlanta based company specializing in corporate travel services. Their focus is primarily on incentive initiatives, customer loyalty programs, and meetings and event management. Founded in 1986 by Mike Pearson, Pearson Inc has two main divisions. The corporate event group is a higher volume/lower margin division that specializes in large group travel outings, such as training seminars, conferences, and annual meetings. The incentive travel group is a lower volume/higher margin division that provides travel packages mostly associated with sales contests, customer loyalty programs, and other reward based promotions.

By and large, the incentive travel division at Pearson works off a catalog business. The main catalog is published twice a year (January and July) and allows customers to choose from a variety of travel rewards associated with employee incentive programs. Destination trips are grouped into tier levels and vouchers for tier levels are sold from the catalog at a guaranteed price. Eligible employees awarded travel vouchers would later redeem them for their preferred destination within a year. When a new catalog is printed, the travel division does not know exactly how many vouchers will ultimately be sold nor do they know which trips offered within tier levels will ultimately be chosen.

Mike Pearson, CEO of Pearson Inc, talked almost daily with Amanda Martin, vice president of the incentive travel division. Most of their recent discussions had dealt with properly managing the newer foreign travel package options among the higher tier levels in the company's upcoming July 2007 catalog. Martin had been working for the last two months on adding unique destination mostly concentrated in Spain and Portugal. One of the main concerns Pearson had centered on foreign currency exchange rate risk. If award recipients ended up choosing international destinations, Pearson would receive revenues in US dollars from the sale of the voucher, but later incur costs in other currencies. If the Spain and Portugal trips turned out to be as popular as Martin envisioned, Pearson would need to purchase a significant number of Euros during 2008.

Catalog sales present a unique situation in regards to hedging foreign currency exchange rate exposure. Total exchange rate exposure is a function of both bottom-line risk and volume risk. The first risk is that an adverse change in exchange rates could increase the cost base, thus reducing bottom-line profitability. The second risk is that foreign currency hedges are based on projected sales volumes, which will differ from final sales volumes.

PETROKAZAKHSTAN: TIME TO STAY OR TIME TO GO?

Dorothee J. Feils, University of Alberta
Grace C. Allen, Western Carolina University
Pawel Martyniak, Glen Cowan Associates
alleng@wcu.edu

ABSTRACT

The emerging markets have lured many investors over the past several decades. These new markets offer high potential returns and with them high risks. Some of the markets that have held great promise are those of the former Soviet Union. The new post-communist governments have actively sought foreign direct investment. In addition, some states are rich in natural resources and inexpensive human capital. However, there are many uncertainties in these markets including unstable economies, political and legal problems, vague laws, extensive corruption and weak infrastructure. A few investments have been able to succeed even against the odds of failure. In this case we examine PetroKazakhstan, a Canadian-based oil and energy company, which invested all company assets and capital in the Republic of Kazakhstan. For PetroKazakhstan the bold move paid off, reaping extraordinary returns for the shareholders. The major factors affecting PetroKazakhstan's successful investment are examined. Specially, students will explore the risks associated with investing in emerging markets and whether the expected returns of PetroKazakhstan compensated for the risk taken. In addition, students will address the roller-coaster ride for the shareholder's and their decision to cash-out, locking-in a long awaited return. While this case focuses on one company for the analysis, many of the lessons learned will apply to other companies investing in emerging markets.

ACHIEVING GLOBAL GROWTH THROUGH ACQUISITION: TATA'S TAKEOVER OF CORUS

Kimberly A. Freeman, Winston-Salem State University
freemank@wssu.edu
Suresh Gopalan, Winston-Salem State University
gopalans@wssu.edu

CASE DESCRIPTION

The primary subject matter of this case concerns the long-term viability of Tata Steel's acquisition of Corus. Secondary issues examined in this case include a discussion of emerging trends in the global steel industry, post-acquisition issues facing Tata Steel (including financial and cross-cultural issues), and the impact of this particular transaction on the mindset of other Indian firms that are increasingly seeking an international presence.

CASE SYNOPSIS

Tata Steel (part of the Tata Group based in India) acquired the Anglo-Dutch steel firm Corus after a four month bidding war with Brazil's CSN (Comphania Siderurgica Nacional SA) for US$11.3 billion—this was the biggest acquisition by an Indian firm. Tata's acquisition of Corus made it the fifth largest global steel producer with an annual capacity to produce 25 million tons of steel. The acquisition was intended to give Tata Steel access to European markets and to achieve potential synergies in the areas of manufacturing, procurement, R&D, logistics, and back office operations. Critics claimed that the acquisition price at 608 pence per share was substantially higher than an earlier offer of 455 pence per share. Additionally, they felt that it would take several years for potential production and operational synergies to materialize that would yield significant cost savings boosting financial yield. Tata Steel's stock suffered a significant decline in price causing Standard & Poors to place it on credit watch list with negative implications. Did Tata Steel overpay for acquiring Corus? What is the long term possibility of realizing proposed synergies? Will Tata Steel's gamble of being a global steel player payoff in the long run?

ROCK CREST VILLAGE: AN EXPANSION OPPORTUNITY

Barbara K. Fuller, Winthrop University
fullerb@winthrop.edu

CASE DESCRIPTION

This case focuses on the growth of a family-owned franchise from its inception in 1987 to 12 stores in 2007. The case first concentrates on the issue of growth by providing students with an opportunity to develop a profit and loss statement for a new store offered to the franchisee. The key figures available to the entrepreneur are provided allowing students to put themselves into the role of the decision-maker. All of the events in the case are based on a true entrepreneurial experience, but the names have been disguised to provide privacy to the owner. The profit and loss statement uses actual figures and depicts the situation as it existed at the time the offer was made. The case has a difficulty level of three, appropriate for students with an introduction to content associated with franchising and financial growth in small firms. The case is designed to be taught in one class hours and is expected to required two hours of outside preparation by students.

CASE SYNOPSES

Ryan Smith, laid off from his position as plant manager for a textiles firm, begins a new career as the franchise owner of a group of sandwich shops doing business as Smith Enterprises. The case covers Ryan's startup of Subs by Design with the help of his family. Smith Enterprises is now looking forward to operating 12 stores which include two stores currently under construction. However, recently Ryan was presented with an interesting offer from the franchisor for a prospective store in a potential hot growth area, Rock Crest Village. The location was a great, but the developer had a reputation for very high rents. In addition, several national chain restaurants had already committed to the location and there were rumors that a local deli and restaurant would be moving into the area as the village grows. Ryan must make a decision on the offer within the next three weeks. If he doesn't accept the offer, the franchisor will offer the location to someone else.

CEO'S BACKGROUND

Ryan Smith, CEO of Smith Enterprises, is the owner of 12 sub sandwich shops doing business as Subs by Design in Stansberry GA, a town with a population of just over 50,000. Smith had purchased his first two Subs by Design franchises twenty years ago in 1987. At the time, the experience was both exhilarating and frightening. He was 50 years old and moving into the restaurant industry. What frighten Ryan the most was the fact that he knew nothing about restaurants and had no past experience upon which to draw. How had he gotten here after spending 30 years in the textiles industry? He remembers vividly the day he was laid off from Phoenix

Textiles. The layoff had rekindled his entrepreneurial spirit and triggered the purchase of those first two stores. He had worked for Phoenix Textiles for 24 years and made his way up to general manager before he was terminated to make room for the owner's eldest son to take the top spot at the company. Although he understood how family businesses worked, he was left without a job in an industry that was seeing continued movement off shore and to Asian countries with lower labor costs. Thinking that textile industry was all he knew, Ryan was devastated. As he pondered his future he wasn't sure which direction to go. He had always wanted to start his own company, but had never found the right business or the timing was off. He felt this certainly was not the right time with children in college. But fate had put Ryan and his wife, Vicki in the job market with some very serious decisions before them.

As chance would have it while traveling on an interview in Calhoun GA, Ryan stopped in a Subs by Design Sandwich Shop for lunch. The product was so impressive that he located the franchise owner to discuss the business. The owner convinced Ryan to inquire further, which he did. In July 1986, he purchased two franchises and opened the first one in Stansberry, Georgia in April of 1987 and the second one six months later. Today he has 10 stores with two under construction.

AN OPPORTUNITY AT ROCK CREST VILLAGE

Although most of Ryan's expansion had been self initiated, there were times when the franchisor found an interesting opportunity in a particular geographic area and presented it to the franchisee for consideration. Subs by Design recently found such an opportunity and approached Ryan with a prospectus for a new store. The Rock Crest section of Stansberry had experienced significant growth with the completion of a regional mall two years ago. Numerous retailers moved into the area and residential growth was forming. Ryan had his eye on the area around Rock Crest, but heard that rents were rather high in the village.

Having worked with Subs by Design over the years, Ryan also knew that the franchisor would not appreciate his turning down a location in close proximity to his geographic area, but he needed to look at the figures. A lot of owners would take anything to keep competition out, but Ryan was in business to make a profit. He was certain rent would be high, but wanted to see the overall package."

Since day one Subs by Design had trained Ryan to look at the Profit and Loss Statement (P&L). So Ryan's first instinct, when he looked at any new site, was to develop a Weekly P&L for the store. (A copy of the P&L Form that Ryan uses in evaluating stores is provided in Appendix A of the case.) He received the following lease terms for a 1500 square foot site from the Rock Crest Village landlord.

Lease for Rock Crest Village
Terms of the Deal

a) Lease Terms: Commencing on the "Commencement Date" and ending Sixty (60) months thereafter except that in the event the Commencement Date is a date other than the first day of a calendar month, said term shall extend for said number of months in addition to the remainder of the calendar month following the Commencement date.

b) "Estimated Completion Date": November 2005
c) Permitted use" Full Service, with a drive through, Subs by Design Restaurant.
d) Minimum Guaranteed Rental: $3700.00 per month ($29.60 per square foot per year) in Years 1-5.
e) Initial Common Area Maintenance Charge per month: $125.00 per month ($1.00 per square foot per year).
f) Initial Insurance Escrow Payment per month: $18.75 per month ($.15 per square foot per year).
g) Initial Tax Escrow Payment per month: $62.50.00 per month ($.50 per square foot per year).
h) Security Deposit: Two (2) monthly payment totals to be applied to the 1st and 36th month of the lease term. $11,100.00
i) Summary: Initial Minimum Guaranteed Rental ($3700/month) + Initial Common area Maintenance Charge ($125/month) + Initial Insurance Escrow Payment ($18.75/month) + Initial Tax Escrow Payment ($62.50/month) = Monthly Payment Total ($3906.25/month)

Ryan estimates that sales in the new location would be between $7,000 and $10,000 per week. He did his first calculation using a $10,000/week sales volume since his costs were generally related to $10,000 per location in sales. If he needed to make adjustments he would have the established fixed expenses and make adjustments for the cost of goods, royalty fees and advertising cost. Ryan's expenses included the following: gas .05%, electric 1.75%, telephone .15%, garbage .25%, insurance .40%, labor and taxes 22%, repair and maintenance .8%, and miscellaneous expenses .8%. Cost of goods sold usually ran near 31% of sales. And of course, he would have to pay the franchise royalties of 8% and advertising expenses of 4.5%. All Ryan needed now was to put the figures from the lease agreement plus his cost estimates into the weekly profit and loss statement. This would give him a picture of the potential profit or loss for the new location. The net profit margins for his current stores ranged from a low of 10% to a high of 20%. Ryan knew that a store would be opened in this location whether or not he decided to accept the offer. If he declined the offer, Subs by Design would offer the location to another franchisee, and he would have competition in his territory. If he opened the store it meant that he would be adding an additional store to the two he currently had under construction north of Stansberry.

As Ryan pondered expansion into the Rock Crest Village location he thought about the past and was proud of his accomplishments over the years at Smith Enterprises. Money was no longer the issue it had been in the early days when he was just getting started. With a good track record behind him, Ryan found he had the backing of the bank and could borrow money whenever he needed it. On the other hand, he felt that the decision as to whether or not to open the store in Rock Crest Village had to stand on its own. Would the Rock Crest Village store make a reasonable profit for Smith Enterprises? The location was great, but he was concerned with the margins he would be able to make if expenses were above normal. In addition, several national chain restaurants had already committed to the location including Cracker Barrel, The Olive Garden, Panera Bread, McDonalds, McAlisters Deli, Outback Steakhouse, and Applebees. There were also rumors of additional local competition moving into the area as the development grows. This meant the competitive environment would be pretty tough.

Ryan has three weeks to make a decision about whether to accept the proposal presented by Subs by Design or turn it down and allow another franchisee to open a store at Rock Crest Village. He would need to develop a weekly proforma profit and loss statement as a tool to help him bring together the figures he considered necessary to make the decision. Based on the P&L calculations and your knowledge about Smith Enterprise, what recommendation would you make to Ryan?

Appendix 1: Weekly Profit & Loss Statement

Rock Crest Village				
Proforma Weekly Profit & Loss Statement				
Comparison of Sales Volume at $10,000 and $7,000				
	$	%		$
Net Sales	$10,000.00			$7,000.00
- Cost of Goods				
= Gross Margin				
Expenses				
- Gas				
- Electric				
- Telephone				
- Garage				
- Insurance				
- Labor/Taxes				
- Repair/Maintenance				
- Miscellaneous				
- Rent and other contractual costs associated with lease				
- Royalty				
- Advertising				
= Total Operating Expenses				
- Loans/Administration				
Net Profit				

GOVERNMENT CONTRACT MANAGEMENT

Robert Gilmour, Manukau Institute of Technology, Auckland, New Zealand
Bob.Gilmour@manukau.ac.nz
Victoria Wise, University of Tasmania, Hobart, Australia
Victoria.wise@utas.edu.au

CASE DESCRIPTION

The primary subject matter of this case is the procedure for contract management in relation to the application for and granting of government funding to organisations. A secondary issue examined in the case concerns the adequacy and effectiveness of governance and accountability controls within organisations receiving public funds for the external supply of services. The case requires an understanding of audit planning and good governance and accountability principles.

This case has a difficulty level that makes it most suitable for senior level students in an Auditing/Corporate Governance/Business Ethics course. The case is designed to be taught in three class hours and would require about eight hours of out-of-class time which includes reading the case material and the articles and other items listed in the references.

CASE SYNOPSIS

This case study focuses on major issues raised in the Report of the Controller and Auditor-General on its 'Inquiry into Public Funding of Organisations Associated with Donna Awatere-Huata MP' (New Zealand Audit Office, 2003) and the subsequent fraud trial of Awatere-Huata in August 2005. The initial task for the student is to review the policies and procedures of the government organisations providing funding to applicant organisations, and the internal accounting, governance and accountability structures of the fund recipients. Students can then use the details provided in the case information and references to develop internal control and corporate governance strategies appropriate for use in an environment characterised by the need for accountability for public funds.

BACKGROUND

In 2005, former Member of Parliament (MP), Donna Awatere-Huata faced six charges of fraud and one of attempting to pervert the course of justice (Binning & New Zealand Press Association, 2005). Awatere-Huata, and her husband Wi Huata, were charged with fraudulently using cheques worth $82 409 from a taxpayer-funded trust, the Pipi Foundation, and with attempting to pervert the course of justice by fabricating documents to cover the alleged frauds (McLoughlin, 2005). Mrs Huata was subsequently convicted of five fraud charges and one of attempting to pervert the course of justice and Mr Huata was convicted on four counts of fraud and one of attempting to pervert the course of justice (Houlahan, 2007).

508DESIGN, LLC

Debra Herlihy, Oklahoma State Board of Regents & Cameron University
Trasa Shinpoch, Cameron University
Marvin Morris, Cameron University
Shawn Carraher, Cameron University
scarraher@cameron.edu

ABSTRACT

Description of the Business

508Design provides a complete accessibility package for creating web sites for business clients. The company evaluates the success of each installation and followup to make changes in improving the effectiveness of each installation package. The new software package will provide Section 508 standards to any web design for accessibility purposes which is currently required for governmental agencies and government contractors. 508Design plans to operate a software package that will provide Section 508 standards to any web design for accessibility purposes. Web related services to small and mid-size businesses in a professional manner. Focus on offering a one-step requirement for ADA compliance that will be user friendly to any web designer or developer regardless of their intellectual ability.

Mission

508Design is to provide customers with a complete solution to all their current and future accessible web design needs. Plans to establish a reputation for quality work and plans to continue an image for all developers within the industry to be recognize. 508Design, seeks to become well know in maintaining a more compliant architecture in world wide web industry. Also a more compliant web site for any individual or company that will keep ADA (American Disability Act) standards for today and the future by:

- Increasing accessibility standards to current future customers.
- Guaranteed to generate an accessible web site that will pass ADA issues.
- Create innovative unique cost effective solutions to problems faced when web sites are not fully ADA compliant.

Competitive Advantages

By understanding the fact that most web sites on the world wide web (www) tends not to focus on accessibility issues. By using 508Design software package all web sites will be more useful to disable persons in order for them to use e-commerce sites according to the accessibility standards. The market entry is acceptionally in need for accessibility standards for many technology

developers of today. The only competitors weaknesses and vulnerabilities would not be updating their own software packages to include accessible features for developers to use. This case examines the development of new software for the client organization with a special focus on the marketing of the new product.

CZEKOLADA EXQUISITE

Suzanne K. Hetchler, Cameron University
Thomas Baird, Cameron University
Debra Herlihy, Oklahoma State Board of Regents & Cameron University
Shawn M. Carraher, Cameron University
scarraher@cameron.edu

ABSTRACT

Czekolada Exquisite is a sole proprietorship, owned and managed by Suzanne K. Hetchler. Ms. Hetchler holds both an MBA and an MSE from Cameron University in Oklahoma. Czekolada Exquisite is an import and distribution center for exquisite, gourmet chocolates from Belgium, Poland, Germany and Ukraine. The headquarters and main warehouse are located in Lawton, OK, providing a centralized distribution center to efficiently reach our market with direct delivery. This location also offers a skilled workforce with low wage requirements.

Our products are differentiated from competitor's products by quality, packaging, and methods of delivery. Czekolada Exquisites chocolates are imported from regions with the highest quality of chocolate in the world, ensuring customer satisfaction with regard to aroma and sapidity. The chocolates are then packaged for distribution. Gift wrapping and gift cards are available to clients as well if requested. The products are then shipped to the client by UPS, which allows us to reach both city and rural customers across the United States.

The current case focuses on differentiating the products from those of the competition and also on the difficulties of establishing relationships with several dozen suppliers located 5000 to 6000 miles away.

REGIONAL HEALTH MEDICAL CENTER: A NEED FOR EMEGENCY CARE EXPANSION

Twyna Hook, Winston-Salem State University
thook@wssu.edu
Kimberly A. Freeman, Winston-Salem State University
freemank@wssu.edu
Suresh Gopalan, Winston-Salem State University
gopalans@wssu.edu

CASE DESCRIPTION

This case focuses on the proposed expansion of an emergency department in a state with 125 medical institutions in approximately 87 counties. Secondary issues highlighted include the duopoly medical system as well as the structural changes that are taking place at Regional Health Medical Center (RHMC). This case is appropriate for first year graduate students. This case is designed to be taught in two class hours and is expected to require five hours of outside preparation by students.

CASE SYNOPSIS

This case focuses on how a medical institution determines the need for expansion. The central issue is to assess the beneficial factors of the expansion, which can conflict with the opinions of individuals in the community. The secondary issue focuses on how the expansion will affect the current duopoly system.

Emergency departments have had an increase in patient activity in the past several years. This is primarily due to the increasing age of the baby boomers. This trend is expected to continue since quality health care is expected by the baby boomer population. It is imperative that medical institutions prepare for this growing need. RHMC is preparing to accommodate this need by reviewing the option of building a state of the art emergency department.

The President, Board of Trustees, and Project Planner of Regional Health Medical Center must establish a Certificate of Need, which will be submitted to the Department of Health and Human Services. The Certificate of Need is essential in order to implement the expansion.

On October 9, 2006, RHMC filed an application with the Certificate of Need Section of the Division of Facility Services to construct a new emergency room and bed tower. Three years before, executives determined there was a need to expand the emergency department due to the annual growth of the number of patients that use the facility. However, some community opposition to the expansion is expected, which is a major concern of the medical center. On November 9, 2006, there will be a public hearing, and it is anticipated that several residents that live nearby will voice their opinion in opposition of the proposed expansion. RHMC will devise an exploratory committee to *review the next best expansion option. This is contingent upon the decision of the state's Department of Facilities Planning.*

BACKGROUND

Regional Health Medical Center (RHMC) opened in 1923 as an 88 bed facility and was designated a medical center in 1941. With approximately 11,000 employees and RHMC is the largest employer in the surrounding area. During the fiscal year of 2006, 80,772 patients were treated in the emergency department. However, the current design was built to accommodate approximately 55,000 patients per year and is being over utilized by 45%.

RHMC's current emergency department is functioning with 27 Adult Emergency Department (ED) treatment beds in 20 rooms, 6 additional beds operating in an open hallway, 8 fast track beds, 12 beds primary dedicated for pediatric care and a 10 bed-holding unit. RHMC is one of only two Level I Trauma Centers in the state designated as a burn care center.

Unfortunately, RHMC has several design limitations. The patient and staff traffic flow areas are the same; the fast track area has space limitations and there is no dedicated trauma or decontamination area. Due to the continued increase in patient volume, the Board of Trustees and President of RHMC requested that a Certificate of Need be developed to explore building a new emergency room and bed tower. Three years ago, the Department of Facilities Planning and Strategic Planning started the process of showing the proposed expansion. Several different plans for the expansion were reviewed:

Renovate the current emergency department. The current emergency department is located in the sub-basement of the Children's Hospital. Therefore, restricting the ability to vertically expand the facility. In addition, due to roadways and pedestrian bridges horizontally expanding the facility cannot be achieved either.

Relocate the Adult ED. The current emergency department is designed to treat the adult and pediatric population. Due to the specialized needs of each population, it is recommended that the adult ED be relocated.

Renovate an alternative location. All other patient care units in the medical center are currently over utilized.

Vertically expand the Geriatric and Cancer Centers. Both facilities were designed for vertical expansion. This would not be feasible, due to patient transportation issues, critically ill patient concerns and the patient population seen in the Cancer Center as well as the structural restriction of the Geriatric Center.

Postpone the project. This would not meet the current or projected demand.

The proposed plan will require the demolition of three buildings currently located on the medical center campus. The occupants of these buildings have already been relocated to other buildings within the medical center. The medical center's Certificate of Need states that constructing a new critical care tower is the best option for the following reasons:

Construction of a new critical care tower with an adult ED provides the greatest opportunity for long-term growth by adding a significant amount of clinical treatment space.

New construction allows RHMC to build a state-of-the-art facility using current designs and patient care standards

The location on the corner of campus is advantageous due to its proximity to existing patient care services that will be required by emergency and critical care patients.

The proposed project allows for improved access to ancillary services, including the surgical suites, MRI Center, radiology, and laboratory.

Construction of a new tower will enable RHMC to meet code compliance for licensure, Joint Accreditation of Healthcare Organizations (JCAHO), accessibility, infection control, electrical, fire safety, and life safety issues.
New construction space will better accommodate new technologies.
A new tower will optimize program design to incorporate patient flow and work environment considerations.
Constructing a new tower prevents disruption of patient care services.

The Certificate of Need was submitted to the Divisions of Facilities Planning on October 9, 2006. On November 9, 2006, a public hearing was held to address the concerns of the residents who live near the expansion site. During the public hearing, several residents voiced their opposition to the proposed plan.

RHMC is large complex of buildings mostly within the boundaries of four major streets and an interstate highway. The interstate highway is on the north, with C street to the northwest, M street to the west, Q street delineates the south boundary, and both sides of H street to the east are occupied by RHMC buildings. The current location of the Emergency Department is on C Street. The proposed location is at the inside corner of the intersection of Q and H streets on the southeast side of the comples. This location will require that a segment of Q street be realigned and that three obsolete buildings would be demolished.

The resistance of local residents concerns the increased noise and traffic that would result from moving the ED to the neighborhood side of the RHMC campus. The scale of development and relocation of the emergency room entrance would require wider roads around an attractive neighborhood with very small front yards. Residents worry that the noise from the increased traffic and heliport relocation would have a seriously negative effect on the quality of life they currently enjoy. The neighbors want RHMC to be successful but feel that the hospital carries a responsibility to be sensitive to how its development affects the community.

Due to the strong opposition, RHMC will devise an exploratory committee to review the next best expansion option. The new expansion option will be contingent upon the decision of the state's Department of Facilities Planning. Regional Health Medical Center proposes a new 481,205 square foot building, which will upgrade and expand their emergency and intensive care services.

KEY COMPETITION

Regional Health Medical Center's key competitor is County Medical Center (CMC), which is approximately five miles in proximity. CMC broke ground on their new $18 million emergency department on July 30, 2003. It has the capacity to care for approximately 110,000 patients per year, which is 54,000 more than the occupancy rate of their old facility. CMC choose to expand their emergency department due to similar issues now facing RHMC. On October 27, 2004, CMC opened their new 55,000 square foot, 80 bed ED, which is now the largest in the state. CMC has 26 major treatment beds, 21 minor treatment beds, 12 clinical bed decision units for 23-hour observation, 10 expression admission beds, 8 fast track beds and 3 behavioral health beds.

GROWTH STRATEGIES

The current organizational structure at Regional Health Medical Center is uniquely designed in comparison to similar medical institutions. In order to align themselves with similar institutions on March 15, 2007 the board of RHMC approved a new organizational structure. This new structure will reflect the medical center as one single unit. The Dean and President will remain, however RHMC will now have a Chief Executive Officer. This change will promote the single unit structure RHMC is trying to achieve.

This change will enhance the service at the medical center and will vertically align the organizational structure with like institutions. Unfortunately, at this time no one knows whether this change will affect the cost of medical services.

Population Growth in Service Area

	Estimated Population	Projected Population	2000-2010 Average Annual	Projected Population	2010-2015 Average Annual
Age Group	July '00	July '10	Growth	July '15	Growth
0-17	424,221	526,734	0.9%	539,408	0.5%
18-44	807,166	824,949	0.2%	852,994	0.7%
45-64	477,012	593,973	2.5%	619,311	0.9%
65 +	260,743	300,641	1.5%	347,405	3.1%
Total	2,029,142	2,246,297	1.1%	2,359,118	1.0%

Source: State Demographics Office – Accessed 8/17/06
Medical Center Strategic Planning CDS – 8/17/06

Historical ED Visit at RHMC

Fiscal Year	ED Cases per FY	Annual Percent Growth
2001	58,735	-
2002	60,866	3.6%
2003	61,087	0.4%
2004	66,783	9.3%
2005	73,065	9.4%
2006	80,747	10.5%

Projected Demand for RHMC's Emergency Services

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Total	85,591	87, 303	89, 049	90, 830	101,729	107,833	114,303
Adult	60,760	61, 976	63, 215	64, 480	72,217	76,550	81,143
Pediatrics	24,831	25, 237	25, 834	26, 350	29,512	31,283	33,160
Growth Rate	6.0%	2.0%	2.0%	2.0%	12.0%	6.0%	6.0%

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Note: All names have been changed to protect the identity of the medical institution and all sources involved with the writing of this case study.

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ACCOUNTING ESTIMATES, CHANGES IN ESTIMATES, AND ACCOUNTING FOR PENSIONS AND OTHER POSTRETIREMENT PLANS: AN ETHICAL PERSPECTIVE

Marianne L. James, California State University, Los Angeles
mjames2@calstatela.edu

CASE DESCRIPTION

The primary subject matter of this case concerns ethical dilemmas accountants and other executives may face when selecting required estimates in accounting for and reporting of defined benefit pensions and other postretirement plans and complying with the requirements of Statement of Financial Accounting Standards No. 158. Accountants' professional and ethical responsibilities and resolutions of the ethical dilemmas are explored. Secondary, yet important issues are the effects of the choice of estimates on financial statement results and on the usefulness and integrity of the financial statements. This case has a difficulty level of three to four and can be taught in about 45 minutes. Approximately two hours of outside preparation is necessary to fully address the issues and concepts. This case can be utilized in intermediate accounting as part of the coverage of pensions, or in a more advanced graduate class focusing more extensively on the underlying conceptual issues and the case's research components. The case has ethical, conceptual, research, and analytical components. Utilizing this case can enhance students' oral and written communication skills.

CASE SYNOPSIS

Examples of unethical behavior by financial executives and accounting frauds, such as those at Enron, WorldCom and Adelphia Cable have renewed the public's as well as the business community's attention on the importance of truthful and ethical financial reporting. Legislation, particularly the Sarbanes-Oxley Act of 2002 has supported this renewed emphasis.

Ethical financial reporting not only requires the absence of fraudulent behavior but also that entities and their accountants choose estimates that best reflect the underlying economic events. When accounting issues involve extensive estimates over a long time horizon, ethical dilemmas may arise if individuals with competing interests attempt to influence the estimates chosen. Accounting for pensions and other postretirement benefit plans requires extensive estimates over a long time horizon.

The Financial Accounting Standards Board recently issued Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," which requires that companies with underfunded plans recognize the underfunded portion on their balance sheets (FASB, 2006). For some entities the effect of this provision is quite significant. Estimates chosen for the plans' discount rates and rates of return on *plan assets can significantly affect the funding status and can be used to manage financial statement results.*

The primary focus of this case is to examine the ethical dilemmas accountants may face when executives utilize estimates to manipulate financial statements. The case explores the effects on financial statements and their causes, effects on stakeholders, motivation of key personnel, professional and ethical responsibilities of accountants, and potential resolutions to the dilemmas. The case can be taught at the same time that retirement benefits are covered in an intermediate accounting class, or in an advanced accounting class focusing primarily on underlying conceptual issues. The case has ethical, analytical, and communication components.

INTRODUCTION

The primary purpose of financial accounting and reporting is to provide information that is useful to decision makers (FASB, 1978). Because of the complexity of financial transactions, inherent uncertainties, and the need for extensive estimates, financial information may be manipulated or "managed," thus decreasing the usefulness of the information. Accounting for defined benefit pensions and other postretirement plans is complex, involves long-term horizons with inherent uncertainties, and requires extensive estimates and assumptions, such as estimates of employee turn over rates, longevity, health care and salary trends, and discount and plan asset return rates.

Accounting for pensions and other postretirement benefit plans has evolved over time. On September 29, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." (FASB, 2006). This standard amends but does not supercede Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Defined Benefit Pensions," and SFAS 106, "Employers' Accounting for Postretirement Benefits Other than Pensions." (FASB, 1985, 1990). SFAS 158 represents phase one of FASB's ongoing comprehensive pension and other postretirement benefit project. Additional changes, which may include changes in the calculation of expense are expected as FASB continues to examine accounting and disclosure for these defined benefit plans.

One of the major provisions of this new standard affects the methods in which pension and other postretirement benefit liabilities are calculated and recognized on sponsoring entities' balance sheets. SFAS 158 requires that entities accrue a liability to the extent that their pension and other postretirement obligations exceed the plan assets (FASB, 2006).

The provisions of SFAS 158, which was effective for fiscal periods ending after December 15, 2006 most significantly affect companies with underfunded pension and other postretirement plans. A recent estimate suggests that (prior to the issuance of SFAS 158) large companies carried approximately 300 billion in pension and other postretirement obligations off their balance sheets (Byrnes & Welch, 2005). Companies may influence the funding status of the benefit plans and thus the amount recognized on their balance sheets through their choice of the discount rates and rates of return on plan assets. This potential tool for manipulation may create ethical dilemmas for those involved in the financial reporting process.

CASE DESCRIPTION*

*This is a fictitious case. Any similarities with real companies, individuals, and situations are solely coincidental.

Katie Schmaltz, CPA, CIA, has just been promoted to assistant controller of Mottins Corporation, a publically traded company that manufactures component parts for consumer electronics. For the past four years, she worked for Mottins as their internal auditor. She enjoyed her work as internal auditor, but she is excited about becoming the company's assistant controller. Katie is very proud of being an accounting professional and believes that professional ethics are of paramount importance. She considers Cynthia Cooper, the internal audit director who together with two colleagues discovered and the reported the WorldCom fraud, a role model. The company recently and unexpectedly lost its controller to early retirement. The new controller, Jim Kariton, will be joining the company in a few days. Meanwhile, Katie familiarizes herself with the financial reporting process, the general ledger, and the most recent financial statements.

Mottins Corporation has been growing and prospering during the past five years. As part of its growth and expansion project, the company recently purchased the patent for a new innovative parts manufacturing process that the company hopes will increase its sales by 100 percent over the next five years.

Mottins Corporation sponsors a defined benefit pension plan, as well as a postretirement health care plan. Virtually all of the company's employees are covered by these plans. Both plans are underfunded; the pension fund is slightly underfunded, while the other postretirement benefit plan is significantly underfunded. Consistent with the requirements of SFAS 87 and SFAS106, no liability had to be accrued on the company's 2005 balance sheet for its retirement benefit plans.

Katie reviews the note disclosures for the defined benefit pension and retiree health care plans and notices that for the fiscal year ended December 31, 2006, the company properly adopted SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, " which amends both SFAS 87 and 106.

While reviewing the financial statement notes, Katie notices that Mottins recognized $223,000 in long-term pension and other postretirement benefit liabilities. Katie, who had read in the financial press that some companies that sponsored underfunded employee retirement plans were quite adversely affected by the provisions of the new standards, is pleased to learn of this relatively small impact of SFAS 158 on her company's financial statements.

Upon further review of the financial statement notes regarding the pension and postretirement health care plans, she notices that the company increased its discount rate assumptions from 5.5 percent to 6 percent for the year 2006. She recalculates the projected pension and accumulated postretirement benefit obligations utilizing the 2005 discount rate assumption and realizes that the total effect of the 0.5 percent increase in the discount rate was a reduction of $848,000 in total liabilities. She calls the actuary who provides actuarial assumptions and estimates for the company's plans and learns that the change was within reasonable limits and had been specifically requested by the former controller.

Two weeks later, Jim Kariton, the new controller discusses a number of forthcoming financial reporting issues with Katie. Katie is pleasantly impressed by the new controller's qualifications, personality, and interpersonal skills. She is looking forward to a collegial and rewarding professional relationship with her new superior.

At the end of their conversation, Jim instructs Katie to contact the company's actuary and request his support for increasing the discount rate by 0.25 percent in 2007 and the long-term expected rate of return on plan assets by 0.25 percent for both the pension and health care plans. Katie states that she noticed that the discount rate had already been increased by 0.5 percent for 2006. Jim indicates that a further increase is warranted by overall increases in interest rates, and that the long-term expected rate of return on plan assets should be increased to 9.25 percent due to an enhanced outlook for the plans' investments. Katie can't help wondering about the motivation for this newest increase.

A week later, while visiting CFO Mike Johans' office to drop off a report, she overhears him speaking with the pension fund manager, asking for a change in the investment mix to increase the percentage of higher-yield, lower-rated securities in the plan assets. During the phone conversation, he impresses on the fund manager that the securities markets are expected to flourish. Katie has heard that the fund manager is a good friend of the CFO and that they play golf together on a weekly basis.

Katie talks to her friend in Human Resources and learns that the CFO has apprised the Director of Human Resources about a potential change in the retirement plan to a 401(k) plan for new employees and the elimination of the retirement health care cost plan. Katie also is covered under the current plans and is concerned for her and her colleagues' welfare.

Katie is unaware that meanwhile, the CEO, John Ballon, has been meeting with individual board members for lunch and other outside activities, utilizing the opportunity to encourage board members to vote for a curtailment of employee benefit plans. John Ballon knows that the company will need to decrease its expenses to continue meeting or beating its earnings trends and targets. John's and other executives' bonuses are directly contingent on meeting earnings forecasts. In addition, John holds a large number of stock options, currently valued at 1.4 million dollars. He plans to meet earnings forecast for each year until his planned retirement in three years.

A few weeks later, one of Katie's colleagues casually mentions that her boss, CEO John Ballon has been meeting with several board members, some of whom are also on the company's audit committee. She also mentions that she overheard a reference to employee benefit plans. After considering this new information, Katie begins to suspect that the CEO may be trying to influence board members' votes regarding the retirement plans.

Katie decides to again mention her concerns regarding the planned increases in the discount rate and rate of return assumptions for the retirement plans; the controller states that the increases are justified and that the CFO recommended them. Katie asks him whether the company planned to make any changes in the retirement plans in the future. The controller indicates that he knows of no such plans and again asks her not to concern herself with these issues. He also hints that if financial results are favorable for the company he will recommend that she receive a bonus for all her hard work.

Katie decides to call the company's former controller at home to inform him of her promotion to assistant controller and perhaps gain some insights into the prior year discount rate change. After a few minutes of pleasant conversation, she asks him about the increase in the discount rate. The former controller tells her that "top management requested the change." He also says that he is enjoying retirement and his part-time teaching position at the State University. At the end of the conversation he advises her to be diligent about her new position and to always remember what the "CPA" and "CIA" certifications stand for. Katie feels that she has been subtlety warned. Katie is uncertain about what she should do.

ASSIGNMENTS/QUESTIONS

1. SFAS 158 changed how liabilities for pensions and other postretirement benefits must be calculated; as a result, some entities- including Mottins - that did not have to recognize related liabilities on their balance sheets under SFAS 87and SFAS 106 must now do so under SFAS 158. What factor(s) account(s) for this difference?

2. How are underfunded pensions and other postretirement benefit obligations recognized on the balance sheet after adoption of SFAS 158? What was the effect on Mottins' balance sheet?

3.Why would increasing the discount rate assumptions affect the pension plan and health care plan liabilities recognized on the balance sheet? How would the planned increase in the rate of return on plan assets likely affect Mottins' financial statements? Do you believe that the changes in the rates requested by the controller and CFO are reasonable? Support your answers.

4. If Mottins company had not increased its discount rate during 2006, how would its financial statements have differed. How did the change affect the company's stakeholders?

5. Review the authoritative literature regarding accounting changes and relate it to the discount rate and rate of return changes for pensions and other postretirement benefits. Under what circumstances are changes in estimates justifiable? Does the situation in this case meet the criteria?

6. Evaluate the behavior of the individuals involved in this case from an ethical perspective. What are their ethical and professional responsibilities? What may be the motivation for their behavior?

7. What options does she have to address these issues and potentially solve her dilemma?

8. What would you do if you were in Katie's position? Justify your answer.

9. Identify a large company that has been affected significantly by the implementation of SFAS 158. Briefly summarize the effect on the company's balance sheet.

10. What changes are expected under phase two of FASB's pension and other postretirement benefit project? How would these potential changes affect entities' financial statements?

11. What types of disclosures have to be made by the company regarding its benefit plans. Do you believe that the disclosures enhance the usefulness of the financial statements?

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PARRISH PHOTOGRAPHY

Crystal Keys, Cameron University
Tina Vinson, Cameron University
Sarah Hay, Cameron University
Shawn Carraher, Cameron University
scarraher@cameron.edu

EXECUTIVE SUMMARY

Parrish Photography is a small business aimed at bringing a smile to face when they see their beautiful family members captured during life changing events so that they can have a photo to spark memories in the future. Their goal of superior customer service and satisfaction will take dedication on the part of all staff members. The vision manifests itself in three ways:

1. *Produce the same outstanding quality results time after time.*
2. *Be recognized as the top photographer in the Southwest.*
3. *Be steadfast to their commitment for customer service and satisfaction.*

Today's environment presents the consumer with an array of choices. Parrish Photography strives to be the best choice for the client. Providing high quality photographs and videos, competitive pricing, and excellent customer service is their hallmark. Through consistent, high-quality results they are committed to providing each client with value and satisfaction.

Parrish Photography's primary product focus is wedding photography, among their newer product offerings; they recommend a treasured wedding video to remind you of all the joy and anticipation you've experienced. The current case focuses on the expansion of the marketing services of Parrish Photography.

TEACHING UNDERGRADUATE STATISTICS STUDENTS ABOUT STUDENT SUCCESS: A CASE-BASED APPROACH

Glenn Maples, University of Louisiana at Lafayette
Anna M. Greco, University of Louisiana at Lafayette
John Tanner, University of Louisiana at Lafayette
glennmaples@louisiana.edu

ABSTRACT

This is a teaching case aimed at first and second semester undergraduates. Data from an alumni survey provides an interesting base for the exercise—which has students make a recommendation to improve the effectiveness of a hypothetical university. It also provides student with an opportunity to reflect on their own educational outcomes. Instructors may customize the case by adding additional survey items allowing other statistical methods to be used. PowerPoint slide, data and ancillary materials are provided.

ABC COATINGS

Sharad Maheshwari, Hampton University
sharad.maheshwari@hamptonu.edu
P. Michael McLain, Hampton University
mcklaipm@inteliport.com

CASE DESCRIPTION

This case presents a company considering an upgrade of its current equipment that would make the process of powder coating metal surfaces more efficient. While the technical efficiency improvement is substantial, the improvement only adds small incremental financial benefit, much less benefit than what would be required to make the upgrade financially advisable. The objective of the case is to illustrate the difference between technical efficiency and financial feasibility. The situation is a relatively simple one, appropriate for use in undergraduate production/operations management, managerial accounting or financial management. The case should require minimal preparation by students and should take no more than one-half hour to complete in-class.

BACKGROUND

The coating of industrial parts and consumer goods is one of the most commonly used techniques for product surfaces to provide a finishing layer, to enhance protection from corrosion, to change the surface properties, and/or to add sparkle or shine. Most common coating techniques involved solvent based coating like basic painting. However, solvent-based coating has relatively poor durability. To improve the durability and reduce cost, several industries are moving towards powder coating techniques for surface preparation. The powder coating is increasingly used in many industries like household appliances, automotive parts, construction machinery and building material, military equipment, furniture, and others. Powder coating also has specialty usage like application of non-stick coating on pots and pans. Powder coating comprises approximately 20% of the market for metal finishing where it competes directly with traditional liquid finishes.

ABC Coating is a manufacturing vendor to several automotive part manufacturing companies in the country. It operates as a turnkey vendor to these companies and provides coating services on a variety of parts. Most of its work involves coating of metallic automotive parts. It has a turnover of about $50 million and is growing at a healthy pace of 8-10% per year in the last four years. Most of its growth is coming due to reduced competition, as numerous small companies are closing due to overseas competition. However, this is also putting pressure to cut cost to meet the overseas competition. This is the main justification for the ABC coating to update and upgrade its facilities. It hopes to reduce labor cost as well to improve product cycle time.

PROCESS OF POWDER COATING

The powder coating method is a process of application of a surface layer without any solvent. In general, a free flowing powder is applied to the surface of the product. This surface is subsequently heated so the powder can stuck to the metal (or non metal) product surface.

The process involved three major steps
1. Surface preparation
2. Powder Application
3. Heating or Thermosetting of powder coating

Surface preparation involves cleaning of the metal part surface. The cleaning of surface is very critical for the quality of the product as coating can only adhere to clean surface. Mostly, for metal part chemical spray or chemical bath cleaning process is used. Product is dried out completely after the cleaning.

A dry product surface is then spray with the powder coating. The most metal coating use epoxy or polyester based powder. The powder is sprayed using a powder is an electrostatic spray gun. The electrostatic property allows the powder to stick to the surface temporarily.

The product is then passed through or kept in an oven at an appropriate temperature for powder to melt and to stick to the surface. Once powder is evenly melted, the part is allowed to cool to room temperature. Time and heating temperature depend upon the type of material and type of coating.

FACILITIES NEEDED

Like any industrial plant, ABC Coating has areas for storage of raw material and finished goods as well as receiving and shipping areas and equipment. These facilities are in good conditions and do not need any immediate investment. Furthermore, since most of the ABC's customers are from the automotive industry and the company is part of a regular supply-chain with its customers, it carries only one week of inventory of raw material and finished goods in a normal business cycle. Hence, ABC does not see need of increasing storage facilities in near future.

The company also owns a fleet of forklift trucks and other carts as the material handling equipment. I am assuming that the new facility will reduce the need of some of the material handling equipment, as the company is planning to put an automated conveyor belt system for material handling with the shop floor. The forklift truck will still be used in the shipping and receiving area.

The powder and chemical storage facility will not have any change. The company has sufficient storage facility for it for the current and future 3-5 years. Similarly, waste handling systems, which are a main part of chemical cleaning processes, will not need any improvement.

The company is planning to upgrade and automate its coating process. That is the process of part cleaning, power spraying and thermosetting will be updated. Currently, it is setup is a three-station facility. These stations are independent of each other. The parts are moved form one station to other station on industrial carts.

The new facility will include interconnected stations connected via automated conveyor systems. These stations will perform cleaning, drying, power spraying, and thermosetting in succession.

COST OF NEW PLANT

Item	**Cost**
Two semi-automated conveyor drive integrated systems for powder coating $375,000.00 each	$750,000.00
Automated conveyor belt systems to connect receiving and shipping areas	$250,000.00
Installation of new systems	$400,000.00
Computer control systems (turnkey) (System cost includes HW and small business MRP software)	$350,000.00
IT support for first year	$100,000.00
Training	$ 50,000.00
Total	**$1,900,000.00**

WORKFORCE

Current Workforce: The existing machines required 35 plant employees. The classification and rate of the payment are listed below:

Type	**Number**	**Salary or Hourly Rate**
Pallet movers	5	$10.00/hour
Machine operators	15	$15.00/hour
Assembly line workers	10	$16.00/hour
Supervisors	3	$65,000 per year
Schedulers	2	$45,000 per year
Total	**35**	

The workforce requirement will change in the new plant. Company will require less workers and supervisors. Proposed plant would need the following labor:

Type	**Number**	**Salary or Hourly Rate**
Pallet movers	1	$10.00/hour
Machine operators	15	$15.00/hour
Assembly line workers	9	$16.00/hour
Supervisors	2	$65,000 per year
Schedulers	1	$45,000 per year
System Operator	1	$55,000 per year
Total	**29**	

INFORMATION TECHNOLOGY AND OPERATIONAL COST

The new plant will rely on MPR software to carry out most of the plant scheduling and control functions. The functioning of the system will be critical for the proposed plant. The company will have to buy service agreement with the software vendor after 1st year (1st year service plan is included in the system installation cost.) The service agreements cost varies from $20,000 per year for full support to $8,000 per year for minimal technical support. This company has lower IT skill set hence would be buying the full service agreement after 1st year.

Direct materials cost is expected to remain constant with the introduction of the automated assembly system. There may be some slight improvements based upon better operations, but the savings is hard to estimate at this time.

It is expected that there would be an increase in electric usage of the new system. The increased in the monthly expense is expected to be about $1,000 a month.

The proposed plant will have lower payroll cost as it will need only 29 employee as opposed to 35. The company estimates benefit cost as as a percentage to the total employee payments. The benefit cost rates of the hourly workers and yearly employees are 30% and 40% respectively

The equipment will be depreciated over a ten year useful life. The equipment will have no salvage value. The corporate tax rate is 35%. The company's cost of capital is 8%.

COSTS DISCUSSION

The firm currently expends $50,000 per year on the cleanup of chemical spills in the manufacturing process. The introduction of the new equipment should reduce the cost to $10,000 per year. Pressure from the firm's liability insurer and the threat of potential governmental actions concerning cleanup are encouraging the firm to incur the costs involved with maintaining acceptable environmental standards for its production process. The potential cost of forced cleanup could be a substantially high penalty, which the firm would like to avoid.

After a review with the insurance company, Tri-County has learned that a major spill could cost $10,000,000.00. There is only a one percent probability that this would occur. If the new equipment is installed the probability would decline to one-tenth of a percent.

With improvements to the plant, Tri-County could increase its sales. The new equipment would provide a 50% increase in capacities. At the present the company is operating at 90% capacity. To increase the sales would require additional expenses which are unknown at the present time.

CASE QUESTIONS

1. Should ABC Coating Company acquire the new machines and modernize the plant?

2. Prepare a schedule of the current system and the cost of the proposed system.

HOW MUCH IS ENOUGH? A CASE STUDY IN BOUNDED PROFITABILITY

Mike McCollough, University of Idaho
mccollou@uidaho.edu
Heidi Connole, University of Idaho
Connole@uidaho.edu

CASE SYNOPSIS

"How much is enough?" Roger Bairstow, director of housing for Broetje Orchards asked himself as he drove his pickup through the ripening organic apple trees. It was a question constantly on the mind of everyone associated with Broetje Orchard. All managers worry about how to grow their business, with the emphasis generally being on growing as big and fast as possible. But Broetje Orchards was not so much worried about growing its business, nor even apples, but of growing people. Nor was Broetje's committed to growing profits for it was dedicated to giving away as much of its profits as it possibly could. For Broetje's was dedicated above all else to its Christian values, not traditional business values. Yet by striving to put its faith into practice and to do right by its people and the land Broetje's had done right by its business. Perhaps paradoxically, or even ironically, by focusing on its core values Broetje's had grown to become the largest orchard in the apple state of Washington.

CASE DESCRIPTION

Broetje Orchards in Prescott Washington is one of the world's largest privately owned orchards with over 5000 acres in production. Under the brand "First Fruits", the company farms, harvests and packs for distribution over 20,000 boxes of apples per day and a estimated 5 million a year. The company's product line is comprised of ten varieties of apples, including some organic production. The company's 1.1 million square-foot operation includes a new state-of-the-art packing facility. Although perfectly poised for high growth, profits, or public offering, Broetje's shuns traditional business goals, and donates approximately 75% of its profits to local, domestic and international projects that extend well-beyond the "two-part bottom line" concept popularized by such firms as Ben and Jerry's, into a new conceptualization of business success as "bounded profitability". Bounded Profitability is evidenced in all three areas of sustainability in the firms operations: economic, ecological and social. From an economic standpoint, while the company maintains its stance as a viable for-profit organization, it supports over 900 employees in full-time, year-round work to the end goal of accomplishing its mission to be: "A quality fruit company committed to 'bearing fruit' that will last". From an ecological standpoint, Broetje Orchards is the first grower in the nation to earn Third Party SQF (Safe Quality Food) certification, a process which requires independent audit of all farm, warehousing and packing operations. From a social perspective, in addition to the company's commitment to incorporate faith and business in a single mission, Broetje's practices "servant leadership" and provides each of its employees with *affordable housing, child-care facilities, and access to education through both its own on-site school and scholarships for higher education. Broetje Orchards also respects the Hispanic culture (affirmation or admiration) of its workforce.*

PRIMARY IMPACT/CONTRIBUTION

The primary potential impact of the case will be to challenge student's notions of growth. In the words of Roger Bairstow when he met with the authors "Do you teach your students to ask, how much is enough?" This case will challenge students and even instructors to ask "How much is enough?" This question is being asked in the context of sustainability across campuses and the world today. Business managers often interpret sustainable growth as zero or limited growth. But Broetje's presents a case of strong sustainable growth bounded by the core values of the organization. Broetje's has grown to become one of the largest orchards in the world not by setting out to do so, but by setting out not to. The case will also provide what we hope will be a non-controversial avenue to discuss faith in organizations, a area of increasing interest in organizations and academia today. HR issues are also applicable including employee benefits and the reinvented concept of the company town.

[Case is suitable for junior and senior level marketing majors and MBA students]

ETHICAL ISSUES IN PROFESSIONAL TAX PRACTICE

Richard Powell, Pepperdine University
Cynthia Bolt, The Citadel
rpowell@pepperdine.edu

ABSTRACT

CPA tax practitioners operate in a highly competitive environment. When they are employed in aggressive firms, they face strong incentives to maximize professional revenue by retaining old and recruiting new clients. Clients may demand that practitioners make use of aggressive tax positions to minimize tax liabilities. But there are technical and ethical limits on the tax positions a CPA can take. The CPAs who overstep these limits can suffer numerous sanctions including penalties, malpractice claims, expulsion from the AICPA, loss of a CPA license, and even imprisonment. Recent scandals related to inappropriate tax shelters illustrate the prevalence of these pressures and sanctions.

This teaching case addresses the challenges facing the entry-level tax professional. Students are placed in the role of inexperienced tax practitioners who must deal with aggressive clients wanting to minimize their tax liability. The students must analyze several tax issues, determine the appropriate tax treatment, and confront ethical ramifications. The purpose of the case is to improve the student's ability to deal with technical and ethical issues that can typically arise early in the career of a tax professional.

PHILIP MORRIS USA V. WILLIAMS: PUNITIVE DAMAGES, DUE PROCESS, AND THE U.S. SUPREME COURT

Edward J. Schoen, Rowan University
Joseph S. Falchek, Kings College
Phillip A. Lewis, Rowan University
Stephanie Weidman, Rowan University
Diane Hughes, Rowan University
Richard Marmon, Rowan University
lewisph@rowan.edu

CASE DESCRIPTION

The primary subject matter of this case is the impact of recent United States Supreme Court decisions regarding the application of the Due Process Clause in determining punitive damages awards. Specifically, this case looks at the most recent decision in Philip Morris USA v. Williams (2007) of three significant Supreme Court decisions regarding punitive damages awards.

The case looks at the two previous Court decisions regarding the criteria used in determining punitive damages awards and the effect of those decisions on the final decision in this trilogy. Given new appointments to the U. S. Supreme Court, the case provides an opportunity to examine the impact of those changes on this recent decision.

All three decisions raise questions about the commitment of firms to ethical and socially responsible behavior given the restrictions to the size of punishments that may be levied against them when their behavior is found to fall below the recognized standards of "acceptable."

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

CASE SYNOPSIS

In Philip Morris USA v. Williams (2007), the United States Supreme Court decided that the Due Process Clause prohibits a state from using punitive damages awards to punish a defendant for injuries it inflicts upon non-parties, i.e. strangers to the litigation because such awards amount to a taking of property without due process, there being no fair notice of the severity of the penalty the state may impose (Philip Morris USA v. Williams, 2007). This decision is the third in the United States Supreme Court's recent forays into the constitutionality of punitive damages awards, but the first punitive damages case decided by the Court since the retirement of Justice O'Connor and the death of Chief Justice Rehnquist, and the addition of Justice Alito and Chief Justice Roberts to the Court (Murray, 2007).

The purpose of this paper is to examine how Philip Morris USA v. Williams fits into the trilogy of punitive damages decisions issued by the United States Supreme Court, to assess the impact of the Chief Justice Roberts and Justice Alito's joining the majority decision, and to determine the reach of the Due Process Clause in restricting punitive damages awards (Hamdini, 2006).

Careful discussion of the case should enable the students to better understand (1) the use of punitive damages in legal decisions; (2) the concept of Due Process; (3) the possible implications of these decisions of corporate behavior; (4) the significance of the composition and creation of majorities on the United Supreme Court.

PURAC ENVIRO-FILTER COMPANY: A PRELIMINARY ANALYSIS

Richard Sjolander, The University of West Florida
Richard.Sjolander@uwf.edu
David Eppright, The University of West Florida
depprigh@uwf.edu

CASE DESCRIPTION

The primary subject matter of this case is the pricing of consumer goods in International Markets. Secondary issues include price discrimination by small firms in foreign markets; product differentiation in international markets; branding and price discrimination. This case has a difficulty level of 3-4 and is targeted at business students in a first course in international business or international marketing. The case can be used either as a functional case on pricing in the international environment, or as a study in exporting. One hour of class time should be sufficient to handle the case discussion and students should budget 2-3 hours of time for case preparation.

CASE SYNOPSIS

The PURAC Enviro-Filter Company is a small manufacturer of air filters located in southern Florida, USA. Diana Page, the firm's marketing manager is in the process of determining her target price for the upcoming year for their most profitable product, the F-18 filter. Just as she was finalizing her recommendation, one of her salespeople approached her with the possibility of entering into a contract for a distributor branded sale to Russia. This would be a new market for her company. The price offered by the Russian mass merchandiser is much lower than that charged for branded PURAC filters in the domestic market. This new market opportunity complicates Diana's decision process. She must decide at what price to offer her goods for sale at home, and consider the relative advantages of the new offer presented by the foreign market proposal. She must decide the probably effect of these additional sales on the firm's profitability and what conditions to negotiate with the Russian company if PURAC decides to accept their offer.

CASE

The PURAC Enviro-Filter Company is a producer of specialty filters in the United States. The company was established by three partners, who took early retirement from the Ford Motor Company in the early 1980's. The PURAC company is located in south Florida, about 50 miles north of Miami. Sales had initially been limited to automotive filters, primarily air filtration filters for air conditioning systems for cars produced in the domestic market. As the company grew it expanded the product assortment to include other filter applications, especially in the area of climate control filters. The company has been profitable in all but three years and has seen some growth over the years. The owners conservatively portray the company as having been marginally successful in the specialty filters industry. The competitive situation in the industry is stable with each competitor stressing the various features of their products in their advertising campaigns.

Diana Page is in charge of marketing for PURAC. She has been with the company since graduating from business school in Miami four years ago and was recently promoted to marketing manager for the firm. She has worked in the marketing area since joining the firm and this is her first major assignment.

Each year the company engages in a major review of their products and Diana is now looking at the coming year, trying to determine the optimal price to be charged in the specialty filters market. She remembers that many times in her product pricing class during her final year of studies she encountered cases requiring her to determine the optimal price to be charged for products in distinct market segments. She hopes that the logic from those cases will carry over to her present situation.

She has been working on the problem for several days and reviews her notes to help her visualize the situation. The PURAC Enviro-Filter company competes in an industry consisting of 4 domestic competitors. They have successfully held out foreign competition in the market by virtue of the fact that it is a relatively small market, and their customers prefer to deal with local companies. The total industry demand is supplied by these companies. Each company is aware of the pricing policies followed by each firm in their industry. Prices in the market tend to be quite stable, following a particularly nasty price war just before Diana joined the company. Rumor in the company is that the industry lost an estimated 20 per cent of gross revenue during the price war. Diana is aware of the figures for PURAC sales, and they are not pretty: revenues were down 18 percent in spite of a 10 percent increase in sales volume during the price war. Clearly, everyone at PURAC is very concerned about not doing anything that might lead to a repeat of that fiasco.

Based on the prior two years' sales and the expert opinions of her sales force, Diana developed the following demand schedule for the coming year for the F-18 filter, one of the company's best selling products. This particular product is expected to be very well received in the in the retail market. It has been totally redesigned from the older F-8 model, which was beginning to be eclipsed by advances in competitive filters and will be in all stores this coming year.

Diana realizes that the estimates used in the demand schedule are sensitive to the pricing strategies of her competitors, and has tried to consider these threats (of competitive reactions) to PURAC's pricing policies when making her estimates. She feels that the estimates are best guesses at what PURAC can expect to do at the various possible prices with the F-18 filter during the coming year. She comes up with the following estimates.

Table 1
PURAC Enviro-Filter Demand Schedule

Column 1 Price to Wholesalers In Dollars	Column 2 Units of F-18 Demanded
$4	3,000,000
$5	2,000,000
$6	1,800,000
$7	1,600,000
$8	1,300,000
$9	900,000
$10	500,000

Next, she called Leo in the controllers' office to get the correct cost estimates for the coming year. Given her demand forecast and the company's cost estimates, she thinks she has the necessary information to form the basis for a forecasting spreadsheet. She sets it up in the following manner to illustrate her estimates of the break even points, as well as total revenues, costs and profits at various output levels for PURAC Specialty filters. She starts by filling in the numbers she knows, as shown below.

Table 2
Cost and Revenue Projections for the F-18 Filter

Column 1 Price in Dollars	Colu mn 2 Units (mill- ions)	Colu mn 3 Variable Cost $/unit	Colu mn 4 Fixed Cost (mill ions)	Colu mn 5 Total Cost	Colu mn 6 Total Revenue	Colu mn 7 Break Even pt. (units)	Colu mn 8 Profit
4	3	2.20	5.3	____	_____	_____	____
5	2	2.20	_____	____	_____	_____	____
6	1.8	2.35	_____	____	_____	_____	____
7	1.6	2.50	_____	____	_____	_____	____
8	1.3	2.50	_____	____	_____	_____	____
9	0 .9	2.90	_____	____	_____	_____	____
10	0 .5	3.10	_____	____	_____	_____	____

Shortly after finishing her forecast, and while still pondering the optimal pricing decision Diana got a call from Bert Salisbury, one of her salesmen. He attended a trade fair in Frankfurt, Germany the previous week to show various PURAC Enviro-Filter products to a primarily Central European audience of distributors. PURAC became interested in exploring the possibility of international sales following some intense lobbying by the Florida Department of Commerce at a recent chamber of commerce meeting in Stuart. They decided to participate in a trade delegation from the state attending the trade fair in Germany. One of the people Bert met at the fair, Sergio Burke, had just sent him a fax from his office in Bucharest, informing him that one of Sergio's clients in St. Petersburg was very interested in introducing a line of specialty filters in their stores in Russia. The initial request for proposal was of an opportunity to bid on an order for 200,000 specialty filters to be sold as a dealer branded product by a major retail chain in Russia. This got Diana's attention!

Burt made a quick call to Sergio and then reported back to Diana.

Sergio, it seems was unwilling to name his customer at this time. He would only say that the specialty filters would be purchased for shipment in lots of fifty thousand each at the beginning of each quarter to St. Petersburg, and that the competition for this sale was expected to be quite intense. However, on a positive note, he led Bert to believe that he can secure the order for PURAC at a price in US dollars of $3.25 per unit CIF. Several things were discussed during the call, including the importance of the terms the Russians were quoting in their offer. That the buyer was willing to quote the deal in dollars seemed very significant to Sergio. He said it indicates that they are serious bidders and sends a clear message that they are interested in obtaining the lowest possible price for the filters.

Diana agreed with this assessment. Their offer was certainly low! The price they were offering to pay was less than any thinkable price for the PURAC Enviro-Filters, even before factoring in the additional cost of dealing internationally.

Some additional research on the part of Bert and Diana revealed that the CIF term in international trade meant Cost, marine Insurance, and Freight prepaid to the point of entry into the receiving country. This would further reduce the value of the contract for PURAC. They checked with a freight forwarder in Miami and were given a ball park figure of $500. per thousand filters to cover the additional expense of export shipping and insurance. PURAC normally sells ex. Factory, or free on board buyer's conveyance terms for domestic sales.

Both Diana and Bert are aware that the offered price is far below the domestic price PURAC charges for the product. Diana states very bluntly that she has no interest in starting another price war in her market. She considers the matter settled and directs Bert to please try to do a better job of screening leads in the future so that company resources are not wasted chasing dead leads.

Bert is discouraged with his contact in Bucharest. How could he seriously think there was a possibility of doing business with his company. There seems to be quite a difference in culture between the eastern part of Europe and the US. Still, Bert is not willing to dismiss the matter out of hand. He would like to research the matter a bit more. The client seems to be a viable distributor in Russia and there may be more ways to analyze their bid. Sergio has assured them that his source will not go to any of PURAC's competitors for bids if they get a reasonable offer from PURAC.

Bert, suggests to Diana that they review the situation a bit further. Upon his suggestion, Diana sets out the following points for them to consider…

Case Notes available upon request from the authors

SMITH'S ALL-NEEDS CONVENIENCE STORES, INC.

D.K. "Skip" Smith, Southeast Missouri State University
dksmith@semo.edu

CASE OVERVIEW

This case challenges students to consider how Jamie Taylor, a recent university graduate and now the new manager of the Smith's All-Needs Convenience Store in Abilene, Noklohoma, can increase the revenues generated by his store and (in so doing) increase his own compensation. The case is based on field research conducted by the author. It seems worth noting that in our area, there appear to be a number of convenience store management opportunities available for recent university graduates. Because they should find it very easy to relate to Taylor and the challenge he faces, the case is especially appropriate for senior-level undergraduates as well as recent university graduates currently enrolled in full-time MBA programs. It is designed to be taught in a class session of 1.5 hours, and is likely to require a couple of hours of preparation by students.

CASE SYNOPSIS

This case can be used to stimulate discussion on at least three interesting and important issues: 1) Identification of characteristics of (and sources of data for) the convenience store industry in the U.S., that is, one of the very dynamic segments of the retail sector; 2) What are the options available to managers of retail stores who are eager to grow their business; and 3) Will the model or conceptual framework or data analysis tool utilized by decision makers affect the data on which they focus their attention and/or the alternatives they are likely to consider? Data in the case include: 1) Description of the challenge faced by Jamie Taylor; 2) Data on (and sources for that data) the convenience store industry in the United States; 3) Background information on the company for which Taylor is working (that is, Smith's All-Needs Convenience Stores, Inc); and 4) Descriptive information on the store which Taylor manages and the market it serves.

THE SITUATION

Jamie Taylor is the new manager of the Smith's All-Needs Convenience Store in Abilene, Noklohoma. The previous manager was transferred to a brand new Smith's All-Needs Convenience Store located a couple of miles west of Abilene. The Smith's All-Needs Convenience Store District Manager (i.e., the man who hired Taylor to manage the Abilene store) indicates that he believes the market has changed, and that the Abilene store needs to review and update its approach to the market. The manager has also indicated to Taylor that the Abilene store should be increasing its revenues 10% per year. Taylor believes this sort of increase plus good performance on the mystery shopper surveys used by Smith's All-Needs Convenience Stores could increase his compensation considerably; Taylor is very eager to increase his compensation.

MATERIAL REQUIREMENTS PLANNING AT RUSSEL FURNITURE

Piotr Staliński, Wyższa Szkoła Biznesu - National Louis University
Piotr_Stalinski@yahoo.com

CASE DESCRIPTION

The case study focuses on the material requirements planning process at a manufacturing company. However, rather than applying standard Material Requirements Planning (MRP) logic, the case explores the fundamentals of an enhanced computational method utilized by some of the state-of-the-art systems used in production planning and scheduling. The case is suitable for students taking courses in Operations Management and Production Planning and Scheduling. It is recommended as a hands-on exercise illustrating possible extensions to traditional MRP systems. The computational logic is straightforward and resembles classic backward and forward scheduling used in the CPM method. The case is designed for one or two hours of class time and requires some guidelines from the instructor on how to proceed with computations.

CASE SYNOPSIS

The case tells the story of Ralph Smart, a recent university graduate with a master degree in Operations Management. Ralph is invited for an on-site interview at the Russel furniture company, after submitting an essay suggesting the improvements to the firm's current production planning process. The head of the production planning department is much interested in meeting with Ralph to find out how the features of the state-of-the-art planning software could address the limitations of the firm's MRP system. Of particular interest are the ideas pertaining to material planning such as a bucket-less planning system, variable order lead-times, and a computational logic which combines both backward and forward scheduling to calculate the order release times.

THE SITUATION

Mr. Russel, the CEO of Russel Furniture Company was holding a monthly meeting with the heads of the key departments to discuss the performance of Russel's operations. The company has been in business of making specialty furniture (tables, chairs, and cabinets) for almost 50 years, and has recently faced tough competition from its major competitors. The signs of trouble were Russel's declining sales and slipping market share. Mr. Russel was particularly concerned about the firm's ability to meet customer order due dates. Latest financial reports indicated that other areas of concern were cost increases due to frequently working overtime and expediting late orders, and excessive levels of work-in-process inventories.

Mr. Owens, the head of the Production Department, indicated that the company traditionally seemed to have enough capacity to meet demand, was using highly experienced and motivated workforce, and had reliable suppliers providing good quality materials. When asked about possible sources of disruptions in the production process, Mr. Owens expressed his concern about the production plans received from the Production Planning Department. The orders received by the Production Department were often unworkable due to material shortages or unavailable resources, which were temporarily busy working on other orders. This created high levels of work-in-process inventories of parts waiting for other parts to be completed or delivered by the suppliers. The production attempted to solve these problems by working overtime or expediting both purchase and work orders in an effort to meet customer due dates.

Mr. Flynn, the head of the Production Planning Department, said that the Material Requirements Planning system, which guided the entire production process, has been in use for 20 years. The demand orders (both customer orders and forecasts) were aggregated on a weekly basis and then planned using a popular logic, which calculates the release times for work orders and procurements using the bill of materials, inventory status, scheduled receipts, and lead-time information. The plan was revised and executed weekly, after making appropriate adjustments for the capacity constraints. The production plans were used to provide quotes to the customers. Mr. Flynn did seem to be very optimistic that the current logic, which was in use for so many years, could be significantly improved.

Mr. Owens was curious if recent developments in the state-of-the art production planning systems could help solve the problem. He had attended a local APICS chapter meeting last week, where he heard a presentation by the vice-president of a software company offering the so-called Advanced Planning Systems (APS). The speaker described APS systems as sophisticated optimization software being able to solve complex material and capacity scenarios appearing in production planning and scheduling, managing suppliers, planning distribution, and other functions within the company's supply chain. A significant part of the presentation focused on benefits resulting from implementing such software systems. The speaker said that APS systems helped many companies reduce costs, improve on-time delivery performance, lower inventory levels, and improve productivity.

Mr. Russel thought it would be a good idea to find out more about capabilities of APS systems used in production planning, or even to contact the software company for more information. Mr. Flynn agreed, but at the same time, he suggested pursuing another possibility. One of the production planners, who worked for the company for 20 years, has just retired, vacating the position of an MRP planner. Mr. Flynn thought it created an opportunity to find a new and dynamic employee, who would possibly bring up-to-date knowledge to the department. Such person could be involved in the future arrangement with the software company once Russel decided to implement a more advanced planning system. At the end of the meeting, Mr. Flynn agreed to start researching the state-of-the-art planning systems and, at the same time, to look for an appropriate candidate to fill a vacant position.

RALPH's RECOMMENDATION

The following week, Mr. Flynn contacted several business schools in the area. He indicated he was seeking a new graduate with a master degree in Operations Management. One of the requirements for a successful applicant was to write a critique of the current production planning function at Russel Furniture plant. Within one month, several applicants visited the plant, studied its production processes, and subsequently submitted their papers. The most appealing paper was submitted by Ralph Smart, who outlined the weaknesses of the current MRP system and recommended a few significant changes to its logic. Ralph's recommendation was based on his recent research on the state-of-the-art production planning systems. His key ideas regarding the material requirements process at Russel's plant are summarized below.

1. Time buckets: the current MRP system at Russel Furniture uses weekly buckets, which means that all demand orders, work orders, procurements, and scheduled receipts are aggregated and planned on a weekly basis. This also implies that plans are revised and released using a weekly planning cycle. Ralph recommended the bucketless system, which specifies the exact due date and release date for each demand order, work order, procurement, and sheduled receipt. Ralph indicated that the bucketless system is able to reflect the production lead times and other important time-phased information more precisely. In bucketless systems, the planning cycle itself is also bucketless. This means that the plan can be revised as often as needed, and therefore, when sent for execution, usually reflects more up-to-date information. The approach is characteristic for state-of-the-art software, and many firms now use bucketless systems.

2. Lead-times (lead-time offsets): the current system assumes that lead-times are constant. That is, for a given manufactured part, the planned time to complete a work order is assumed to be the same regardless of the order quantity or even the condition of the shop floor. Ralph pointed out that the constant lead-time assumption is considered to be a major flaw of MRP systems. Since lead-times play a crucial role in determining orders release times, this limitation frequently leads to infeasible production plans. Ralph recommended that the material requirements system should take into account variable lead-times which reflect order quantity and processing times per unit.

3. Order release-time calculations: according to the current MRP logic, planned orders release times are based on backward scheduling, a computational logic which takes the demand order due date, the bill of materials information, and lead-time offsets to calculate release times for all manufactured parts and raw materials. The essence of backward scheduling is to start each part as late as possible. Ralph indicated that the approach works well as long as all orders can be started and completed according to the backward calculations. However, if there is not enough time either to complete a work order or to procure materials from the supplier, the computed release times are unrealistic and have to be revised. Because of this, Russel's planners are often involved in performing manual revisions to the plan. Ralph's indicated that the problem can be addressed by adding additional steps to the planning process. In particular, for each order, the production planning system should be able to calculate three parameters:

a) LST, which is defined as the Latest Start Time for a work order. More precisely, LST is defined as the latest time a work order should start without violating the due date of the demand order. The LST(s) for work orders supplying a given demand order should be calculated using a backward scheduling (also called back scheduling), similar to that used by a traditional MRP system. The calculations should proceed starting with the LST of the final assembly, which is calculated as the demand order's due date minus the final assembly's lead-time. The LST for any sub-assembly should be the final assembly's LST minus the sub-assembly's lead-time. The calculations should continue backwards until the lowest level in the BOM structure is reached. One assumption is that the LST of any order is not constrained by the beginning of the planning horizon.

b) EST, which is defined as the Earliest Start Time for a work order. EST reflects the requirement that an order cannot be started unless all parts needed by this order are available. In other words, EST depends upon the availability of all materials needed by the order. The EST calculations should proceed in a forward fashion starting with the EST(s) of the manufactured parts at the bottom of the BOM structure and ending with the EST for the final assembly. The process of calculating EST(s) is called forward scheduling (sometimes, front scheduling), and like backward scheduling, should be based on accurate lead-time information. Ralph pointed out that most traditional MRP systems do not support EST calculations.

c) PST, which is defined as the Planned Start Time for a work order (in other words, the release time for a work order). PST should be calculated based on both LST and EST. In discussing the PST calculations, Ralph indicated that for any order, its PST should not be set earlier than its LST to avoid unnecessary stocking of the part. On the other hand, the order's PST should be constrained by the availability of materials needed to start the order (such as, by its EST). No further details about calculating PST were provided.

One remaining issue was calculating the release times for procurements. Ralph indicated that, once a PST for a work order needing the procured part was known, calculating the release time for a procured part would be a rather straightforward issue.

After having a look at Ralph's ideas, Mr. Flynn recommended that Ralph should be invited for an on-site interview. Both Mr. Russel and Mr. Flynn agreed that Ralph's ideas sounded interesting, but at the same time, they felt they needed additional clarification. In particular, whereas Mr. Flynn fully appreciated the benefits of the traditional backward scheduling process, he did not seem to be fully convinced that adding extra steps to the materials planning process was necessary.

THE SCENARIO

After receiving an invitation from Mr. Flynn, Ralph decided to develop a simple scenario illustrating the proposed materials planning process for Russel's operations.

<u>Planning Horizon</u>: Begins on Monday 00:00 AM. For simplicity, Ralph assumes that the factory works continuously, three shifts (24 hours) per day.

<u>Bill of Materials</u>: One unit of TABLE consists of one TOP and four LEG(s). Each TOP is made of two units of WOOD-FLAT, and four LEG(s) are made out of 1 unit of WOOD-STOCK.

<u>Production Lead-Times</u>: Without going into details of operations, Ralph determined that the final assembly (ASSEMBLY-TABLE) takes 30 minutes per one table, process for making tops (PROCESS-TOP) takes 1 hour to make one table top, and the process for manufacturing legs (PROCESS-LEG) takes 15 minutes per leg.

<u>Supplier Lead-times:</u> The lead-times are: WOOD-FLAT: 2 days, WOOD-STOCK: 1 day.

<u>The Inventory Status</u>: There are 4 TABLE(s) in stock available. There are 48 units of TOP, 240 units of LEG, 60 units of WOOD-FLAT, and 100 units of WOOD-STOCK available in stock. These quantities represent initial on-hand inventory available at the beginning of the planning horizon. These units can be used in production.

<u>Scheduled Receipts</u>: There are no scheduled work orders or purchase orders from the suppliers.

Customer Orders: The master production schedule is represented by a single customer order ORDER1 for 100 units of TABLE, due date: Saturday, 00:00AM.

The next step was to demonstrate the three ideas outlined in the paper. First, Ralph considered using what MRP calls a gross to net explosion to calculate the quantities of all needed parts to complete ORDER1. The process should calculate the requirements for all parts using information about available inventories. In the second step, Ralph decided to determine order lead-times for all manufactured parts. The lead-times would be then used to perform both backward and forward scheduling. The last step would be to come up with a computational rule to obtain the release times for work orders and procurements. The results of LST, EST, and PST calculations would be presented graphically using Gantt Charts.

QUESTIONS

Suppose you are preparing for an interview with Mr. Flynn. Using Ralph's ideas and the data provided above, answer the following questions.

1. Identify all sources of demand and supply for all parts needed to complete ORDER1. To answer the question, plot the BOM structure and then complete the table provided below. (Hint: Note that Table 1 is partially completed. In particular, the sources of demand and supply for all parts have been identified and named. For instance, ORDER1-0, 1-1, and 1-2 represent work orders that will be planned to complete ORDER1. WOOD-FLAT-1 is a planned procurement).

Table 1
Part Requirements Calculations

Part	Demand ID	Gross Requirements	Inventory	Supply ID	Net Requirements
TABLE	ORDER1	100	4	ORDER1-0	100 - 4 = 96
TOP	ORDER1-0	96	48	ORDER1-1	96 - 48 = 48
LEG	ORDER1-0				
WOOD-FLAT	ORDER1-1	2x48 = 96	60	WOOD-FLAT-1	
WOOD-STOCK	ORDER1-2				

2. Suggest the rule for calculating LST. Calculate the LST for the three work orders identified in item 1 above. Construct the appropriate Gantt Chart showing for each order its LST and the duration. (Hint: Starting with the ORDER1's due date, draw three work orders for manufactured parts. Recall that the lead-time depends on processing time per unit and quantity produced).

3. Suggest the rule for calculating EST. Calculate the EST for the three orders. Construct the appropriate Gantt Chart showing for each order its EST and the duration. (Hint: Starting with Monday 00:00, draw three work orders for manufactured parts. The work orders lead-times should be the same as in item 2. Recall that the EST(s) for sub-assemblies are determined by the availability of the materials that have been identified (assigned to sub-assemblies) in item 1.

4. Suggest the computational rule for calculating PST. Calculate the PST for the work orders. Is ORDER1 planned on time? Construct the appropriate Gantt Chart showing the PST(s) for the three work orders. Determine the release times for planned procurements (if any).

5. What information would you communicate to the Purchasing Department?

6. What are the advantages of including (a) LST calculations, (b) EST calculations in computing release times for work orders? Can you think of a situation when backward scheduling (such as, LST calculations) would determine the PST(s) of all work orders needed to complete a demand order in the example?

7. The above example illustrates the logic for a single order only. What are the challenges associated with planning multiple orders from the point of view of material planning?

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A DILEMMA IN THE PROGRESS OF A CAREER[1]

Walter G. Tymon, Jr., Villanova University
Albert Chiaradonna, Villanova University
Stephen A. Stumpf, Villanova University
walter.tymon@villanova.edu

CASE DESCRIPTION

The primary subject matter of this case is that of a high potential young manager, Pat Carpenter, employed by a successful large organization who is highly conflicted on the course of action to take when given a new assignment. Discussion questions range from the specific situation Pat faces to issues of corporate social responsibility. The case generates useful discussion on issues of values and value conflict, conflicting loyalties, identification of core beliefs and how they are lived, problem solving, corporate guiding principles, outsourcing, off-shoring, and government policy. Secondary issues address through role playing are how the same situation can be experienced differently, leading to different assessments as to the most appropriate courses of action. Case difficulty is 2-3 (sophomore to junior, depending on issues raised). The case is designed to be taught in a management or ethics course requiring from 30-50 minutes of class time and either no outside preparation, or about 10 minutes of pre-class preparation.

CASE SYNOPSIS

Pat Carpenter grew up in the small, somewhat poor town of Racton, WV, enjoying the sense of community it provided while working in Carpenter's General Store – Uncle Bob's store. Motivation and hard work, along with Uncle Bob's mentoring and coaching, contributed to Pat's success at college, and then at work for a major retailer – Shop-Mart. Pat's career progression was for 7-years has been 'star-like' – from management trainee, to assistant store manager, store manager, and now Real Estate Manager, Mid-Atlantic Region. This job involves locating new Shop-Mart store sites within targeted locations, then beginning community relations so that the opening would go smoothly.

After three successful openings, Pat is asked to locate a site for the next Shop-Mart in Racton, WV. Pat knows that local stores often go out of business when Shop-Mart arrives, and this means Carpenter's will be at risk. In considering the situation Pat begins to experience significant stress, leading to depression and nightmares. To whom should Pat speak – spouse, boss, Uncle Bob? What will Pat say – or do – to move forward?

A DILEMMA IN THE PROGRESS OF A CAREER

Pat Carpenter is 28 years old and from the small town of Racton, West Virginia -- population of about 16,000 when you include the surrounding area. Most of the families living there have lower to middle incomes, with about twenty percent of the population living below the poverty level.

Although few people choose to move to Racton, Pat liked growing up in this close-knit community where people knew and cared about each other.

Even as a youngster it was clear that Pat was smart and ambitious. Pat took great pride in the fact that the townspeople told him, “Someday you’re going to make us proud!” Pat always had a job growing up at Carpenter’s General Store - Uncle Bob’s store. Pat loved being at the store and not just because Uncle Bob paid him pretty well. Pat liked helping customers, most of who were known by name. Setting up displays and changing the merchandise for different seasons and holidays was always exciting. Over the years Uncle Bob, who had one child that didn’t seem to take much interest in the business, taught Pat the ins and outs retailing. He taught Pat everything, including ordering merchandise, putting on a sale, customer relations, and keeping the books. Pat loved it all.

The best part about working at the store was Uncle Bob himself. Uncle Bob loved the store as much as Pat did. Uncle Bob said his mission in life was to make sure his neighbors got everything they needed at a fair price. He carried a wide variety of goods, based on the needs of the community. If you needed a snow shovel or piece of jewelry for your wife or girlfriend, it was no problem – Carpenter’s had it all. What most impressed Pat about Uncle Bob was how he knew his customers and cared for them. If somebody was having “hard times,” Uncle Bob somehow knew it. When they came into the store, Uncle Bob would make them feel comfortable, and say something like, “you know Jason, let’s put everything on credit today – it’s been a while since you used your credit privileges and I don’t want to lose you as a customer!” This kind of generosity made it easy to understand why Uncle Bob was loved and respected throughout the community.

When it came time for Pat to go to college, there was no doubt about what to major in - Marketing and Merchandising. Pat did well in college and was very goal oriented – continuing to work summers at Carpenter’s General Store. As a junior, though, Pat knew that some corporate experience was necessary. The career advisor recommended Pat for an internship at Shop-Mart, and Pat was thrilled. That summer, Pat was amazed by the breadth and comprehensiveness of the intern experience. Pat enjoyed the life story of the founder of Shop-Mart, and the values the founder held. Shop-Mart was the best company in the world. The fact that Shop-Mart had consistently been identified as one of America’s Most Respected Companies in a popular business magazine confirmed this belief.

The people that Pat worked for at Shop-Mart during the internship noticed Pat’s work ethic, knowledge, and enthusiasm for the business. Before the summer ended, Pat had been offered a job as a Management Trainee by Shop-Mart, to start upon graduation. Pat was thrilled. This was a dream job – holding the opportunity to move up the ranks in a great company.

Pat did indeed move up the ranks quickly, from management trainee, to assistant store manager, to store manager, to supervising manager of three stores, to the present position -- Real Estate Manager, Mid-Atlantic Region. This job involved locating new sites within targeted locations for new Shop-Mart stores, then beginning community relations so that the opening would go smoothly.

As work on site number three was finishing up, Pat’s world was shook by an email giving the next location in which to identify a site – Racton, West Virginia! It was not that Pat didn’t believe in Shop-Mart’s expansion. What was printed in the popular press, especially the business press, only reinforced Pat’s belief in Shop-Mart. After all, an executive viewed as one of the wisest business people in the world was quoted as saying that “Shop-Mart had been a major force in improving the quality of life for the average American, offering great prices on goods they needed and wanted."

At the same time, Pat knew that opening a new Shop-Mart could be disruptive to a town. Local establishments always lost some customers after a Shop-Mart opened as more goods at better prices, available in a one-stop-shopping experience was just too big a draw. Pat saw the advantages Shop-Mart provided to the community, particularly customers, within just a few months. Yet, the local stores in small towns often went out of business within a year. In Racton, one of those local stores was Carpenter's, now run by Uncle Bob's son, although Uncle Bob still came in every day to "straighten out the merchandise."

As Pat thought about this assignment, depression set in, and nightmares followed. Pat was frozen in time and space. Pat's spouse noticed the behavior change early on – sullenness, quiet during meals, no talk about work, no energy, and going to bed early – only to wake up in the middle of the night in a huff. Pat's nightmares involved Uncle Bob screaming something – although Pat could not make out what Uncle Bob was saying. This especially troubled Pat, since Uncle Bob never raised his voice.

Pat didn't know what to do – who might be helpful? Pat's spouse? Maybe talking it through could lead to some positive course of action. Pat's boss? Would Shop-Mart understand? Could Pat really disclose the conflict without fear? Uncle Bob? Should Pat disclose the situation and ask for advice? How will this make Uncle Bob feel?

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RANDY DANDY: CHANGING AGENTS—WHO CAN YOU TRUST?

Steve Brown, Eastern Kentucky University
Steve.brown@eku.edu
Peggy Brewer, Eastern Kentucky University
Peggy.brewer@eku.edu
Seth Gakpo, Eastern Kentucky University
Seth.gakpo@eku.edu
Norb Elbert, Eastern Kentucky University
Norb.elbert@eku.edu

ABSTRACT

The primary subject matter of this case centers on start-up issues of an independent contractor company. Secondary subject matter includes contracts, ethics, and family issues. The case has difficulty level of three (junior level). The case is designed to be taught in one class hour and is expected to require three hours of preparation.

CASE SYNOPSIS

Randy Dandy and his father-in-law, Harold Butts, formed a partnership in residential construction and flipping homes. They soon learned the perils of working in the real estate industry where the realty agents seemed to play by fast and easy rules.

SWITCHING AGENTS

Harold just got off the phone after talking to his son-in-law Randy. The news wasn't good. He was afraid they were going to lose their third real estate agent this year.

Harold Butts and Randy Dandy had formed a partnership to sell houses 18 months ago. For the past two years, Harold and Randy had been looking for a business they would feel comfortable starting. Harold had always wanted to build houses, but he was working full time. A partnership with Randy to build new houses and/or renovate and flip older houses made sense. Harold was willing to handle the financial end of the partnership if Randy would take care on the construction end. Prior to forming the partnership with Harold, Randy had quit his job as plant manager of Tennsmith and formed a partnership with another general contractor to build homes in the middle Tennessee area. After building their first spec house, Randy felt he was assuming the lion's share of the work and dissolved that partnership.

The First Agent

Randy contacted John White, a Bob Parks real estate agent who sold Randy's first spec house. John was eager to show them a piece of property located on a by-pass near a new shopping center and just a mile from Parks Realty's most exclusive subdivision containing million dollar plus homes. Harold was familiar with the area because it backed up to a subdivision he lived in about 20 years ago. The property was not on the market, and John assured them nobody else knew about it. He was sure they could get the property way below its market value. It had a house on it that was being sold separately. The house could be moved and several condominiums could be built on the five-acre piece of property if they could get approval from the city council. After several days, John called and said the land had a contract on it. Apparently, someone else had known about the property and made an offer.

Within a week, John contacted Randy about a home that he thought they might buy at a reasonable price, fix up, and flip for a nice profit. It was a smaller three-bedroom home on a cul-de-sac in a new neighborhood just a mile from Middle Tennessee State University. Randy and Harold looked at it and decided it was an ideal location and should sell quickly. If they did not get the price they would like to sell it for, they were sure they could always rent it to students because there were a lot of homes in the subdivision already rented to students. In fact, one of the houses on the cul-de-sac was being rented to students for $1,000 per month.

They arranged with a local bank to have their financing approved before they made an offer. They made an offer of $105,000 for the house. Randy estimated that they would have to spend another $5,000 before it would be ready to sell. At this price, they could rent it for more than their monthly mortgage payments.

John said two other offers had been made that were higher than theirs, and urged them to increase their offer. Randy and Harold, however, decided to stick with their initial offer. After the offer was made, John called and said that the sellers accepted their offer, explaining that the couple did not want to wait until the other potential buyers secured financing. Both Harold and Randy were never sure that the two other buyers actually existed. This worked out well for John. He got the commission for selling the property and his wife, who was working for the closing company, got a commission from the closing. In addition, John would get a new listing after renovation and wanted to use his wife's settlement company for the closing when the house sold.

The only unexpected repair cost was replacing the siding on the back of the house that had suffered hail damage. Within weeks, they had the house painted, added new carpet, fixed the siding and had it on the market. They asked their agent for help pricing the house, however, they received little. Their best estimate was a price of $135,000. They based this price on the sale of a similar but smaller home in the same subdivision. They began getting low-ball offers, and were urged by their agent, John, to accept them. They finally got an offer for $125,000, but were asked to pay the buyer's closing costs. Both Randy and Harold felt that the house should sell for more money.

Harold suggested that they go ahead and rent the house, rather than sell it because the mortgage interest payments were beginning to eat into any profit they were going to make. Harold also felt that they should be on the lookout for other homes around the University that they could buy, fix up, and rent to students. If they could get enough of them, their initial investment could be recouped, and Randy would have a stream of income when he got ready to retire as he did not currently have a retirement plan. They asked John to find them some more properties they could fix up and rent to students for a positive cash flow. However, John never followed up on the request.

As it turns out, Bob Parks Realty, the largest Realtor in middle Tennessee, was opening up a new section in one of its subdivisions near the Blackmon community. Randy called Harold and encouraged him to consider it. He had a friend that had bought a home near the subdivision just three years earlier and had sold the house for twice what she paid for it.

The subdivision had some distinct advantages. A new interchange was being built on I-840 less than a quarter of mile from the entrance to the subdivision and was served by a new road that cut to the heart of Murfreesboro. It was also only a mile from an interchange on I-24 and a new shopping center that was to become the largest in the state of Tennessee. It was also in the Blackmond school district, representing the second most sought after schools in the county, and the area had one of the highest real estate appreciation rates in the county. However, the lots were selling for $60,000 each, far more than either Harold or Randy had ever anticipated spending for a lot.

Parks Realty was having a drawing for the lots in the expansion area. All a contactor had to do was come up with $1,000 to get in the pool and then the rest of the money once the drawing was complete. John indicated that there was a great demand for the lots. There was a two-lot limit per contractor. All of the homes in the currently developed portions of the subdivision were sold, and many of them had sold even before the homes were finished. Randy and Harold looked at the lots, and they decided to enter the lottery. However, Harold said there were two or three lots that would not be acceptable if they happened to draw them. After the lots were drawn, the unacceptable lots were the ones they got.

Later they were told by a reliable source that the lottery was rigged. The contractors that had worked with Parks in the past got special treatment. John told them that they would get special treatment next time. They also found out that there were five lots left. John told them that the contractors that drew these lots could not come up with the money to close on them, but neither Randy nor Harold believed this. Three of the unsold lots were right beside theirs and the other two were directly across the street from theirs. John kept pressuring them to buy the last three lots on their side of the street.

Harold and Randy discussed these acquisitions with their banker. While their banker supported the idea, the loan committee would fund only one more house and lot. Their banker explained that the Bank got a lot less scrutiny from the bank regulators as long as they kept the total loan amount to an individual business under a million dollars. A new source of funding became available through a local finance brokerage firm that would finance ninety percent of the appraised value of the lot and home package at one percentage point above the prime interest rate. Harold and Randy decided to pursue the loan through the local brokerage firm and put down earnest money on the three lots. They quickly found out that obtaining a construction loan for the lots and houses through the brokerage firm would not be as simple as dealing with a local bank.

John continued to pressure Harold and Randy to complete the financing saying that soon the lots would go back on the market and they would lose their earnest money because the required time for closing was fast approaching. Both Harold and Randy offered to speak with Bob Parks directly to extend the closing date on the three lots, but their agent discouraged this. John said that it just complicated things and would not keep Parks from selling the lots to someone else. He kept telling them that he talked to Mr. Parks on a regular basis and gave him advice as a business confidant.

Harold spoke with one of Mr. Park's other agents and was told that John did not talk to Bob Parks on a regular basis and, certainly, did not give him advice on how to run his business. The other agent said if Mr. Parks had other buyers for the lots he would have sold them already.

By the time Harold and Randy had received the financing for the other three lots, they had started the first two homes in the subdivision. The homes they were building were large and were being priced between $375,000 and $400,000. Homes within this price range were the best-selling homes in middle Tennessee. Most of them were being sold before they were finished and some before they were listed.

Because these were high-end houses, Harold asked John to show them similar houses so he could get some ideas on how to finish them so they would show and compete well in the market. After many delays and excuses from John, Harold was shown two houses: a model home and another one that John had listed. It was obvious to Harold that he could have done this on his own. John offered critiques of what he personally liked and disliked about the two houses, but did not offer any constructive pointers as to what would make Harold and Randy's homes more marketable. Harold had the distinct feeling that John thought this was a waste of his time. John told Harold not to sweat it. He would have them sold before the paint was dry.

Every time Harold and Randy met John, he was wearing flip flops and shorts. He said he liked a job that allowed him to dress this way. He had already earned a three-figure income for the year and liked a job that allowed him to stay at home and play golf unless he had a house to show. The one time they met him at Park's office, they met in the conference room. On the way to the meeting room, Harold commented on an office that was filled with selling awards. John told them he did not think too much of those agents that displayed those kinds of awards. They were just "show offs". Harold and Randy felt that John was slow in listing their homes. When they were listed, they were listed along with other homes in older parts of the subdivision and were not displayed well. They asked to have this corrected, but it was never done.

Changing Agents

Randy hired a former building contractor, Sam Fulks, who had built many of the homes in the earlier sections of the Blackmon subdivision, to paint his houses. He had thirty years building experience including developing an entire subdivision of his own. At the time, he was down on his luck. His wife had just passed away and his stepchildren had apparently swindled him out of most of his assets. He was grateful for the work, and was a great source of helpful information and advice for Harold and Randy. Sam's wife had been one of the more successful agents for Bob Parks. He told Randy and Harold that he looked at their flip house and that it should have already sold for between $140,000 and $145,000 easily and in a relatively short period of time if only John would have pushed it. However, John had not sold the house nor had he shown very often.

Sam also introduced them to one of Park's best selling agents, Carol Hamilton. Harold and Randy were beginning to lose confidence in John and decided to give the last three houses to Carol. Carol had made over $500,000 in commissions the previous year and was well on her way to surpassing that amount the current year. Harold ask her if she would be interested backing them financially on some additional new houses. Carol said that although she was not interested in speculating on new houses, she was investing her money in rental property whenever she ran across a good deal but did not indicated that she was seeking a partner.

Once the paint was dry, John still had not shown the houses and had raised the prices twice. He informed Harold and Randy that he was not going to show the house on the weekends the Titans played. He was going to let his father show them. That did not sit well with either Harold or Randy. The first time John's father showed the house, he sat in his car and made a weak effort to greet the couples looking at them, and did not accompany them into the house or spend time with them after they looked at the homes. Carol had been giving Randy advice on how to finish the house that John had listed, but asked Randy to keep it hushed because it was not considered proper and that she could get in trouble for doing it. She told Randy that she would reduce her fee or forego it just to sell a house. Randy approached her about taking the houses away from John and listing them with her. She said that she would hold open house every weekend, but she was not allowed to steal listings from Park's other agents. They could switch listing agents without a problem, but it would have to appear as though they made the decision to list with her on their own with no influence on her part.

Harold and Randy transferred the listings to Carol. The first weekend she was to show the houses, she was nowhere to be seen. Someone else was showing the homes for her. Harold and Randy found out that in order for Carol to cover all of her listings, she arranged with other agents to show her properties by offering to split the fees with them. When Randy's daughter, Eve, got her real estate license, Randy asked Carol to take her under her wing and let her start showing the houses. Eve not only held open houses every weekend, she stayed on the construction site all week long so she could show the houses whenever anyone came by. The one weekend that Carol did show the houses, she would be gone for long periods of time while the houses were open with nobody to show them. Carol told Randy that she was just doing them a favor because they did not get a lot of traffic in the fall.

As the fall season continued, Carol had less and less contact with Harold and Randy. Eve was still showing the houses, however, she had not had any offers. At end of November, Carol told Randy that she expected to have the first two homes sold by Christmas. She commented that said she had not sold anything but expected to close something by the end of the year. She was not used to such dry spells and was ashamed of herself. By the first of the New Year, neither Harold nor Randy had heard from Carol.

Harold called Carol and set up a meeting to ask her what had happened to two prospective buyers—both of whom had contacted her because of her reputation. She told him that one of the families was from Atlanta and when she was showing the house their son was back at the motel room with a severe stomach ache. As it turned out, the boy did not want to move and change schools so his parents decided not to move until the following summer. The other prospect was a pilot for Jet Blue. According to Carol, his wife had seen the house and made up her mind to buy it, but she needed to have her husband's approval. Unfortunately, the husband always had an excuse for missing a scheduled meeting. Harold and Randy never found out if Carol had continued to follow up with this couple.

Eve continued to be at the construction site every day to show the homes. However, there was no more contact with Carol until February, when Harold asked for another meeting. At that meeting, Carol showed Harold and Randy a listing of all the houses for sale in the subdivision and explained that there was now a year's supply of houses on the market in their price range when there should be only a six months' supply. She also said that some of the contractors in the subdivision would be giving their homes back to their lenders. Harold asked her to come up with a way to sell the homes because their interest payments were now up to $10,000 per month. Her first recommendation was to drop the prices on all the houses by $40,000. Harold spoke with another Realtor who said that dropping the prices by such a large amount all at once was not a good idea. Sam Fulks, their painter, told Harold he lost sleep all night when he learned about the recommended price reductions. Carol was apologetic for not staying in contact with them and suggested that they should meet at least once a month until all the homes were sold.

A month went by after dropping the prices, and Carol still did not contact Randy or Harold. Harold asked for another meeting in March. Carol informed them she had not shown the houses at all since their last meeting. Randy said he had heard that she had shown the house to a couple in December, but they bought another house she had listed across town. This brought a sharp response from Carol. She claimed that they wanted a bigger backyard and that the home builder was just there by coincidence to show them the house and negotiate any changes that they might want to make. After Carol left, Randy told Harold he did not believe in coincidences. Randy also suggested that maybe they should offer a commission to other agents if they were able to sell the houses.

As soon as the selling bonuses were offered they started getting calls from other agents to sell the houses. By the end of the month, they had sold two houses. These houses were sold by Eve. Carol did not show the houses again nor did she ever offer to hold an open house. She did not schedule any follow up meetings nor initiate any contact with Harold or Randy except to tell them she had a contract on one of the houses. Harold asked her to consider reducing her fee because they had taken a hit by reducing their price, paying a closing fee and a selling bonus to the real estate agent who brought in the buyer.

Harold did not expect her to do this. He was just testing her to see if she was "blowing smoke" when she told them that she would do what ever it took to help them out. Additionally, he had concerns about her getting rewarded when she was not the one making the effort to sell the houses. They had gotten word that she had a vested interest in one of their competitors and had managed to close deals on all of his houses in a different part of the subdivision. In fact, he was the same contractor who conveniently showed up to help sell the house that Randy had questioned her about during the March meeting. Carol said she was not comfortable with reducing her fee because she felt obligated to share her fee with Eve as well as with the other agent who held the original open houses. At this point Randy and Harold decided to list the houses with Eve.

Changing Once Again

The last two houses were only partially finished thereby giving an interested buyer the option to make changes such as the selection of flooring, paint, cabinets, and fixtures. Within weeks, Eve had sold one of the houses. Harold asked both Randy and Eve to document all the changes and requests that the buyer made and have them co-signed by Randy and the buyer. The buyer began making substantial changes over and above what was allowed on the contract. It became evident to Harold that the costs were escalating rapidly, and he found that these modifications to the original plan were not being documented. The changes became so time consuming that a revision of the original contact had to be made because time ran out before all of the changes could be made.

The buyer became more demanding as the closing time for the second contract approached. As an example, the doors were repainted twice at the buyer's insistence because he claimed that they had not been repainted even though he saw them being repainted. He also claimed that there was a hump in the driveway, however, it could be observed only at night when his car lights were shining on the driveway. Because of all the difficulties Randy and Harold were having with closing on the sale of the home, Harold asked Eve to check everything so there would not be a hitch when they got ready to close in two weeks.

The day of the closing, Eve called and said the buyer did not have the final approval for the loan because his mortgage company had not made a final appraisal. Eve said she was sorry that she had not made sure all the upgrade changes were signed by the buyer and most of the costs were going to have to be absorbed by Randy and Harold. However, she was adamant that it was not her responsibility to see to it that the final appraisal was completed and that the funding had been approved.

Just after re-listing the houses with Eve, there was a shake up in the management structure at Bob Parks. Eve's branch manager was being demoted as the vice president of Parks Realty and replaced by a younger, less experienced individual. Eve's boss had his own real estate agency before merging with Parks and decided that he could make more money by joining a smaller rival firm in Murfreesboro. Eve liked her manager and felt he got a raw deal. She had made up her mind to follow his lead and switch to this new company as well. Because Parks' agents had exclusive listings for the homes in the subdivision where Harold and Randy built, they were going to have to find yet another Parks' agent with whom to list their newly construction homes in the Blackmon subdivision.