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THE CASE OF THE VISITING PROFESSOR

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ABSTRACT

This case will examine the events leading up to and experiences during a Tenured Full Professor's semester as a Visiting Professor at a small private college in the South. The case will examine business, managerial and academic topics such as horizontal and vertical communication; conflict management; strategy; managerial decision making; marketing; corporate and individual cultural differences; and collegial and pedagogical issues. Although the case is based on actual events, the names have been changed to protect the innocent and not-so-innocent. Questions and answers will be provided at the end of the case in order to stimulate discussion. This case can be used in the following classes: Principles of Management, Principles of Marketing, Organizational Behavior and Strategic Management.

A LABOR NEGOTIATION CASE USEFUL IN AN INTRODUCTORY BUSINESS COURSE

Paul A. Ashcroft, Missouri State University

ABSTRACT

Effective labor management is critical to the success of an entity. This paper presents a labor negotiation case used in an introductory business course which requires students to create a new labor agreement. The case provides students a thorough understanding of the challenges of creating a new labor contract, helps students effectively understand the perspectives of employees and management in the labor negotiating process, and assists students in developing vital negotiating skills. The case involves student representatives of management and labor negotiating an agreement on wages, vacation time, retirement, life insurance, and job security.

I. OVERVIEW OF LABOR NEGOTIATION

A labor agreement details employee compensation, fringe benefits, training, performance assessment, termination and disciplinary procedures, and safety issues. Labor agreements affect specific companies and individual unions, but may also significantly impact the general economy. Strikes and lockouts due to disagreements affect not only the company and its employees, but also customers and suppliers. In the overall economy, labor agreements can affect wages, prices of products and services, and unemployment levels [Leap and Crino, 1993].

A new labor agreement may be necessary either because the present agreement will soon expire, or because management may consider modifying current labor provisions [Leap, 1995]. In certain situations, labor may strike unless a new agreement satisfactorily meets their demands. Employee representatives and management must each possess significant negotiating abilities to create an acceptable labor agreement. Negotiating skills are vitally important whether employees are unionized or not, and whether or not an employee strike occurs.

Actual labor management situations reveal that it is important for business students to understand the labor negotiation process. In 1999, the United Auto Workers union was negotiating wage increases with General Motors and DaimlerChrysler. General Motors proposed a three-year contract with a 2% increase plus a $500 lump sum in year one, a 3% raise in year two, and a $1,500 lump sum increase in the third year. General Motors also offered increased job security for workers with at least ten years seniority. DaimlerChrysler proposed similar terms, with industry analysts expecting the union to gain annual wage increases of 3% for at least three years [Muller, 1999]. In April 2001, writers and actors in Hollywood threatened a strike if they did not receive higher wages. Such a strike would cost companies in and near Hollywood almost $2 billion lost revenue per month [Cagle, 2001]. Major league baseball players did strike in the 1994 season, which created significant financial consequences and canceled the World Series that year. The players earned $250 million less in salaries. Baseball owners lost as much as $500 million. Spillover losses from the strike, according to a survey of mayors of the 24 cities that host the 26 major league teams, were an average of $1.16 million for each city per missed game. In 1994, there were 669 baseball games cancelled due to the strike [Impoco, 1995].

II. THE LABOR NEGOTIATION CASE

The case presented in this paper is used in an introductory business course that provides an overview of management, accounting, finance, marketing, and economics. The course is a prerequisite for all other business courses, and is typically taken by freshmen students.

Laws specify many issues that management must negotiate with the union. If management refuses to negotiate any of these "mandatory bargaining issues", they are open to charges of unfair labor practices. Exhibit 1 and Exhibit 2 indicate the five very important mandatory bargaining issues in the case: wages, paid vacations, the pension plan, group life insurance, and job security. Mondy et al. [1999] list sixty-two mandatory bargaining issues, which includes the five items in the case discussed in this paper. The case is limited to five very most important bargaining issues to provide adequate class time for negotiation.

In negotiating a labor agreement it is vital that union and management representatives seek to create and maintain clear and open communication, but that does not guarantee that a mutually acceptable result will occur [Mondy et al. 1999]. Successfully negotiating a collective bargaining agreement that satisfies the various interests and needs of management and labor is a complicated task that requires significant preparation, skill, and knowledge [Leap and Crino]. The case presents a fairly realistic labor-negotiating situation that effectively instills these critical facts in students' minds by having them actively involved in creating a labor agreement.

Exhibits 1 and 2 include the information that is provided to students representing management and labor, respectively. The objectives are to help students understand the viewpoints of management and employees, to reveal the challenges involved in creating a new labor contract, and to improve students' negotiating abilities. These goals are achieved by providing the demands of each side on all five issues to both management and to labor. Exhibit 1 [Exhibit 2] provides management [labor] the parameters for their demands as well as what labor [management] is requesting. Those representing management [labor] are given only Exhibit 1 [Exhibit 2], and neither side knows how willing the opposing side is to change their position on any of the issues. This realism motivates students to communicate effectively, to consider both management and employee perspectives, and to wisely negotiate.

III. INVOLVING THE STUDENTS IN THE CASE

The instructor creates an even number of groups of five or six students each. Initially the students are neither told which side they will represent nor with which other group they will negotiate. Next, the instructor has each group assign a spokesperson. Then the instructor gives two copies of either the proposal offered by management (Exhibit 1) or the demands made by the labor union (Exhibit 2) to the group spokesperson. The instructor does not give any group spokesperson both Exhibit 1 and Exhibit 2.

The students are told that the case has two parts. In the first part, each group discusses the case only among their fellow labor or management group members and decides a position on each of the five labor issues. The second part, which is the negotiations phase, begins once the discussion phase ends. If there were six groups, the instructor would explain that three groups represent management and three groups represent employees. Each management group will negotiate with an employee group. Each group's spokesperson sits in the middle and at the front of their group and directly faces the opposing spokesperson. The role of the other group members is to support the spokesperson. Each group is told to fully document what is discussed and what agreements are made during negotiation. Finally, the instructor tells students that he/she will provide input in any or all of three roles if requested. These roles are as company president in representing management, as the head of the union in representing labor, and as a mediator. The instructor also clearly states that he/she will not serve as an arbitrator.

Each set of the paired labor and management groups negotiate the labor issues in the case: wages, vacation time, retirement benefits, life insurance, and job security. The case provides each group with guidelines and ranges regarding the specific labor issues for which they are willing to make concessions, as well as items on which they are firmly set. As stated in Exhibit 1 and Exhibit 2, neither the union nor management knows how willing the opposing side is to negotiate any of the five issues. This accurately reflects the labor agreement process, where each side's strategy is usually to begin from requesting the ideal conditions that the employees or management would prefer. The union and management will each also typically predetermine minimum concessions they would accept before a breakdown occurs in the negotiations [Mondy et al.]. The case challenges students to thoroughly consider the extent of concessions they would make on one or more issues to receive a positive result on another issue. Thus students gain an in-depth appreciation of the difficulties involved in creating a new labor agreement. Students diligently strive to obtain the desired results for their group on each issue but eventually realize that rather difficult decisions about concessions must be made to create an agreement acceptable to themselves as well as the opposing side. As such, the negotiation stage of the case accurately simulates labor negotiations for an actual union and an actual company and develops vital negotiation skills in students.

VI. REFERENCES

References are available upon request.

EXHIBIT 1

Information Provided To Each Student Team Representing Management

YOU ARE THE <u>MANAGEMENT NEGOTIATING TEAM</u> FOR THE <u>MIDDLE AMERICA MANUFACTURING CO.</u> The contract with **<u>WORKERS UNION OF AMERICA</u>** is about to expire, and your team has proposed the following conditions for a new 5-year contract.

*A wage increase of 3% for the first two years of the contract, 4% for the next two years, and 5% in the final year. (This is negotiable, but not for as much as the union has demanded).

*An increase in vacation time to 3 weeks per year for the life of the contract. (You will not budge on this one).

*A lump-sum amount of $500 to begin a new employee's retirement fund for each person hired after the new contract goes into effect. (You may be willing to negotiate some increase in matching fund contributions, but certainly not as much as the union has demanded. And, if you do agree to some matching amount, you will withdraw the $500 offer for new employees).

*A $50,000 life insurance policy for each employee, with the Company paying 1/2 of the premium, and the employee paying the other 1/2. (You will not negotiate an increase to this offer. Currently, the Company offers no life insurance).

*At this point you are not willing to give job security to any employee in the event of downsizing. (What the employees don't know is that the Company may have to downsize in the next 3 to 4 years. You may have to back off on your "no job security" position in order to avoid a strike; however, you would only want to include employees with more than 20 years).

The union negotiators do not know which of the above conditions you will not budge on and which ones you are willing to negotiate. They also don't know that you are preparing for a lockout of employees if you cannot reach an agreement soon or if they threaten a strike. You are reluctant to use this weapon, but you may have to threaten or actually implement a lockout. You want to avoid this if at all possible.

Here is what the union demands are:
-An immediate increase in wages of 10%, with annual increases of 4% for the next four years of the contract.

-An increase in vacation time from 2 weeks per year to 3 weeks for the next three years, then 4 weeks for the remainder of the contract.

-An increase in employer matching contributions to employee retirement. Currently, the Company matches employee contributions dollar-for-dollar up to a $500 per year. The union wants this to increase to $2,000 per year.

-The union wants a program where the Company pays the entire premium on a policy with a face value of $100,000 per employee.

-A guarantee that any employee who has been with the company for more than 10 years will not lose their job during a period of downsizing.

YOUR TASK IS TO TAKE A FEW MINUTES TO READ THESE OFFERS AND DISCUSS THEM WITHIN YOUR GROUP. WHEN I CALL TIME YOU ARE TO BEGIN NEGOTIATIONS WITH THE UNION AND ARRIVE AT AN AGREEMENT WHICH WILL BE PRESENTED TO THE CLASS. <u>IF YOU CANNOT REACH AN AGREEMENT, THEN YOU WILL HAVE TO CALL FOR A LOCKOUT.</u>

EXHIBIT 2
Information Provided To Each Student Team Representing Labor

YOUR GROUP IS THE NEGOTIATING TEAM FOR THE **WORKERS UNION OF AMERICA.**
The union contract with **Middle America Manufacturing Co.** is about to expire and your team has proposed the following conditions for a new 5-year contract:

-An immediate increase in wages of 10%, with annual increases of 4% for the next four years of the contract. (You are willing to negotiate these percentages, but you don't want to let management know too quickly).

-An increase in vacation time from 2 weeks per year to 3 weeks for the next three years, then 4 weeks for the remainder of the contract. (You are not totally firm on the 4-week condition, but you are on the 3-week condition).

-An increase in employer matching contributions to employee retirement. Currently, the Company matches employee contributions dollar-for-dollar up to $500 per year. You want this to increase to $2,000 per year. (You will not back off on this condition; however, you may be willing to reduce your demand to $1,500).

-Currently, the company does not pay any life insurance premium for their employees. You want them to begin a program where they will pay the entire premium on a policy with a face value of $100,000 per employee. (You are willing to give in on this condition if you can negotiate a satisfactory agreement on the other conditions).

-A guarantee that any employee who has been with the company for more than 10 years will not lose their job during a period of downsizing. (You are reluctant to back off on this condition, but you may negotiate the number of years).

Management does not know which of the above conditions you will not budge on and which ones you are willing to negotiate. They also do not know that you are willing to call for a partial strike if you cannot reach an agreement soon. You may have to bring this up during negotiations if things aren't going good for you. However, you are willing to try almost anything to avoid a management lockout of the workers, which would put all of them out of work and not look too good for the union.

Here is what the Company has offered:

*An increase of 3% for the first two years of the contract, 4% for the next two years, and 5% in the final year.

*An increase in vacation time to 3 weeks per year for the life of the contract.

*No increase in matching funds for retirement; however, they have offered to put a lump-sum amount of $500 to begin a new employee's retirement fund for each person hired after the new contract goes into effect.

*A $50,000 life insurance policy for each employee, with the Company paying 1/2 of the premium, and the employee paying the other 1/2.

*No offer on the condition of job security for employees.

YOUR TASK IS TO TAKE A FEW MINUTES TO READ THESE OFFERS AND DISCUSS THEM WITHIN YOUR GROUP. WHEN I CALL TIME YOU ARE TO BEGIN NEGOTIATIONS WITH MANAGEMENT AND ARRIVE AT AN AGREEMENT WHICH WILL BE PRESENTED TO THE CLASS. IF YOU CANNOT REACH AN AGREEMENT, THEN YOU WILL HAVE TO CALL FOR A STRIKE.

ETHICS AND MARTHA

Loretta Baryeh, Towson University
Arundhati Rao, Towson University

ABSTRACT

The role of ethics in our society and curriculum has long been debated by academicians. The impact of recent corporate failures stemming from unethical behaviors of top management has underscored the need for ethics to be taught across the curriculum. In this paper we discuss Martha Stewart's high profile case of insider trading and the ethics scandal that ensued. We use this case to make students aware of their own morals, ability to identify an ethical dilemma and decide on the correct course of action. We also discuss the role of a leader's morals and values in society. This case can be used in any introductory business course at the undergraduate level.

"ROGUE TRADERS": LESSONS TO BE LEARNED

Pierre Canac, University of St. Thomas
Charlene Dykman, University of St. Thomas

CASE DESCRIPTION

The financial industry has become so complicated that we are increasingly vulnerable to manipulations that might be unseen or unrecognized. This case study is about the lack of managerial oversight that allowed two of the largest bank frauds in history to take place. These frauds, conducted by two "rogue traders", took place more than a decade apart. It is clear that few lessons were learned in the first "rogue trader" case as managerial practices, within the banking professions, were not significantly strengthened in order to prevent the occurrence of the second fraud. It is hoped that detailed discussion of both of these cases as well as insights into the "rogue traders" themselves will shed light on current practices and highlight the opportunities to improve oversight and prevent such frauds from happening again. This case study is intended for use in finance, management, information systems, or auditing classes at the late undergraduate or MBA level.

BACKGROUND

This case study documents the frauds conducted by Nick Leeson, of Barings Bank PLC in 1995 and Jerome Kerviel of Société Générale in 2008. Mr. Leeson was the chief trader at the Singapore branch of Barings while Mr. Kerviel was just a low-level trader in the Paris headquarters of Société Générale. Mr. Leeson's fraud at Barings resulted in bankruptcy of this esteemed banking institution that was founded in 1762. Société Générale, founded in 1864, suffered more than $7 billion in losses as a result of Mr. Kerviel's fraudulent activities. Neither of these traders fit the typical psychological profile of successful traders who are usually educated at top universities, are gregarious, and stay engaged nearly 24/7 with the financial markets. Both Leeson and Kerviel were from humble origins, attended second-tier universities, and seemed far removed from the typical elite traders.

Financial derivatives markets have grown significantly since the 1980's. These are largely unregulated instruments that seem to pass under the radar screens of those tasked with oversight of financial practices and markets. These "rogue traders" involved in working in the derivatives trading business have resulted in great losses to their banking establishments. A particularly interesting aspect is that there are striking similarities between these two frauds, which are separated by 13 years. One can only wonder how history can repeat itself. Are there some psychological profiles that can be helpful in preventing such frauds in the future? Are these complex financial products just too complicated for management to understand?

BARINGS AND SOCIEŠTEŠ GEŠNEŠRALE

Barings Bank. PLC, a British merchant bank, was founded in 1762. Over the years, Barings had a history of helping to finance the Louisiana Purchase and even helped to finance Napolean's wars. Overexposure to South American debt in 1890 led to a rescue by the Bank of England. At that point, Barings became a much more conservative bank which was surpassed by other banks in profits and success. However, Barings remained a significant player in the banking industry. Barings opened a branch in Singapore in 1987 and this branch became increasingly involved in trading futures contracts, with Nick Leeson, one of our "rogue traders" being hired after Barings purchased a seat on SIMEX, the Singapore Exchange. Barings collapsed in 1995 as a result of the frauds perpetrated by Nick Leeson.

Société Générale (SocGen) was founded in 1864 and within six years there were 15 branches in Paris and 32 throughout France. Additionally, a permanent office was opened in London in 1871. The bank grew rapidly and when the Great Depression and German occupation of France during World War II stifled the growth within France, SocGen began to expand, first to Africa and then the United States. The bank was nationalized after the war and the bank grew rapidly as the French economy grew. Société Générale was once again privatized in 1987. Financial deregulation and technological advances increased SocGen's presence in France and abroad. Société Générale is the 4th largest bank in the euro zone with respect to assets under management with over 7600 employees in its global investment management activities.

Société Générale is clearly a more sophisticated banking institution than Barings was before its collapse. It is easier to understand the lack of oversight at Barings than that same lack at Société Générale where the managers' expertise in derivatives trading was indisputable. One issue is that CEO Bouton of Société Générale, following a failed merger with Paribas in 1999, may have adopted a more risky strategy of investing in Eastern Europe and pushing his traders to be more aggressive. Such risks seemed to lead to higher profits, which only made the cycle continue.

THE TWO "ROGUE TRADERS" – NICK LEESON AND JEROME KERVIEL

Successful financial traders are the banking equivalents of film stars who command large salaries and these jobs are the most coveted in the financial industry. Trading provides opportunities for a huge income, with large bonuses, for those who are involved in it. Nick Leeson, the chief trader at Barings Bank, Singapore, came from humble beginnings. His father was a plasterer and Leeson first worked as a clerk at Barings. He was sent to Indonesia to clean up a back office mess where a large number of stock trades did not reconcile. Through his work in the back office in Indonesia, Leeson realized that the errors account was poorly monitored by supervisors. His excellent performance in Indonesia was noted and he was moved to the new Singapore branch in the position of chief trader and floor manager at the young age of 25.

Given his lack of experience and his youth, Leeson quickly got into trouble executing his trades. He systematically made wrong bets and accumulated a huge long position in futures contracts. He worked to cover his position through accumulating losses in error accounts similar to those he discovered during his time in Indonesia. He even modified the software so that the managers in London would not receive daily reports of his activities. He was secretly accumulating losses in one account and publicly recording profits in three arbitrage trading accounts. Pairs of transactions recorded in the books of Barings Singapore bore no resemblance to those executed on the floor of the exchange.

Leeson also bought Japanese stocks index futures and sold Japanese government bond futures fulfilling his margin requirements with borrowed funds rather than Barings' own fund. When the Japanese stock market and interest rates were rising, leverage amplified his gains and increased his credibility with managers. However, when the Japanese stock markets began to fall in 1994, he continued the same process, betting that the market would turn around again. He kept hiding the losses in the secret account and his reputation as a trading star was not diminished. However, as the losses grew, exceeding $100 million, he began to face margin calls and did not have the cash to meet them. He was even able to persuade Barings to transfer funds from London, even though this should have set off some alarm bells. He also started selling options on the Nikkei index to get cash to meet his margin calls. As time went on and the Japanese stock market did not turn around, the margin calls became out of reach and Leeson left town. The market turned around by July, 1995. However, it was too late for Barings which declared bankruptcy in February of that same year.

Kerviel at Société Générale was charged with looking at the bank's portfolio and trading in the opposite direction, to hedge some of the bank's risk. Instead, Kerviel took directional positions, betting on a rise in European stock indexes. He engaged in unhedged trading for a number of months, sometimes losing and sometimes making a profit. In fact, he shorted the Dax index in January, 2007 and made €28 million. This encouraged him to continue and the next month he made another bet that the subprime crisis would spread and harm the real economy as he shorted European stock indexes. Kerviel earned €500 million and was too frightened to explain this to his superiors. Remember, Kerviel was not to be speculating and making a profit, only hedging against the banks' other positions, to reduce the downside risk. As a result, Kerviel began to hide his large winning bets with fake "hedges", by taking positions in the opposite direction.

Kerviel was caught in January, 2008 with the accumulated size of his trading positions close to €50 billion, an amount larger than the bank's entire market capitalization. Kerviel's trades caused Société Générale to report a loss of €4.9 billion, the largest loss from fraudulent activity in banking history. This was four times larger than Leeson's fraud. Kerviel was able to hide his large speculative bets on European stock indices by entering false hedges into SocGen's risk management system. He was able to do this because of his knowledge of back office operations and trade processing. He was able to hack into the bank's computer systems and set up trades using false accounts. Kerviel had also taken advantage of the long delays required to confirm trade settlements as hedge documents made the routes of the exchange, the clearing corporation, the broker, and the bank's back office.

The result for Société Générale differed from the bankruptcy that Barings experienced. Although Société Générale reported a loss of €4.9 billion resulting from Kerviel's activities, SocGen actually incurred a €6.3 billion loss as it carried out a three-day fire sale between January 21 and 23, 2008 while the market was falling. The bank said it simply could not risk keeping the positions open and was able to reduce the sixe of the loss by offsetting it with the profit of €1.4 billion made by Kerviel through other unauthorized trades in 2007.

MANAGEMENT CONTROLS – OR THE LACK OF SUCH CONTROLS

This case raises important questions about oversight in the financial industry. Why did the system break down in the case of Barings in 1995 and then again in the case of Société Générale in 2008? Where were the checks and balances and the controls? What are the unique issues in banking with respect to the distinctions between front, intermediate, and back offices? There are established perspectives and guidelines with respect to separation of duties at the various levels as well as movement of employees from one area to another with the increased knowledge they would possess of the workings and controls within departments where they were formerly employed. Although an audit report in 1994 revealed the danger of having Leeson in charge of both the front and back office, managers at Barings chose to ignore the recommendations of the report.

What are the risk limits that need to be set and what are the procedures that need to be followed to monitor and enforce these limits? Are there processes in place to monitor employees' performance with respect to these risk metrics? Each time one of Kerviel's trades raised an alert at SocGen, it appeared to be an isolated case because those various alerts were not consolidated across different products. There were no cumulative records kept of each trader's alert history.

Banks commonly force traders to take holiday breaks so that their portfolio can be monitored by other traders as a means to detect fraudulent trading activities. This was not enforced at Société Générale as Kerviel convinced his superiors to allow him to wait to take his leave in January rather than December. Such simple practices as monitoring the vacation schedules of employees and enforcing rules that are already in place can significantly decrease the opportunities for frauds such as this.

DIFFERENT OUTCOMES

Baring bank declared bankruptcy in 1995 and was acquired by a Dutch Bank, ING, for €1.00. Through a series of sales and splits, the Barings name lives on as the MassMutual subsidiary, Baring Asset Management. Nick Leeson fled Singapore immediately after the collapse and was arrested in Germany six days later. After extradition to Singapore and being convicted of fraud, he was sentenced to serve six and a half years in Singapore's Changi prison. His wife divorced him and he was successfully treated for colon cancer while in prison. He was released from prison in 1999 and was given a clean bill of health five years after his surgery. He wrote his autobiography, Rogue Trader which was later made into a movie. Leeson condemned the practices that allowed him to gamble unchecked with large amounts of money. He has earned a Psychology degree and written a second book Back from the Brink, Coping with Stress. He has remarried and lives with his wife and three children in Ireland while giving speeches on topics such as risk management, stress, and the Barings failure.

Société Générale was able to survive its scandal in large part because it was a much stronger institution than Barings at the time. Additionally, many of its competitors suffered even greater losses from their exposure to mortgage backed securities backed by U.S. subprime loans. JeS̄rome Kerviel has not yet paid a high price for his part in the greatest banking fraud in history. He did not flee the country or try to hide from police. He was charged with fraud, breach of IT controls, falsifying documents and breach of trust on January 28, 2008. These charges carry a maximum five year prison term and €375,000 in fines. At the time of this writing, Kerviel is awaiting a trial that has been postponed several times and will most likely be held in the first half of 2010.

LEADERSHIP CRISIS AT ALGOOD PRESS: A CASE STUDY

John James Cater, III, Nicholls State University

CASE DESCRIPTION

The primary subject matter of this case is small family business management, specifically developing a strategy for leadership succession in a crisis situation. We also examine shared leadership or family top management teams that involve multiple family members in the top management and ownership of family firms. The case is appropriate for junior and senior level undergraduate courses. The case is designed to be taught in one class hour and is expected to require approximately three hours of outside preparation by students. The events described in this case are based on real world experiences, but all names have been disguised.

CASE SYNOPSIS

Carlton Algood heard the devastating words from his doctor: "With the treatment we currently have available to us, which is among the best in the country, I would say that we are looking at about one year (for you to live)." As a responsible small family business leader, Carlton made plans for Algood Press to survive without him. Carlton laid the groundwork for a management committee, composed of three family members and three non-family managers, to lead the company during his illness. Passing the management and ownership from one generation to the next is a daunting task for small family businesses. Succession is even more difficult when the process is shortened by the illness or death of incumbent family leaders. We trace the story of Algood Press from its beginnings in 1933 through three generations of family owner-managers to the present day. After Carlton's death, the remaining family leaders must decide whether to continue with the management committee, who should become president of the company to replace Carlton, and if they should extend the privilege of stock ownership to other company managers.

AN INTERNATIONAL ACQUISITION FOR HOLIGEN INC.

Benjamin Dow, Southeast Missouri State University
David Kunz, Southeast Missouri State University

ABSTRACT

The primary subject matter of this case is the valuation of an international acquisition. Secondary issues examined include assessing exchange rate risk and performing sensitivity analysis.

Hologen, Inc. is a diversified medical technology company that develops, manufactures, and distributes medical imaging systems and surgical products for serving the healthcare needs of women. The company currently operates in three segments: Breast Health, GYN Surgical, and Skeletal Health. The breast health segment is the Hologen's largest division, contributing to about 60% of sales. Even though Hologen is well positioned in the digital mammography idustry, with a market leading 65% share in the United States, the company is concerned the US market is becoming saturated.

To date, Hologen's current strategy for long-term growth has been focused on the breast health segment. Hologen has continued to invest in research and development to maintain a competitive advantage in the digital market. In addition, the company has focused heavily on 3 D imaging devices, which the company believes is the next frontier for digital mammography. In response to the potential vulnerability to the breast health division, Holgen's CEO has suggested the company pursue an acquisition that would diversify its product line as well as increase its international exposure. Hologen's vision is to become the world's largest pure-play women's health-care company. In order to achieve this status, Hologen would need to become a participant in the diagnostic health-care segment and increase international sales.

Hologen felt the quickest and more cost effective way to accomplish these goals is through an acquisition of an existing diagnostic company with an international clientele. The company Hologen is interested in acquiring is a British firm, Cybertech. Cybertech is a molecular diagnostic company whose main product line is T-Prep, the most widely used method for cervical cancer screening in both Europe and the United States. In addition, Cybertech had been expanding market penetration to include Asia, India and Brazil. Cybertech, a publicly traded company listed on the London Stock Exchange, has a current market capitalization of about 252 million GBP.

An acquisition of a public company would have to include a significant premium over current market prices in order to persuade the target's board of directors and current shareholders to approve the acquisition. If Hologen can acquire Cybertech, they are hoping to realize significant economic synergies including an increase in revenues and a reduction in costs. Hologen must perform a valuation of Cybertech to determine the maximum takeover share price that can be offered assuming these synergies can be realized. An accompany sensitivity analysis must also be

performed to better understand the consequences of not fully realizing all projected synergies. In addition, the proposed target is a non-US based company and the impact of exchange rate risk must also be addressed.

M&D SUPPLY: DAVID AND GOLIATH

Jeff Dyson, Lamar University
Kabir Sen, Lamar University
Vivek Natarajan, Lamar University

CASE DESCRIPTION

The case primarily focuses on entrepreneurial behavior in response to challenge and adversity. It examines a family's path to business success despite overwhelming personal and professional odds. Secondary issues include strategies and tactics that were employed to reposition the business in response to declining market conditions.

Students are provided an entrepreneurial dilemma requiring them to develop, analyze, and prioritize the entrepreneur's alternatives. The case requires students perform a SWOT analysis of the business and while considering the main character's personal dilemma, recommend a course of action. Students should also develop a plan to align the business with its market opportunity.

CASE SYNOPSIS

Jack Dyson moved to Southeast Texas in 1955 to partner with venture capitalists G.F. Mitchell and E. W. McCown. Mitchell and McCown owned numerous businesses related to the Southeast Texas agricultural industry, including farm production, aerial seeding, and fertilizer production and distribution. The two desired a farm machinery company and were seeking a partner who could operate the business. They partnered with Jack and opened Farm Machinery Company. The business operated successfully and was sold soon after G.F. Mitchell died. Building on their 10 year partnership, Jack Dyson, Mary Mitchell and E. W. McCown decided to incorporate M&D Supply.

M&D's business-to-business concept targeted production farmers and ranchers. Secondary markets included consumers with large properties and institutions whose responsibilities included maintaining large tracts of land. The store's product mix included maintenance, repair and operations supplies necessary to sustain agricultural, beef, and other farm production activities.

Farm supply in Southeast Texas was segmented. National chains like Sears Roebuck, White's, and Western Auto and independent operations such as Jack's True Value Hardware offered a limited number of agricultural products and a low level of service. Dyson and his partners were confident their product mix, experienced staff, and familiarity with the customer offered a value proposition that yielded sustainable competitive advantage.

The store turned a profit during the first two years. However, by 1969, a decline in the region's agricultural sector began a sustained trend of diminishing business conditions that put farmers and ranchers out of business. M&D's financial performance reflected shrinking numbers in its target customer sector, necessitating Dyson consider change.

AUDIT VERSUS REVIEW: A CASE STUDY OF A CHAMBER OF COMMERCE

Dennis Elam, Texas A & M University, San Antonio

ABSTRACT

The passage of Sarbanes Oxley specified greater transparency for public companies. In the process, demands for governance and assurance have spread to other non-public entities. The bar for assurance to stakeholders has been raised for non-profits as well. This case study examines a real world Chamber of Commerce (all names have been changed to a fictional Our City). The External Auditor requests a move to accrual accounting as well as an elevation from a review to an audit. The case challenges students to examine the current environment of assurance expectations, the qualitative difference between an audit and a review, use of statistical data to aid in the determination and finally a writing assignment in defense of a conclusive recommendation.

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RE Accounting and Audit Considerations for Our City Chamber of Commerce

Mr. Vasquez recently asked me to undertake an evaluation of accounting and audit procedures for the Our City Chamber of Commerce. As a matter of objectivity, I am not a Chamber member nor am I being compensated for this brief report. Audit Firm consists of four principal partners licensed to do practice by the Texas State Board of Public Accountancy.

<u>Need for Transparency</u>

The accounting scandals of the last few years resulted in new rules known as the Sarbanes Oxley Act SARBOX for publicly held corporations. Such demand for transparency and accountability has also had effect on other organizations that serve wide stakeholder interest, such as non-profits

My understanding is that the Board of Our City Chamber of Commerce OCCC has also suggested ‘ramping up’ the reporting of Chamber. Inquiry as to cost resulted in the Chamber selecting a ‘Review’ rather than a more complex ‘Audit’ by an outside CPA. One of the recommendations of the external CPA was that OCCC should adopt an accrual basis accounting system rather than the cash system of reporting currently in use.

Mr. Vasquez expressed several valid concerns to me about that suggestion. His concerns included but were not necessarily limited to

- Increased complexity of the accrual accounting
- Availability of someone to perform the required accounting entries
- Increased cost of obtaining internal accounting service to do accruals
- Increased cost of an external audit versus a review

Notably he has been informed that a clean audit opinion would require an accrual system of accounting.

An Examination of Accrual versus Cash

OCCC currently operates on a cash basis. Revenue is recorded when collected. The classic rule of accrual versus cash in accounting is that when a business primarily conducts its transactions in cash, that has been an acceptable method of accounting. As noted earlier, recent legislation has brought accounting issues more in the public eye resulting in a call for accruals in certified audits. An examination of how this would affect LCC is undertaken.

Three items comprise 87% of OCCC total revenue. (see excel spreadsheet). Membership is 36%, the Action is 28%, and the Golf Tourney is 23% with other comprising the balance, the City agreement being the major part of that component. The Auction and Golf Tourney are one time events so the revenue would not be accrued for them. This leaves membership. Most members pay once a year. There is the benefit of smoothing the revenue stream to be obtained from accrual. While I did not investigate, the more the actual renewals are randomly distributed throughout the year, the closer the existing reality may be to an accrual system. In other words, if through the years renewals fall evenly about 1/12 per month, an accrual system may not show much difference than the existing cash system. In addition, a cash system only reports what is received, which in itself is a brake on spending beyond what is available.

Several of the entries provided by the external auditor involve payroll. While this is a major expense, about 50% of the budget, it consists of three people and virtually never changes during the year. This makes the chance for payroll fraud virtually negligible. Payroll fraud usually involves the creation of fictitious employees or padding for temporary non-existent employees. And the payroll amounts per month are constant. My conclusion is that there is very little information value to be gained in payroll by switching to accrual. Other potential accrual items include the copy machine lease and depreciation of equipment. Since these are minor items, again materiality would seem to argue against the necessity of accruing amounts.

Cost Considerations

The question Mr. Vasquez asked me to address was whether it was cost advantageous for OCCC to adopt accrual accounting. The external auditors have suggested this would be necessary to obtain a ‘clean opinion’ in an audit. Mr. Vasquez informs me that due to cost considerations, a review was contracted instead of an audit. In addition to the review cost of $1,700, OCCC was charged $1,100 for the work required to generate the adjustments to move OCCC to an accrual basis. It should be noted that exclusive of salaries, this amounts to about 2% of the OCCC budget.

Research Methodology

I suggested that a survey be conducted among area or similar sized Chambers as to

- Membership size
- Annual Budget
- Whether they had a compilation, review, or audit
- Whether they had adopted a cash or accrual system

Certainly this is not nor do I claim it to be a rigorous, scientific survey of sufficient sample size to be regarded as a formal study. However, anecdotally it does speak to what other Chambers of similar size are doing about this issue.

The results of the survey are shown in the attached Excel Spreadsheet.

Examining the Research

I have ranked the results by membership from lowest to highest. Five of those surveyed are using cash and they are in the six smaller entities. This would seem to suggest that other Chambers have encountered the issue of cost consideration regarding moving to an accrual method. This also raises the question of who would prepare the entries. As noted, payroll is a fixed monthly expense yet can entail multiple entries reflecting payroll deposits to the government. Whether the information on the actual statement would be worth the difficulty and cost of creating it is up to the Board.

The results of the audit question were particularly interesting. Not surprisingly the two largest. Clarksville and McKinney with over 1,000 members had an audit. Their budgets are 2.5x and 12x times the OCCC budget. Results using the last table which excludes the tow largest Chambers are

No outside examination	3
Compilation	2
Review	2
Audit	3

OCCC was listed as no outside as there is not a history of having something done externally though a review was performed last year. One Chamber indicated it had a bi annual review (every other year) and another indicated that it alternated between an audit and then two annual reviews. The trouble with such a mixture is that the audit year will necessarily include an ‘except for’ regarding the unaudited numbers in the previous year’s review. So one pays for but will never receive a completely ‘clean’ examination. One of the largest memberships, Twin Falls, indicated it was asking for bids. The reality of the situation is that CPAs, fearful of negative consequences in taking on new non-profit clients, have like other CPAs, increased their fees to allow for such contingency. It might be mentioned that my reading of accounting literature suggests that overall audit fees have doubled since SARBOX, an ironic outcome for a profession under the microscope for past misdeeds. One Chamber received an indication of an $8,000 fee for its audit. This would amount to over 8% of the non payroll budget for OCCC.

Chamber Master

Ramon Vasquez is considering adoption of software specific to Chamber business marketed at the URL www.chambermaster.com. This would appear to allow for accruing member dues. In addition, like most use specific software, it would allow a greater database and flexibility component for the Chamber operation.

Conclusion

To be completed by the student

Paul Newman CPA
Partner , Audit Firm LLC

A SYSTEMS ANALYSIS, DESIGN AND DEVELOPMENT CASE STUDY: WILLIAMS BROS. APPLIANCES INVENTORY & POINT-OF-SALE SYSTEM

Terry L. Fox, University of Mary Hardin-Baylor

CASE DESCRIPTION

The primary subject matter of this case is Systems Analysis, Design, and Development. For Systems Analysis and Design students, this case provides a realistic, and fairly common, scenario that will require developing process and data models as well as user interface designs for the client. Furthermore, students in a Systems Development capstone course can use this scenario to develop an entire application from the ground up. The case has a difficulty level between three and four, appropriate for junior and senior level students. As a Systems Analysis and Design project, it will require approximately 12-15 hours to complete, outside of the normal course time to discuss process modeling, data modeling, and user interface design. As a Systems Development capstone project, it will require approximately 20-25 hours to complete. Students can examine Interview Notes and realistic document images. Teaching notes are also provided, with a proposed solution using UML.

CASE SYNOPSIS

Dr. Thomas Waggoner, an information systems professor at the local university, has just received a phone call from his friend, Ted Williams, co-owner with his brother Will of Williams Bros. Appliances in River Falls, Iowa. Ted is extremely frustrated with their current slow, manual method of processing sales and tracking inventory, and is afraid that they are losing sales because of it. Ted explains what he needs and Dr. Waggoner thinks that this will be a great project for his students. He makes an appointment with Ted to get a better understanding of the initial requirements. He then begins organizing the students in his Systems Analysis and Design class and his capstone class in System Development to see if they can develop a solution for the Williams Bros.

THE MATTSAKA KOI AND EXOTIC FISH FARM COMPANY CASE

Roger J. Gagnon, North Carolina A&T State University
Marco Lam, York College of Pennsylvania

CASE DESCRIPTION

The case deals with the inventory decisions in an aqua farm setting. Primary issues of this case are inventory policies and their associated costs. The case has a difficulty level of 3, junior level. The case is targeted to operations management, inventory management, and supply chain management courses. The case is designed to be taught in 1 class hour and is expected to require 1 hour of class preparation by students.

CASE SYNOPSIS

The Mattsaka Koi and Exotic Fish Farm case addresses the inventory issues faced by Kioshi Mattsaka. Kioshi is forced to consider demand forecasting and inventory policies when the largest customer places an order for 6'' Koi and Aiko and the company does not have enough Koi in that size in stock to fill the order. This sparks the discussion about what inventory policy to use, whether to consider fill rates, and if adding a west coast operations would reduce the variation in demand.

THE HIPPOCRATIC OATH ON TRIAL

Sarah J. Holt, Southeast Missouri State University
Judy A. Wiles, Southeast Missouri State University

CASE DESCRIPTION

The primary subject matter of this case concerns health care administration. Secondary issues examined include the code of conduct of physicians and health care professionals, leadership styles, the role of power and conflict resolution strategies. The case has a difficulty level of three (junior level) or higher. The case is designed to be taught in one class hour and is expected to require two hours of preparation time by students.

CASE SYNOPSIS

This case is an example of the testing of a moral code of conduct for a physician and a physician-owned medical practice. Physicians and health care professionals subscribe to the tenets of The Hippocratic Oath or similar codes of ethics for health care providers. In this case a Jewish physician (surgeon) is confronted with the moral obligation of treating a patient who is blatantly anti-Semitic. Moral obligation is further tested as the patient becomes addicted to pain killing drugs as prescribed by the physician. The patient and his father are disruptive in the physician's office and exude threatening behaviors. The medical staff is wondering at what point the father of the patient will move from threats to physical violence. At what point will the patient bring down the reputation of the medical practice and the surgeon because of the patient's addiction to OxyContin which has become a popular street drug.

The health care administrator of the medical practice is loath to come between a physician and his patient. Her role in the medical practice does not typically include interfering with a physician/patient relationship unless the physician is committing an illegal or unethical action—neither of which appeared to be occurring in this case. It is highly unusual for a non-clinical administrator to interject him/herself in a medical matter. However, in this particular situation there were compelling and urgent reasons to meet with the physician to determine the best way to resolve the issue. Discussions of the dilemma can explore leadership styles, the roles of power and conflict resolution and the role of codes of ethical conduct such as the Hippocratic Oath.

THE FIRST "TEST" OF THE OATH

Dr. Michael Goldstein was a general/trauma surgeon in a mid-size town in the Midwest. While on weekend trauma call for St. Mary's Medical Center, he was notified of a three car accident in a town 70 miles away. A severely injured patient was being flown by helicopter to the trauma center that Dr. Goldstein was covering. The patient, Mark Jones had severe abdominal injuries. Dr. Goldstein assembled the surgical trauma team in expectation of the patient's arrival. All was routine.

Upon arrival the patient was assessed by the intake team and the patient was immediately taken to surgery. The patient's condition was critical and the surgery was long and tedious. During the surgery one of the surgical assistants asked the surgeon if he noticed the patient's tattoos. The surgeon affirmed he had noticed the anti-Semitic tattoos: several swastika tattoos, an Aryan Nation tattoo, Posse Comitatus, lightening-bolts with 88 tattooed on both arms, and an eagle over a swastika tattooed across his chest. Most of the patient's body was covered with racist hate symbols. The surgeon commented to his surgical assistant that if the patient knew his heritage and religion he might not want him working on him.

Staying true to the spirit of the Hippocratic Oath, Dr. Goldstein proceeded with operating on the patient while remembering his oath of the special obligation he had to fellow human beings. His primary obligation was the well-being of his patient.

THE CONTINUING TREATMENT OF THE PATIENT

Mark Jones, the critically injured patient survived and was recovering in the hospital in the intensive care unit. When he was moved from the unit to a room on the floor and it was clear that he was stronger, the surgeon broached the topic with him. Dr. Goldstein said, "You must realize that I am Jewish." Mark tried to deflect the topic as if he didn't get the point. Dr. Goldstein never mentioned the issue again. Mark was hospitalized for several weeks but finally progressed to the point of being released from the hospital. He was then scheduled to see Dr. Goldstein in his office for follow-up wound care.

On Mark's first visit to the physician's office, Westgate Surgical, five days after discharge from the hospital, he was accompanied by a very large and intimidating man who presented himself as the patient's father. The father made the staff feel uncomfortable at several points during the visit. For example, in a loud voice the father raised the issue that he was "surprised that such a high and mighty doctor would take Medicaid patients." The staff assured the father that Dr. Goldstein sees Medicaid patients. Then while waiting to see the surgeon, the father complained about the magazines available to read and smirked to the entire waiting room full of patients that "if they mess with me, I'll bring them some real reading material." The father also asked for a restroom and added that "he didn't want to use the one that the doctor used."

When Mark Jones was called back to see Dr. Goldstein, the father accompanied him to the examination room. The difference in the patient's size and the father's size was striking to everyone. Mark was about five feet six inches tall and weighed 137 pounds at 36 years old. On the other hand, the father was about six feet four inches tall and weighted approximately 230 pounds. The father looked to be in his mid-fifties. There was no resemblance between father and son. The father continued his rude behavior with Dr. Goldstein. He questioned the surgeon as to why "the boy" was not well yet and inquired as to what Dr. Goldstein intended to do to get the boy "fixed up." The father described "the boy" as being in such severe pain that neither one of them could sleep—night or day. The angrier the father became, the more subdued Mark became. Mark's behavior toward his father was submissive. When Dr. Goldstein examined Mark he could see that his abdominal wound was not healing well. He cared for the wound, wrote a prescription for pain pills for the patient and told him to come back the next week or sooner if necessary.

At the next office visit, Mark came in alone and told the receptionist that he made his dad stay in the car and he hoped he wouldn't have to wait long because he didn't want his dad to come into the office. The staff made sure that Mark was seen quickly. When Dr. Goldstein entered the examination room the patient immediately apologized for his father's behavior and told the doctor that he wanted to thank him for saving his life. Mark insisted to Dr. Goldstein that he was suffering from severe pain and said that he had used all his pain medication and asked if he could give him something stronger. Dr. Goldstein complied with the request because the abdominal wound still was not healing well. When Dr. Goldstein and Mark discussed the time for the next appointment, Dr. Goldstein remarked that he couldn't see Mark late in the afternoon as he requested because he was taking off work early to take his wife to a professional baseball game.

The weekly visits continued for two months. The abdominal wound still was not healing completely and Mark continued to complain of severe pain. Approximately every other visit Mark's father would join Mark at the appointment. Mark and his father began to act out "good cop, bad cop" scenarios during the visits. The father was aggressive and attempted intimidation but when Mark came alone, he was extremely friendly to the point of asking the doctor personal questions about his wife and children.

At one visit Mark's father began to make accusatory remarks about Dr. Goldstein's ability as a physician. Dr. Goldstein reminded Mark and his father of Mark's injuries and of the progress that he had made toward healing. He ordered medically appropriate testing to try to determine if Mark's inability to heal was due to a deficiency that could be corrected with diet or injections. He told both Mark and his father that it was important for Mark to become healthier in his lifestyle so that he could build his body up so that he could heal. Mark continued trying to ingratiate himself to the doctor and to ask for stronger pain medication. Finally Dr. Goldstein complied by writing him a prescription for OxyContin.

Three days later Mark called in tears saying that he had lost his bottle of OxyContin and that he couldn't stand the pain. The doctor called in another prescription. That incident raised suspicions with Dr. Goldstein's staff. Meanwhile, Mark's efforts to become more personal with the doctor began to seem extreme. Over the weeks that followed, Mark began to bring personal tokens of appreciation to the surgeon. At one visit Mark brought in baseball cards for Dr. Goldstein as a gift because he remembered that the surgeon liked baseball. Dr. Goldstein later learned that two of the cards were collector items and he gave them back to Mark insisting that he could not accept a gift of such value. At another visit Mark brought an inexpensive necklace and asked the surgeon if he would take it to his wife. Dr. Goldstein told Mark that he could not accept anymore gifts of appreciation and explained that he was appreciative of the gestures but that no other gifts would be received. At the next visit Mark presented the surgeon with a poem that he had written for him. Dr. Goldstein thanked Mark for the poem.

Over a period of several months, Mark's abdominal wound continued to display problems with proper healing. During this time calls were made to the office by both Mark and his father for appointments to see the surgeon. Mark's calls were pleading calls and the father's calls were demanding calls. These behaviors together had caused the surgeon's office staff to be cautious of dealings with Mark and his father.

THE MEDICAL PRACTICE'S ADMINISTRATOR AND STAFF

Dr. Goldstein's office, Westgate Surgical is the physician's home base. It is the place where patients who are not in the hospital are seen, where patients are scheduled for surgery and seen in follow-up after surgery. It is where all patient records are housed and where all financial transactions with both insurance carriers and patients are generated and resolved.

At the onset of developing the organization the physician owners of Dr. Goldstein's group made a dedicated effort to hire well trained, high quality staff. For example, the organization employed Registered Nurses to deliver care for patients rather than less well trained persons. Licensed Practical Nurses and clinical staff work under the supervision of Registered Nurses. Likewise, the organization hired an administrator qualified by formal education as well as by professional certification. The administrator, Susan Smith had attained the highest accreditation offered by the American College of Medical Practice Executives. The group's dedication to high quality staff is supported throughout the organization. Personnel working for the group are trained to think of themselves as professionals. They are instructed to think of themselves as an "extension of the physician's arm." All members of the staff (clinical and business) are aware of their role and how it integrally fits into the organizational structure. The organizational culture is such that all roles are respected. Rather than creating a hierarchy, Westgate Surgical strives to be a learning organization. There is an emphasis placed on a shared value by all organizational members that the work done by each individual is equally important to the work done by anyone in the organization. The group lives by the mantra that the whole is bigger than the sum of its parts and each team member sees the vital role they play in the organization.

As the administrator of Westgate, Susan Smith understood the value of having the staff trained to use effective problem-solving techniques and empowered to make decisions. Best practices in the industry suggests that there be an understanding that medical office staff members regularly make decisions using general problem-solving processes in the context of the circumstance at hand (Holt 2009). Staff members are encouraged to examine areas in the organization that may compromise the organization, physicians, staff, or patients and they are encouraged to bring those concerns to light, not in a capricious manner but rather in the spirit of esprit de corps.

THE DILEMMA

Typically surgeons see patients for a short period of time. All major surgery includes 90 days of post operative care in which the patient is seen without charge. That period of time is normally enough time for any issues relating to the surgery to resolve. The numbers of visits from Mark to Dr. Goldstein were extraordinary. The substance and tenor of the visits raised red flags for the staff members to the point that they came to Westgate's administrator, Susan Smith with their concerns. They expressed that they were afraid of the father, that they suspected that Mark was illegally selling the OxyContin prescribed to him on the street and that they were sure that Mark was addicted. These perceptions caught the immediate attention of Susan. Her concern was heightened by the national and regional awareness of OxyContin abuse. Local and regional news media had made reports that OxyContin was accessible on the street in the town where Mark called home. There were reports of patients going to multiple physicians and multiple pharmacies to obtain this highly addictive pain killer and then selling the product on the streets. As Westgate's administrator, Susan felt immediate concern for the reputation of the practice and for the surgeon's personal reputation and standing in the medical community. While the administrator knew the surgeon to be of high quality, both in surgical skills and ethically, she immediately sensed a problem.

An administrator's role in the medical practice includes primarily governance, business/financial, human resources, and information technology management as well as patient care, quality, and risk management systems. The risk management component deals with purchasing liability insurance, corporate compliance, and such but it is not typically directed toward an administrator interfering with a physician/patient relationship unless something the physician is committing is an illegal or unethical action—neither of which was occurring in this situation. It is highly unusual for an administrator who is a non-clinical person to interject him/herself in a medical matter relating to the way the physician is treating the patient. Under normal circumstances the administrator, Susan Smith, would never have intruded in territory that was not under purview and thus she struggled with this issue.

Susan elected to address the issues with Dr. Goldstein out of concern for him and the practice and she set up a meeting with him. Susan felt compelled to assist in the resolutions of the conflict but wanted to respect the physician-patient relationship. How should the meeting with Dr. Goldstein be handled?

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MIXED SIGNALS AT GABBA ENTERPRISES

Kurt R. Jesswein, Sam Houston State University

CASE DESCRIPTION

This case requires the student to understand how a statement of cash flows is related to and can be derived from a company's income statement and balance sheets. Students must produce a complete statement of cash flows using both the direct and indirect methods. The student must then interpret the results of the cash flow statement in light of other information provided in the case and the other financial statements in terms of its impact on the feasibility of financing a major expansion of a business enjoying tremendous growth and expecting continued success.

CASE SYNOPSIS

Gabba Enterprises began operations some ten years ago when its founder, Joey Mareno, an experienced and accomplished tool and die maker, decided to start his own business. The company has thrived ever since to the point where the company is planning to undertake a major expansion. Despite its previous successes, the company does not believe it can fund its future growth on its own so Joey has gone to his primary banker seeking the necessary financing. Providing the bank with balance sheet and income statement data along with his well thought out business plan for the future, he was surprised to discover that he also needed to produce a statement of cash flows to help document how the company would generate sufficient cash flows to repay the loan. Given information provided in the case the student is required to create a cash flow statement and then interpret the results. It provides a good review of basic accounting relationships and, more importantly, evidence of how cash flow statements provide important insights into a company's operations that cannot easily be seen from examining balance sheets and income statements alone.

LEHMAN TRIKES: A STORY WITHIN A STORY

Donald C. Looney, Black Hills State University
Annette Ryerson, Black Hill State University

ABSTRACT

This case analyzes a strategic alliance between Lehman Trikes, a small but rapidly growing leading manufacturer of three-wheeled motorcycles, and Harley-Davidson. The case also examines the strategies chosen by Lehman and Harley to implement the alliance, and simultaneously deal with the worldwide recession of 2008-2009. Lehman Trikes, located in Spearfish, South Dakota, is a publicly owned company trading on the TSX Canadian Venture Exchange. As the world was in the midst of a crippling recession, on July 22, 2008, Harley-Davidson unveiled the new Tri Glide three-wheeled motorcycle at the annual dealer meeting in Las Vegas. At the same meeting, Harley announced that Lehman Trikes would be the exclusive supplier to Harley-Davidson of the Tri Glide. Ron Hutchinson, senior vice president of product development for Harley-Davidson said, "This is a big deal. The three-wheeled market is a market that we believe has been effectively underserved because it has been done in the aftermarket." While the entrance of Harley-Davidson into the trike market would obviously legitimize and add enormous growth opportunities for the three-wheel segment of the motorcycle market, would it profoundly change Lehman's environment and business model? Dan Patterson, then CEO of Lehman Trikes, would later cryptically write of the event in the 2008 Third Quarter Report, "We are truly pleased to have Harley-Davidson as both a competitor and a business associate." Did this somewhat obscure statement reflect his concerns about the new supply agreement? With the active participation of Harley-Davidson in the trike market, would the three-wheeled motorcycle market emerge from a niche market status to become a primary market and entice the market leaders to introduce complete and competitive trike products? Would Lehman Trikes, "The Leader of the Three World," remain able to dominate the trike market? How would Lehman's strategic supply agreement with Harley-Davidson evolve, and will their long term goals be consistent?

PUTTING FINANCE IN CONTEXT: THE NORTH STAR CASE

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ABSTRACT

Ong (1982) and more recently Prensky (2009) wrote of contextualizing information as important for student involvement. The North Star Case does this through extending a capital budgeting case in which new machinery would allow downsizing, to include a cast of related characters and their positions in a community in which the company exists. Not only is the financial decision seen in the context of its effect on workers and the greater community, but the case presents opportunities to discuss ethical and social issues in addition to risk analysis. To the authors' surprise, a sample of advanced financial management students gave significant consideration to issues beyond the simple NPV calculation and risk analysis in their decision making. There was a positive response from the class to having more than "just numbers" and corporate facts. This initial case research suggests that cases with significant contextualization (i.e. human profiles and interrelationships) bring greater learning investment from students.

Keywords:

Finance: capital budgeting, net present value (NPV), internal rate of return (IRR), payback period, economic multiplier, downsizing, sustainability, risk.
Ethical: social responsibility, rights, justice, utility, values, labor relations, stakeholder.

INTRODUCTION

Financial management and corporate finance texts and case books have provided a myriad of capital budgeting situations in which students evaluated information in order to make a capital budgeting decision based on payback period, IRR, and NPV calculations. See for example, Cases in Financial Management: Brigham Buzzard Casebook by Brigham and Buzzard (2004) or Case Studies in Finance by Bruner, Eades, and Schill (2009). A forthcoming casebook by Mallin (2010) provides several corporate social responsibility cases relating to pollution, labor rights, human rights, and responsible gaming and so forth. To our knowledge, capital budgeting cases have so far revolved around calculation and consideration of economic risks that the firm faces, such as market risk, input price risk, and foreign exchange volatility.

CASE DESCRIPTION

In that sense, the North Star Case involves the purchase of a piece of machinery that would produce the product more efficiently, with a slight increase in sales expected. Through automation, several employees would no longer be needed so there is cost savings on wages and benefits. Given the provided cost of capital and expected cash flows, the net present value is positive.

In addition to the inputs for a traditional capital budgeting case, North Star provides profiles of the small town in which the plant operates and two families. One family has two children hoping to go to college. Their parents both work as hourly paid employees. The wife has less seniority and would be laid off if the machine is purchased. The other family is that of the plant manager who has been asked to review the purchase proposal. It is clear from the case that the dynamics of the relationships within the community could be changed dramatically. Some detail is provided, such as the denomination of their respective religious beliefs, participation in the local community band, etc. There is also some reference to customers' policies, such as "Buy Maine First" etc. so the decision could also impact on customer relations.

The case also relates the concept of economic multipliers, so that laying off one person has a repercussion with layoffs and less spending in the community and state beyond the simple loss of income of the employee. Downsizing and sustainability have benefits and costs over and above the intra-firm projections. Whether these outside factors are valid for consideration is left to the discussion portion in the class addressing the case's decision.

Ethical issues are also present in the case. Questions about the social responsibility of the company to the community in which it operates, the rights of employees and management, and justice can be raised during classroom discussion. The utility of increased efficiency as opposed to the value of employees as important assets to the firm and its stakeholders is also present. Small additions to the case can add issues of labor relations.

While the case teaching notes has several suggestions for related activities, such as role playing, this initial use of the case involved having teams of three to five students examine the case materials (spreadsheet with the cash flow projections and the case document) and coming up with a decision to support the company headquarter's recommendation to accept the project or to not support the recommendation with supporting arguments.

CLASS DESCRIPTION

The North Star Case was used in a capstone financial management course. Spreadsheet use also required applying @Risk to examine risk of expected cash flows and its impact on the NPV. The class was made up of 23 senior finance majors. Three students were international students, with the rest coming from New York State.

Class Reactions

Most teams and individual students decided against the project. The sole student to speak against rejection of the project noted that she was having trouble finding work herself and she saw the laying off of employees as helping her as she was willing to take the lower pay that she thought they might not be willing to take, so she would be more competitive.

Students combined the concepts of risky expected cash flows with the disruption of the community in their responses. Normally, students do not observe that the cash flows that generated the NPV are at all uncertain, but in this case, they relied upon the fact.

Other comments in the evaluation of the case included the following. Only one student reported that the details about the community and workers were extraneous for decision making. Several students related that the situation described was similar to experiences they had or had seen in their respective home towns. So, all but two students out of 23 believed that the consideration of the information about the workforce and community was useful in reaching a decision.

Frankly, for the co-author who has taught finance courses for a number of years, this student response was a shock. The image that finance students tend to be completely numbers oriented, without human factor consideration appears unwarranted.

Future Work

There are several extensions possible. One consideration is the demand for labor which would be higher in a more urban setting and probably less of a consideration

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FOREIGN DIRECT INVESTMENT IN ARGENTINA AND URUGUAY

Paul S. Marshall, Widener University
Clement H. Noble, Widener University (Retired)

CASE DESCRIPTION

The primary subject matter of this case concerns the financial analysis of real estate investments both for apartments in an urban area (Buenos Aires, Argentina) and raw developable land in a rural setting (Colonia Province, Uruguay). A strong secondary focus is on international aspects of business including language and cultural differences, human resource management problems and ethical concerns.

The case is best suited for a graduate level course in Real Estate Finance, though if the financial analysis aspects are deleted or minimized, it could be used in a junior or senior level class in International Business. The case is designed to be taught in two class hours and is expected to require four hours of outside preparation by students.

CASE SYNOPSIS

Two German professors travel from Ulm to Buenos Aires to investigate potential real estate investments for their consulting client. Their colleague, a real estate professor in an Argentine university, assists by finding students to help them. The case deals with the problems the professors endure and the adventures they experience in their search for data necessary to help their client make informed investment decisions. This case is unusual for U.S. students in that the perspective they must take is that of a German rather than an American.

"LOSS OF VALUE" FOR EXCESSIVE ABSENTEEISM: A CASE STUDY

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CASE DESCRIPTION

The primary subject matter of this case is arbitration in a company with a powerful union. Other issues include absenteeism, FMLA, documentation, arbitrators' decisions, "Loss of value" letters, and Last Chance letters. The case has a difficulty level of being appropriate for senior level or first year graduate classes. The case is prepared for two hours of instruction and discussion. The students should receive the case earlier and be prepared to discuss the ramifications of the case together with the instructor.

CASE SYNOPSIS

This case involves an employee with an extended history of frequent and protracted absences over his employment of 17 years. When the company finally terminated him after going through all the options available to them, the union representing him filed a grievance which progressed thorough the steps of the plant grievance procedure to arbitration. This case is exciting as it is based on first-hand knowledge of the situation. Students will have a sense of immediacy upon reading the case. It gives a perspective seldom available to undergraduate students in the meaning of "Loss of Value" and how such a case must be approached by management. It involves interesting exerts from previous Arbitrators' decisions, along with views of such cases from Authors Elkouri & Elkouri. The case involves interesting testimony during the arbitration hearing by both the grievant and his Union Representative as both give their perspectives on the case to the Arbitrator. This case also has serious implications during the negotiations of a Collective Bargaining Agreement between the parties during the sale of the plant to a new owner. There is a surprising caveat seldom experienced following an arbitrator's binding opinion and decision to both the Company and the Union.

INTRODUCTION

This paper is written as a case study of whether a manufacturing plant in a small mid-western town was justified in terminating the employment of an employee with seventeen (17) years of service in 2005 following the issuance of a "Loss of Value" letter of notification for what the employer considered excessive absenteeism. The "Loss of Value" letter had been given to the employee in the early fall of 2004, prior to the events leading to his ultimate termination.

The employee, represented by a Local Union of the United Steelworkers of America, filed a grievance which went before an Arbitrator, insisting that the employer had violated the spirit and intent of their Collective Bargaining Agreement (CBA), along with previous arbitration decisions at the facility, by unjustly terminating the employee. The Union specifically argued the section of the CBA regarding "Disciplinary Action" and claimed the employee should have been administered a "Last Chance" letter in lieu of discharge.

The Employer attempted to show the grievant's absenteeism had been unacceptable, not only during the past five (5) years of his employment, but throughout his career at the facility. The employee's absences from work for various reasons during the period from 2000 through 2004 had resulted in his being issued the "Loss of Value" letter. This letter communicated that he must correct is attendance problem or be subject to disciplinary action, up to and including discharge. The Employer further argued that the series of events leading to additional absences from work during 2005, coupled with his long history of absenteeism and lack of effort to correct his problems justified the decision for termination.

LOSS OF VALUE

"Loss of Value" is a common labor relations term utilized through the years by Employers when the evidence indicates that employees are absent from their workplace to the extent that they are no longer of any value to the employer as an employee. The period of time usually used in the process of establishing the burden of proof of "Loss of Value" is the attendance record for the most recent five (5) year period prior to the disciplinary action being taken. In many cases, the final decision maker (Arbitrator, Umpire, or Mediator) will examine the percentages of unexcused absences for each year during this period to see if they meet or exceed a total of 20%. In this case, the employer took the position that "Loss of Value" was when an employee had compiled an absentee record such that the person becomes practically useless as an employee. At this time, it is proper to consider the entire record, including all absences and other aspects of the record including factory injuries, time spent on light duty, and other disciplinary action as it relates to the value of an employee. The Union vehemently opposed this definition due to the fact that it would include absences that are normally covered by the Family Medical Leave Act (FMLA). The Union argued that in previous cases at this facility, FMLA absences were not included in the "Loss of Value" calculation and the Employer had been unsuccessful in any attempt to include such FMLA absences as part of the employee's absentee record. In fact, this Union had prevailed in getting their grievances sustained and the employee returned to work regarding the termination of an employee for any reason for the previous ten (10) years.

BACKGROUND AND HISTORY

As previously noted the employee in this case, was hired on July 28, 1988 and had a total of seventeen years of service with this employer at the time of his termination for "Loss of Value" on July 12, 2005. The employee's absentee record during his employment period from July 28, 1988 to July 13, 2005 is summarized as follows:

Year	Total Days Absent
1988	2
1989	2
1990	4
1991	37
1992	39
1993	11
1994	38
1995	43
1996	44
1997	24
1998	36
1999	8
2000	24
2001	22
2002	62
2003	34
2004	17
2005 (Thru 7/12/05)	3

The above absences are in addition to the following approved Family Medical Leave Act (FMLA) representing days not available for work:

Year	FMLA Total Days
2002	61
2003	18
2004	69
2005 YTD	37

As a result of the employee's absentee record for the years of 2000 through 2004, and following the required numerous steps in the grievance procedure for excessive absenteeism, a meeting was held on October 26, 2004 regarding his attendance with the appropriate Union and Management officials present. The result of this meeting was a "Loss of Value' letter for absenteeism being placed on the employee's record.

During this meeting the employee's Business Center Manager (BCM) noted the following percentages of work days absent from the year 2000 to 2004 YTD:

2004 YTD (10/20/04)	-	15% work days absent (including light duty days)
2003	-	22% work days absent (including light duty days)
2002	-	38% work days absent
2001	-	17% work days absent
2000	-	13% work days absent

Following a "Report off sick" on March 3, 2005, the employee experienced additional absentee problems due to health related issues with difficulty breathing. These problems resulted in a "Report off sick" on June 27, 2005 and a "Clock in late" on June 28, 2005. These absences led to a meeting on July 1, 2005 to discuss these last two absences and his overall attendance record. The meeting concluded with the employee being placed on a 48 hour investigative period as required by the Collective Bargaining Agreement (CBA). On July 12, 2005, a follow-up disposition meeting was held regarding the employee's attendance and "Loss of Value" status. This meeting concluded with the employee being notified that his absences were unacceptable in accordance with his "Loss of Value" letter and that his employment was terminated. A grievance was filed that same day which progressed through the steps of the grievance procedure and was heard before the arbitrator on August 31, 2005.

DISCUSSION

The Company's position at the arbitration hearing was that the employee's absentee record for most of his 17 years of employment history clearly had been unsatisfactory. It had consisted of both long and short term absences spread out over many years. As a result, neither his employer nor his fellow employees could count on him from an attendance standpoint. From the year 2000 through October 26, 2004, the employee had been absent 159 days out of a total of 866 work days for an 18.4 % absentee percentage.

Accordingly, after years of attempting to correct his absentee problems, management reached the point where he was determined to be of no value to the Company. Of further significance, when his approved FMLA leave is included in this five (5) year period, he was not available for work 307 days out of the total 866 work days for a 35.5 % unavailable for work percentage.

The Union's case at the arbitration hearing centered on the Company's use of the employee's FMLA absences in justifying his termination. The Union argued vehemently that the Company had violated this federal statute and that all references to his Company approved FMLA absences should be struck from the record. Previous arbitration decisions were noted by the Union where approved FMLA absences were not allowed to justify discipline and this case was quite similar in nature. With the illegal inclusion of these FMLA absences, the Company had failed to establish the required "just cause" and to consider the mitigating factors which failed to justify discharge.

The Union also argued that the Company was merely out to make an example of this employee and had even refused to agree to a "Last Chance" letter following his "Loss of Value" letter and prior to termination. The Union noted that a "Last Chance" agreement letter had been a standard practice between the parties for the past 15 years rather than administering discharge.

Termination of his employment was nothing more than the Company creating "economic capital punishment" for this individual which did not "fit his crime." The Union further contends that the grievant had corrected his attendance record noting that in the year of 2003, just prior to the "Last Chance" letter, he was absence only 34 days, and those absences led to his "Lost of Value" letter. The Union noted at the time of discharge, termination was not justifiable based upon the grievant's attendance record over the past ten (10) months. The Union noted that although the grievant did experience two absences from work after the issuance of his Loss of Value letter in October, 2004, he had clearly demonstrated a strong desire to make himself available to work as evidenced by the fact that he reported for work immediately following his discharge from the hospital on June 28, 2005. In addition, the Union argued that the Company had failed to conduct systematic and careful evaluations to determine whether or not the grievant's medical conditions were likely to improve prior to deciding to terminate his employment.

THE DECISION

The grievance was denied by the Arbitrator. In denying this grievance, the Arbitrator noted the following conclusions in his opinion:

First, the grievant had received ample notification that his attendance record was unsatisfactory and that failure to correct his attendance problem immediately would result in termination. Accordingly, ample warning of the consequences had been provided by management. Second, there was no prognosis for improvement in the grievant's record based upon the fact that his absenteeism continued for a wide variety of reasons in 2005, after he received his loss of value letter. It was undisputed that the grievant had been absent for a total of forty days, which represented 41% of the workdays available to him in 2005. Third, keeping an employee on the employment roll who has displayed such cavalier regard to his responsibility for regular attendance does a disservice to the vast majority of employees who do care about their jobs and who do make a conscientious effort to maintain regular attendance. Finally, the Union's claim that the Company has not made a thorough evaluation of the grievant's medical condition in their decision to terminate his employment was completely undermined by the medical evidence in the file which clearly demonstrated this was a matter that was clearly taken into account by the Company.

AN UNEXPECTED TURN OF EVENTS

Needless to say, this arbitration decision did not set well with a Local Union who had not lost a termination case in the past 10 years. It caught them totally by surprise, and having a future opportunity to redeem themselves was always on their minds. This opportunity came when the plant was sold to a new owner for an even $1 million dollars. Thus, when intense negotiations over a new Collective Bargaining Agreement with the upcoming new owner of the plant occurred during late December, 2005, the reinstatement of the subject grievant was a union proposal in order to complete the deal. When the background of the case and an objection was voiced by the plant Human Resource Manager, the new owner's attorney spoke quite frankly as to the expected outcome when he said, "Listen this new owner (name) wants this plant more than a 16 year old boy wants sex for the first time, trust me the reinstatement of the subject grievant (name) will not stand in the way of this deal". Accordingly, the grievant's reinstatement became a small part of a very big deal for the new plant owners.

THE FINAL CAVEAT

After the signing of the new CBA, plant management reluctantly contacted the terminated ex-employee and scheduled a meeting for reinstatement. The individual came to the plant Employment Office as scheduled and as the Employment Manager explained the results of the negotiations and his reinstatement process, the ex-employee suddenly bolted unexpectedly for the door and ran to the gatehouse. The BCM Manager, who had initially terminated his employment and who was present for the reinstatement that day, quickly pursued knowing that he should not fail his new owner and management team. When finally stopped at the plant gatehouse, the ex-employee told his BCM that he had no desire to work at this facility and planned to pursue other interests he had recently initiated. Thus, we all learned something that had been suspected for quite some time: "The Local Union, a new owner, and even the old management team cannot make an individual work that has a lack of desire to do so in the end."

THE WOODYARD DILEMMA

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CASE DESCRIPTION

This case provides an opportunity for students to examine a real life strategic problem and alternatives facing senior managers in a very costly, highly competitive industry. The primary subject matter of this case concerns reengineering and the establishment of "self-directed work teams." Other issues involve empowerment, change, and organizational politics. The case is well suited for organizational behavior and business strategy courses at the undergraduate or graduate levels the case is designed for a senior undergraduate or MBA organizational behavior or business strategy course. It can be taught in one hour.

CASE SYNOPSIS

This case describes the dilemma facing the senior management team of a large,(900+ employees), unionized pulp mill in Brunswick, Georgia, as they decide on what to do about their woodyard. Due to competitive pressures, the mill must reduce its operating costs. Several alternatives are being considered: outsource the entire woodyard operations, outsource part of the woodyard, or totally re-engineer the woodyard. This re-engineering is estimated to cost between $22 to $30 million. Most recently the mill's parent company headquarters in Atlanta has urged the Brunswick mill to outsource its woodyard and chip operations. However, the local senior management team wants to go in a radically different direction. This direction would involve re-engineering the woodyard, building and installing custom made equipment, and changing the culture of the woodyard to a "self directed-empowered" model.

INSTRUCTOR'S NOTES

1. Would you "outsource" the entire woodyard or keep it with GP and totally convert the operations? Explain why you decide what you do.

   The woodyard should not be outsourced. It should be kept with GP and the operations should be converted. If the woodyard were outsourced, GP would lose control of operations.

2. What would the consequences/outcomes be if the woodyard were "outsourced"?

If the decision to outsource the woodyard were made, there may be issues concerning the supply of woodchips. Instead of having woodchips available for pulp operations, the supply may become unpredictable. This would prove devastating to the pulp mill's operation.

3. What issues need to be considered if the decision is made to keep the woodyard " i n - house"?

   If the woodyard is kept "in-house", decisions concerning layoffs, training, and the development of "self-directed teams" would need to be addressed. Layoff procedures in a unionized facility would need to be followed. Aspects of on-the-job training and external training in the new operations will need to be decided. The establishment and operation of "self-directed teams" may take a considerable amount of time.

4. What do you think about the idea of "self-directed teams"? Will they work? Why/why not? Explain

   "Self-directed teams" are an excellent idea in theory. It takes time and effort to make them work in practice. While the teams are beingestablished and trained, productivity will fall. If the members of the team are properly trained and the issues regarding group dynamics can be resolved, yes, "self-directed teams" will work.

5. How would the decision be made about which operators would be kept and who would be reassigned and laid off? Plant management believes a reduction in force from 120 to 80 needs to occur if this is to be economically feasible. (20 per shift; 3 shifts on, and one off)

   Since the plant is unionized, the policy of "last in, first out" will apply. It would be ideal if the management team could be selective in this process, but union policies must be followed.

6. How do the operators need to be educated and trained to handle the new equipment?

   The educational level of the operators would need to be taken into consideration. The majority are reading on an 8^{th} to 10^{th} grade reading level. Some of the workers are even functionally illiterate. The training must be on a level which the operators understand and repetition will be the key to success. On-the-job training will be a necessity.

7. How do the shifts need to be trained to operate as "self-directed work teams"? What do they need to really know to do in order to operate as a team? What problems do you predict for the operators involved? Will it be successful? How long will this take?

   Training will take place on site. The members of the shift must be made aware that they will have substantial autonomy over their work with little if any involvement from a supervisor. The shift must learn how to work together and make decisions regarding the operation and maintenance of the equipment. Other areas to consider will be safety, quality control and productivity. There will be a need to stress the importance of working TOGETHER. The team will need to work on communication styles and solving conflicts. Over time, the operators should become a "self-directed team". This process should take about three months.

8. What problems (in general) do you foresee with such a major change and how should these problems be handled?

The management team will need to meet with the operators and explain that this change is vital for the continued operation of the pulp mill. The operators must understand that the management team wants this conversion to be a success. Failure of the conversion will lead to the pulp mill's closure and everyone will be out of a job. Management can best handle the change by communicating to the operators the necessity for the layoffs and the implementation of the new equipment. The operators will need to overcome the stress associated with the loss of their comfort zone. They will need to be open to the conversion and receptive to the necessary changes in operation. The necessary layoffs will also cause stress for the remaining operators who may have seen friends lose their jobs. Good, open communication with management will help in these areas. After the change is implemented, productivity will suffer as the operators learn the new equipment and how to work as a "self-directed work team". This will require patience on the part of the operators, plant management, and corporate headquarters.

PAPER AIRPLANES, INC.: UTILIZING AN IN-CLASS CASE TO DEMYSTIFY PROCESS COSTING

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CASE DESCRIPTION

The primary subject matter of this case is the preparation of a basic process costing report using the weighted-average method. Secondary issues examined include understanding the physical flow of units in a processing environment, the notion of partially completed units, and the understanding of and accounting for equivalent units. The case has a difficulty level of two and is targeted at business students in a sophomore level managerial accounting course and/or MBA students in a graduate managerial accounting course. The case is designed to be taught in 1-2 class hours and is expected to require 1-2 hours of outside review by students following the class. This case is best administered in a class of 10 or more students.

CASE SYNOPSIS

Paper Airplanes, Inc. is a fictitious company organized to produce high-quality paper airplanes using aerodynamically superior paper and highly skilled labor. The company relies exclusively on college students for its labor and management pool. During a one hour class, students will be given an opportunity to "work" for the company by actually producing paper airplanes. Specifically, student volunteers are asked to assume roles as direct laborers, production supervisors, a materials (paper) manager, and, of course, cost accountants (all students). The basic production process is then explained to the class, and student volunteers are given quick training on their roles. Students will also see a few partially completed airplanes from the prior period and will be told that these need to be completed during the upcoming production period. After the training, student laborers will be given just two minutes to actually produce as many airplanes as they can and send (fly) them to the next department. When a production supervisor states that the time is up, the laborers will stop their production immediately. Production supervisors will count completed airplanes (those flown into the classroom), and then all students will assume the role of cost accountants to prepare a weighted-average process costing report. They will need to consider actual production during class and take into account such issues as partially completed airplanes and cost per equivalent unit. This hands-on, visual case is very instructive in its simplicity and ability to actively engage students in learning a challenging topic. Within a short class period, students will have actually participated in a production process and learned all the complexities and difficulties in preparing a basic process costing report.

CONCLUSION

From the feedback received, this in-class case appears to be an effective exercise for students in learning the basics of process costing. This case lends itself to a number of expansion possibilities, should the instructor wish to add complexity. For example, in a large lecture class, the instructor could employ multiple locations in the lecture hall with each representing a different facility producing airplanes. Each location could have its own overhead rate and labor costs could be varied. Three processing reports would need to be generated and consolidated.

Another expansion possibility would be having a "painting" department receive transferred-in planes (and associated costs) and "paint" the planes (using a crayon and a simple design). Students would then prepare a similar solution for this department and get the opportunity to see the entire production process and its accounting from start to finish. Instructors may think of other extensions relative to their students' academic level or course learning objectives.

WHO'S IN CHARGE AROUND HERE? ASHVILLE CASE STUDY

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CASE DESCRIPTION

The essence of this case is the evaluation of the impact of organizational structure on the efficiency of small municipal governments. The methodology used is that of Organizational Analysis (OA), which is a type of internal business appraisal aimed at identifying areas of inefficiency and opportunities for streamlining and reorganization. In this case, it involves the evaluation of policies and procedures that are performed on an ongoing basis in a small southeastern city government. Often not being designed on an efficiency model, but a political one, these organizations atrophy as personnel and requirements change over time. The situation of being subject to political, verses professional, leadership presents a challenge to the gaining of and the continuance of proficiency. Organizational features such as span of control and departmental responsibilities become quite complicated as there is typically a lack of stability in the quality of leadership. With the ebb and flow of demands, due either to exponential growth or substantial decline in population and the tax base, comes the need to realign areas of responsibilities. When this need goes unrealized or neglected appropriate changes in response to new situations are not made in a timely manner. Issues that need addressing may include work flow evaluation, reassessment of assignment of responsibilities, number and quality of personnel, and the adequacy of infrastructure. This case has a difficulty level of three and is suitable for a junior-level organizational behavior or management course. It can be taught in a 90 minute class with two hours of student preparation outside of class. The current trend in our society of expecting more from governments of all level gives this case a practical pertinence.

CASE SYNOPSIS

This case deals with an Organization Analysis (OA) for the city government of a small southern town. OA is an internal evaluation of an organization's strengths and weaknesses that will provide unbiased findings and recommendations to address shortcomings. The design of an organization can impact everything, from proper work flow to the efficient allocation of resources. The characters and situation that come to life in the case are those of a popular but ineffective politician, an under-performing municipal government, and the consultant retained to perform this analysis. In spite of recent economic downturns the city is doing relative well and it is with considerable anticipation that Dr. Russell, the consultant, undertakes this behind the scenes evaluation. Dr. Russell's methodology for deriving the needed information is to interview a total of 26 persons holding leadership positions. While the interviews revealed somewhat diverse opinions, some consistent themes appeared. After analyzing this primary data, Dr. Russell felt he *had ascertained the principle problems and makes recommendations to correct them. Students find themselves entwined in the dilemma of striving to attain an acceptable level of city governmental performance while dealing with long standing traditions and pleasing, but ineffective, political operatives. Like the consultant, students are asked to provide solutions.*

THE SCENARIO/CHARACTERS

Professor Russell received a very interesting assignment: to perform an organizational analysis study for Ashville. As a management professor, Dr. Russell was well versed in the theoretical solutions to organizational problems, but this was different. This involved practical application of management theory in a real life situation. Having been given a mandate by the contract between the university and the city, Dr. Russell set out to establish a methodology to mine the information needed to make recommendations for better city government.

Professor Russell felt the first step was to interview as many leaders as practical. Twenty-six individuals in leadership positions, ranging from department heads to the mayor, were selected for interviews over a period of three months. Fully expecting to find the typical infighting that characterizes many organizations, it was a pleasant surprise to discover little of the animosity that is typically present in such situations; instead, a scenario of cooperativeness and intergovernmental support was found.

INTERVIEWS

The Mayor's interview was quite interesting. She was frustrated and felt inept in the execution of her administrative duties due primarily to a lack of time and communication problems. Mrs. Williams spoke of tension that existed between her office and many departments with the main complaint being personnel issues and the allocation of resources, specifically money for pay and department equipment. Her personal frustrations included not being able to spend as much time with each of the department heads as she would like. The Mayor enjoyed the perks of the office and believed in being present at all community functions, meetings, and celebrations. A closer look at the infrastructure revealed that the Mayor had 13 different department heads reporting to her, several requiring guidance on a professional level that she felt unqualified to give. She knew that she personally lacked the technical expertise in their specific areas.

Visiting with Chief Jones of the police department, Dr. Russell was made aware of what was to become a recurring theme: low pay and high employee turnover. As Chief Jones explained, "Our main problem is the retention of qualified personnel. Many times, as soon as we get them trained and certified, we lose them to another municipality." As Chief Jones defined it, this situation was 'killing them.' This problem was mentioned frequently by almost everyone interviewed. He also expressed frustration in his lack of access to the Mayor, his direct supervisor, in a regular and timely manner. Chief Jones knew the Mayor wanted to be 'in the loop' but he could not chase her down to include her.

Chief Kelly of the Fire Department felt he had a unique situation. Ashville's fire department was also responsible for area Emergency Medical Support (EMT), requiring that each Firefighter be trained in both firefighting and EMT certification. Given this dual certification requirement, he was especially distraught concerning the compensation received by the Firefighter/EMT's relative to that paid to policemen. Chief Kelly was also frustrated by the lack of communication and direction received from the Mayor's office. He stated repeatedly, "Her office is just up the street and sometimes I find myself waiting for days to confer with my boss". And even more than the Chief of Police, Chief Kelly was frustrated by employee turnover, as trained firemen and EMT's continued to leave for better pay in surrounding cities. The fire and police chiefs shared two common problems: no access to the Mayor and few trained personnel staying in their jobs. As to the pay issue; Professor Russell's research revealed this lack of remuneration parity between police and fire departments was quite the norm in municipalities. While both professions are in the domain of public safety, policemen are generally higher paid. His inclination was to suggest serious consideration be given to the fire department's dual qualification requirement and the current salary discrepancy be adjusted, if not eliminated. Dr. Russell could see immediately the issue of internal pay equity had to be addressed.

As the City Engineer, Wayne Odum was responsible for a wide array of functions to include street maintenance, facilities upkeep, city motor pool, and the sewer operation. These responsibilities resulted in a total of six department heads working under his guidance and supervision. When Dr. Russell asked about work assignments and specific areas of responsibility, Mr. Odum answered "that he felt there was quite a bit of duplication of responsibility with a resulting lack of awareness as to who was to do what". Mr. Odum further commented that "this causes a significant misallocation of resources and funds that could be used for much better purposes". He was quite happy with his job but expressed concern that the opportunity to be more efficient was often lost due to inaccessibility to the city's chief executive, his direct supervisor.

Mr. Robert West had been the head of the electric department for longer than anyone could remember and was known as a very efficient manager. He described the relationship with other departments as "very cooperative" and spoke of how everyone seemed willing to help across department lines when needed. However he also felt there was significant overlap in the assignment or non-assignment of duties and responsibilities. He had a very interesting story of how he had proposed a joint venture with the main power supplier only to "see the opportunity taken by another municipality due to inaction by city hall". While being most congenial in his opinion of his work associates, both subordinates and his superior, when asked about his most urgent compliant he responded, "lack of communication and guidance from the Mayor's office".

THE PROBLEM

With the above interviews being typical of other departments, Dr. Russell started to compile a list of the most common voiced complaints and perceived inefficiencies. Aside of the normal trivial grievances that are present in most organizations, the three main areas of discontent seemed to be; inadequate compensation, work duplication, and lack of accessibility to the Mayor. With thorough in-depth research, Dr. Russell found that city governments, like most organizations, evolve over time and tend to increase in both size and complexity as the nature of their operations become larger and more encompassing.

Governmental organizations typically find that the larger they become, the more difficult it is to effectively administer the services they provide to the public. The organizational structure of the city government, the way departments, agencies and divisions are arranged, is often the result of unrelated decisions made by different officials at different points in time. The result can be a hodge-podge organizational structure that evolves in a fragmented fashion. It is characterized by a lack of unity and coordination among its many parts. Effective administration of government – getting things done – is often difficult and expensive due to duplication of effort, overlapping functions, and lack of coordination and cooperation among departments. Conflicting administrative policies and procedures that become ingrained over time contribute to organizational "calcification" and resistance to change. Problems of "turf" between departments, overstaffing in some departments and understaffing in others, slow moving activities, and high cost are among the most common symptoms of a need for governmental restructuring and rethinking of the way a city carries out its business.

THE SOLUTION

Almost immediately, even before being confirmed by the interviews, Dr. Russell was confident he saw an area of inefficiency in the current organizational configuration. The Mayor was serving as the first line supervisor to 13 different departments. Compounding this extremely large span of control was the fact that many of these were of a specialized technical nature requiring knowledgeable leadership. Further complicating this situation was the Mayor's time consuming political duties, which by all accounts she enjoyed and was quite adept at. Professor Russell was confident this situation was the source of the "lack of access to the Mayor" problem.

Solving a work duplication problem usually requires the management and leadership of a central authority who is responsible for the entire body of work, in this case the Mayor. Dr. Russell had already perceived short comings in the Mayor's capabilities, due in large part to both a huge span of control and a perceived lack of interest in the running of the government. It seemed likely that this was also the root of the work duplication problem. Most likely there was an accumulation of extra employees over the years during the ebb and flow in the size of the city. In the good times, employees were added; in the rough times, these employees remained.

The inadequate compensation issue was a management problem of a different sort; or was it? While not given complete access to the financial condition of the city, Dr. Russell felt that monies were available to address this issue. The problem was how to allocate them in the best service to the city. A through financial analysis requires unbiased evaluation and time for objective review. Neither of these criteria was being met here. The central authority that should have had the grand overview, the Mayor, was overwhelmed with daily tasks and had few resources available to undertake larger management issues. The other decision makers in the compensation dilemma, the department heads, had little vision and no authority beyond their limited areas of responsibility. Hence, Dr. Russell believed this too was an indirect result of over stressed management and the excessive span of control held by the chief executive.

In the business world, some of the most difficult changes to accomplish are proactive ones. These are changes instituted by futuristic management in companies that are currently doing well, in an effort to prepare for tomorrow, versus maintaining the status quo of yesterday. While management may be aware of the need for these changes to meet the coming onslaught, oftentimes customers, citizens, and employees are not. It is possible Ashville may suffer from this syndrome, as the city is not broken; actually it appears to be doing relatively well. With Dr. Russell's review of all he had learned it became clear that the principle question facing Ashville was; "Is now the time to address shortcomings and prepare for the future?" Given the fact that the city had invested considerable time and treasure in getting this study and that the current political atmosphere seemed conducive to the acceptance of logical change, he was unhesitant in answering this question affirmatively.

After considerable research into the form of governments of other municipalities of similar size and into state law stipulating what types of organizational arrangements would meet legal requirements, Dr. Russell made the a recommendation to hire a city administrator. The administrator is usually a person with considerable experience or training in the operation of municipal government. He or she should be knowledgeable about the laws and regulations governing the municipality and have a working knowledge of how to interpret and apply them. The reason for hiring an administrator is usually the same in most places; the desire to have a centralized person, who is familiar not only with local needs but with national trends and ideas, to supervise municipal functions. This person's job is not to usurp the mayor's powers, but to make the executive more effective. The administrator can advise the mayor and the council of municipal needs and keep them informed on the implementation of city projects. The administrator can also help de-politicize city hall. The mayor and council are sometimes forced to resolve highly polarizing political conflicts. While the administrator must keep his or her employer happy to stay employed, he or she can help resolve opposing political desires by providing an objective source to which the mayor and council can look to for advice.

Dr. Russell further suggested that the new administrator be given the title of Director of Utilities and placed in charge of the seven more technical departments now reporting to the mayor. The resulting new city organizational structure resulted in the mayor also now having seven reports with a professional heading each one. It was felt that this arrangement would lend its self to more professional management, a more narrow span of control, and some de-politicizing of city hall.

After three months of hard work and diligent research Dr. Russell's project was completed with his presentation to the city council at a meeting that was open to all city employees. While no political body ever seems be in complete harmony, he was quite pleased with the reception of his findings and recommendations.

FMCG NIGERIA, PLC

D.K. "Skip" Smith, American University of Nigeria

CASE OVERVIEW

This case challenges student to resolve FMCG Nigeria's trucking services-related problems in Nigeria, so as to be able not only to address immediate challenges (including truck availability in a disorganized environment as well as the cost and service quality of the needed trucking services) but also (and far more importantly, in the long run) to be able to double (over the next three years) the volume of the company's business in Nigeria. At first glance, the case looks as if it is all about trucking service contracts; in reality, however, it ends up being all about business process innovation and the importance of viewing challenges and opportunities within the context of a strategic vision for the company. The case is appropriate for senior-level undergraduates as well as students in MBA and Executive Development programs. It is designed to be taught in a one hour and a half class session, and is likely to require at least a couple hours of preparation by students.

CASE SYNOPSIS

Mr. Henry Adjai is Supply Chain Manager for FMCG Nigeria, the Nigerian subsidiary of a multinational food manufacturer and marketer. Due to changes in the local environment, the cost of trucking services in Nigeria has increased by as much as 30%. Because FMCG Nigeria already spends more than one billion naira per year on trucking services, and because the company has very aggressive growth plans for its business in Nigeria, and because the company is now in the process of receiving bids from trucking companies to provide trucking services to FMCG Nigeria for the next three years, the Managing Director (M.D.) of FMCG Nigeria has asked Mr. Adjai to develop (as a matter of great urgency) a solution to the trucking services-related problems and opportunities facing FMCG Nigeria.

Additional data and information in the case include:.

1. *For Nigeria: Historical overview, a sample of recent statistics from the World Bank, and (for benchmarking purposes), comparable statistics for the United States.*
2. *For the company (at both local and global levels): Historical overview, current performance, and numerous factors impacting that performance.*
3. *Characteristics of the local company's current strategy, including descriptive information on the product line, characteristics of the distribution system the company is currently using, etc.*
4. *Characteristics of the trucking-related challenges which the company currently faces.*

APPLYING THE GENETIC INFORMATION NONDISCRIMINATION ACT OF 2008 (GINA) TO SPECIFIC EMPLOYMENT ACTIONS: A DEMONSTRATIVE CASE

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CASE DESCRIPTION

The primary subject matter of this case is the Genetic Information Nondiscrimination Act of 2008 (GINA). This case has a difficulty level of three intended for an upper division undergraduate course. This case is designed to be taught in one class hour, and is expected to require two to three hours of outside preparation by students.

CASE SYNOPSIS

This case begins by discussion of the Genetic Information Nondiscrimination Act of 2008, specifically article two, which covers workplace discrimination, including some summary information on the history and legislative passage of the act. This is followed by several vignettes, designed to help students understand what genetic information is, and how to avoid genetic information discrimination. The student is asked to examine the details of each situation, and determine whether genetic discrimination as covered by GINA, is occurring.

INTRODUCTION

In 2008, the 110th congress passed the Genetic Information Nondiscrimination Act (GINA). GINA, article two, protects individuals from genetic discrimination in the work environment. This act affects all employers with 15 or more employees. Under title two of this act, employers are prohibited from discriminating against employees or applicants based on genetic information. This information can include family history, such as having several family members who have had cancer, or diabetes, or carpal tunnel syndrome. It can also include genetic testing which identifies genetic markers that are then used to discriminate against employees. This could include actual DNA testing, or even something like a blood test which identifies sickle cell anemia, which is genetic in basis (Genetic Information..., 2010). The following section explains some of the details of the Genetic Information Nondiscrimination Act.

THE GENETIC INFORMATION NONDISCRIMINATION ACT

As noted above, GINA, article two, protects individuals from discrimination in employment. This includes all conditions of employment including hiring, assignment of work, pay, selection for training, promotion, layoffs and terminations, as well as any other terms and conditions of employment. According to the EEOC "An employer may never use genetic information to make an employment decision because genetic information doesn't tell the employer anything about someone's current ability to work" (Genetic information..., 2010). It should be further noted that GINA protects against harassment and retaliation against employees based on genetic information (Genetic information..., 2010). Harassment might include actions such as the continual taunting of an employee, based on the company's genetic testing which showed that the employee carries a gene that research has found to be related to multiple sclerosis (Bowden, 2009). Additionally, the law covers actions that are retaliatory in nature, against complaints that are based on genetic information discrimination (Genetic information..., 2010). In other words, if an employee complains of genetic discrimination, whether it is supported or not, the employer may not respond by terminating, demoting, decreasing the pay of, or otherwise retaliating against an employee for filing a GINA complaint (Genetic information..., 2010). Lastly, it is illegal for an employer to collect genetic information about their employees. Companies are not allowed to genetically test, nor collect family history information about employees. However, there are six exceptions to this rule.

- Inadvertent information – it is not illegal to overhear an employee mention a genetic issue.
- Medical information – genetic information may be collected for health care purposes, providing it is only used for those purposes.
- FMLA leave – genetic information may be collected for certification for FMLA leave, providing it is not used for other purposes.
- Inadvertent acquisition through publically available documents. If an employer is searching for non-genetic information on an employee and happens across an article that refers to a genetic issue, they are permitted to retain the information, as long as the intent was not to accumulate genetic information.
- Acquisition of genetic information relating to job related hazards, where monitoring is required by statute, such as in the case of exposure to mutagenic substances.
- Collection of DNA material related to the identification of law enforcement personnel DNA in identifying crime scene samples. (Genetic information..., 2010)

Lastly, it is illegal for an employer to divulge genetic information about employees or applicants to outside parties. This information is typically treated in the same manner as other sensitive medical information (Genetic information..., 2010).

CASES TO EXAMINE

You have recently been hired into an HR department at a major corporation. In order to teach you about the Genetic Information Nondiscrimination Act of 2008, your company has given you five cases, each describing a situation that potentially could involve genetic discrimination. Examine the following cases, and answer the questions that follow for each case.

Case 1 -. The Railroad Corporation – in 2002, a Railroad Corporation had 36 employees who filed workers compensation claims. As part of their physical exams of these employees, Burlington Northern took blood samples from these employees, which were sent for DNA testing for a genetic marker which is linked to carpal tunnel syndrome. (Railroad, 2002)

Case 2 – The cancer question – A company had a pre-employment medical screening questionnaire. As part of that survey, the company asked potential employees if they had any family history of cancer. Unbeknownst to the applicants, the company used the answers to those questions to eliminate applicants based on the idea that those employees who were at high risk for cancer would have higher insurance premiums.

Case 3 – Sickle Cell – A company requires a blood test as a normal prerequisite for employment screening. An applicant for a job with the company is found to have sickle cell anemia. The applicant is not selected for the job. Comments made by the hiring manager seem to suggest that the blood testing is at least being considered in the decision.

Case 4 – Cholesterol – As part of the pre-employment screening for a job as an over-the-road truck driver, the company requires a blood test. An applicant is denied employment with the company, based on their elevated cholesterol levels. An examination of company hiring records indicates that this policy has had a disproportionate effect on older workers.

QUESTIONS

Answer the following questions, for each of the above cases:

1. Was this a case of employment discrimination? Would the EEOC have an interest in this case?

2. Would this case be a violation of GINA, if it had occurred after November 2009?

3. Regardless of the answer to question two, was this case a violation of any EEOC law other than or in addition to GINA?

4. What is the appropriate course of action for the company to take in this case?

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ALLEGIANT AIR: FLYING TO SUCCESS

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INTRODUCTION

While other airlines were cutting costs and bleeding red ink, Allegiant Air was posting a record profit for 2009. Allegiant Air has been profitable every year since 2003. The only loss was in their first year of operation 2002. Their 2008 annual statement opening page shows a printed "2007 Low-Cost Annual Report" with a strike through 2007 and with an added handwritten comment "another profitable year". Allegiant could continue that strikeover with the year 2009 also being a profitable year. How many airlines can make that claim?

What's their secret? How do they do make money in an industry that is known for frequent bankruptcies? How have they increased profits during the worst recession in recent memory? By creating a niche of offering low-cost nonstop jet flights from small cities to tourist destinations such as Las Vegas and Orlando. Their planes are full, averaging a 90% passenger load. Allegiant's revenues have increased every year since its beginnings. The first full-year (2002) revenues were $22.2 million. For 2009, the company's revenues were $557.9 million; an average of some 35% per year over year increase for the past seven years.

Allegiant has found and operates in that "strategic sweet spot" where they are able to fulfill the needs of their customers in a way that the competition will not or cannot. Allegiant's "primary goal is profitability" and so far they have been able to accomplish that in an industry notorious for red ink.