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GOOD TIMES AT YOUBESTRESSED

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ABSTRACT

This case is designed for the study of management and human resource management systems within a large manufacturing organization. It provides a learning experience for students who seek to become human resource professionals or managers by examining issues faced by organizations during times of growth and expansion.

The case begins with a recent college graduate on the early days of her first "real job" as a human resource specialist for a growing manufacturing company in rural Alabama. The company that she has joined faces a number of challenges and she is tasked with proposing a performance improvement initiative. Specifically, she has been asked by Human Resource Manager to put together a plan for supervisory training, but through systematic analysis she may discover other items important to address.

At least three important lessons can be learned from this case. (1) Because it is based on true experiences, this case provides a realistic example of the types of issues encountered by managers in organizations. (2) A systematic approach to creating the plan allows students to apply theories and models learned in class to an actual workplace setting. (3) This case illustrates the different types of performance improvement interventions that can be proposed to address the needs or challenges of an organization.

RITE AID CORPORATION

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CASE DESCRIPTION AND SYNOPSIS

Oftentimes students describe a company that experienced a net loss as having "lost money" for the period. Using elements from Rite Aid's recent financial statements, this case allows instructors to guide students to reflect on the stories being conveyed about Rite Aid's financial health and performance. After many years during which drugstores were consistently profitable and growing, pharmacy retailing is facing challenges. The past few years for Rite Aid were characterized by consistently negative stockholders' equity with different swings in earnings and cash. In introducing financial statements, the beginning chapters of textbooks often present fictitious businesses that have just begun operations. Using excerpts from statements of a real company that has been in business many years allows instructors to prompt interesting questions that can refine students' thinking about the importance of the different signals conveyed through key elements of financial statements. The use of this case would fit well into introductory financial accounting and financial management courses. The case has a difficulty level of two and is designed to be taught in 20 to 30 minutes of class time and should require about a half hour of outside preparation by students.

INTRODUCTION

Headquartered in Pennsylvania, Rite Aid is the third largest drugstore chain in the U.S. and ranked #113 in the Fortune 500 (Fortune, 2013). Its 4,623 stores in thirty-one states generated revenues in excess of $25 billion during fiscal 2012 (Rite Aid, 2013, 3 and 25). The firm estimates that it serves an average of 2 million customers each day and filled approximately 297 million prescriptions during fiscal 2012 (Rite Aid, 2013, 8). Rite Aid's stock has been publicly traded since 1968 under the ticker RAD. Rite Aid's major competitors, CVS Caremark and Walgreen, are considerably larger as shown in Table 1 (CVS, 2013, 6; Walgreen, 2012, 3).

Table 1
Largest Drugstore Companies

Company (stock symbol)	Net Revenues (billion)	# Retail Prescriptions Filled (million)	# Retail stores
Walgreen (WAG)	$71.6	664	8,385
CVS Caremark (CVS)	$63.7	718	7,458
Rite Aid (RAD)	$25.4	297	4,623

Source: Fiscal 2012 annual reports (CVS Caremark, 2013; Walgreen, 2012; Rite Aid, 2013). CVS data reflect its retail pharmacy segment only. This enhances comparability to WAG and RAD because during fiscal 2012 these companies, unlike CVS, did not serve as a pharmacy benefits managers (PBM).

INDUSTRY CHALLENGES

Pharmacy sales account for approximately 65% of revenues in the drugstore sector (CVS, 2013, 7; Rite Aid, 2013, 7; Walgreen, 2012, 5). Most prescriptions are filled for customers who are covered by health plan contracts in which a third-party payor agrees to pay for all or a portion of a customer's eligible prescriptions. A third-party payor is an entity such as an insurance company, government agency, or managed care provider. These payors or their pharmacy benefit management companies (PBM), which administer the drug benefit portion of most health care plans, put pressure on pharmacy reimbursements and consequently drugstores' gross profits and gross margins (Talsma, 2013). If a drugstore doesn't sign the take-it-or-leave-it contract offered by an insurance company or its PBM, then that pharmacy's customers will take their business elsewhere. Walgreen, the largest national drugstore chain, failed to negotiate a contract renewal with Express Scripts (the largest PBM) that affected much of fiscal 2012 until the dispute was resolved in September of that year.

One analyst (Reeves, 2011) summed up the industry's challenges as follows:

> *The drug store game is a difficult racket, characterized by high competition and razor-thin margins. Drug benefit plans and Medicare providers are embracing online sales and mail orders to cut costs, so traditional drug stores have to slash prices to keep up.*

Historically, drugstores competed mostly on location/convenience (Standard & Poor's, 2013). So it is not surprising that the development of drugstore chains was largely regional. Now the most accessible way of filling a prescription may be through mail-order or direct fulfillment. Health plan sponsors may opt to restrict consumer choice to mail service providers or other lower-cost prescription-filling alternatives (Standard & Poor's, 2013). Pharmacy benefits management company Express Scripts may also seek to expand its own mail-order business (Chain Drug Review, 2012; Martin & Kamp, 2012).

Increasingly, pharmacies compete on price. Wal-Mart offers $4 generic programs (Fein 2010) and Wegmans, a major regional grocery store chain with pharmacies, offers a generic version of the cholesterol medicine Lipitor for free (Fein, 2013; Sell, 2013).

On a more positive note, analysts predicted that increased availability of generic drugs resulting from the expiration of patents on several blockbuster brand-name drugs could yield higher gross profits during fiscal 2012 even though those patent expirations would likely result in lower sales revenue at drugstores. While looming patent expirations pose threats to profitability for the pharmaceutical industry, the expirations can benefit drugstores and consumers.

ACQUISITIONS AND GROWING PAINS

Perhaps in response to industry challenges, the three largest drug store chains have made a concerted effort to grow. Each firm has grown organically and through acquisitions, such as the 258-unit Duane Reade chain (Walgreen, 2010, 3), 529 Long's stores (CVS, 2009, 4) and the 1,850-unit Brooks and Eckerd chains (Rite Aid, 2008, 4-5). Prior to the Duane Reade acquisition, Walgreen did not have a history of making large acquisitions. But Rite Aid's growth

was particularly fueled by its acquisitions. Rite Aid's August 2007 acquisition of the Brooks and Eckerd chains nearly doubled its size. Cost control is critical when a company is undergoing considerable expansion. Challenges in managing this integration contributed to Rite Aid's reporting of net losses before income taxes of $274 million for fiscal 2007 and $2.6 billion for 2008, its first net losses since fiscal 2002 (Rite Aid, 2009, 65). In addition, during fiscal 2007 the firm's existing long-term debt of $1.6 billion grew to $2.8 billion and its interest expense was 63% higher than that of the prior year (Rite Aid, 2008, 59-60).

Table 2 presents selected financial data for Rite Aid for fiscal years 2010-2012.

Table 2
Selected Financial Data for Rite Aid Corporation
(from firm's 10-Ks)

	Year ending or as of		
	Fiscal 2012	**Fiscal 2011**	**Fiscal 2010**
	3/2/13	**3/3/12**	**2/26/11**
Cost of goods sold	$18,073,987,000	$19,327,887,000	$18,522,403,000
Gross profit	$7,318,276,000	$6,793,335,000	$6,692,504,000
Net income (loss) before income taxes	$7,505,000	($392,257,000)	($545,582,000)
Total current assets	$4,409,047,000	$4,504,586,000	$4,411,365,000
Total current liabilities	$2,578,270,000	$2,570,319,000	$2,420,323,000
Working capital	$1,830,777,000	$1,934,267,000	$1,991,042,000
Cash and cash equivalents	$129,452,000	$162,285,000	$91,116,000
Long-term debt	$5,904,370,000	$6,141,773,000	$6,034,525,000
Total assets	$7,078,719,000	$7,364,291,000	$7,555,850,000
Total liabilities	$9,538,153,000	$9,951,047,000	$9,767,217,000
Total stockholders' equity	($2,459,434,000)	($2,586,756,000)	($2,211,367,000)
Cash provided by operating activities	$819,588,000	$266,537,000	$395,849,000
Cash provided by (used in) investing activities	($346,305,000)	($221,169,000)	($156,677,000)
Cash provided by (used in) financing activities	($506,116,000)	$25,801,000	($251,650,000)
Increase (decrease) in cash and cash equivalents	($32,833,000)	$71,169,000	($12,478,000)

CONCERNS FOR RITE AID'S SURVIVAL, YET RECENT OPTIMISM

As billions of dollars of long-term debt and sizable annual losses became the norm for Rite Aid, some analysts raised questions concerning its survival. In 2010, Rite Aid was included, in a *Forbes* listing of ten troubled retailers (Hawkins, 2010). One year later, another analyst cited Rite Aid among "three big-name stocks that may be bankrupt soon" in part because "Rite Aid

doesn't have the scale to offer lowball prices like Wal-Mart or the reach to turn over sheer volume like Walgreen's" (Reeves, 2011).

And in early 2012, a third analyst expressed his view that the firm is "doomed to fail and investors should avoid the stock at all costs" (Goldman, 2012). Despite these dire warnings, on April 12, 2013 the brokerage firm Raymond James upgraded Rite Aid's stock to outperform the market. And perhaps partly as a consequence, Rite Aid's stock price closed near $3.50 per share in late August 2013, up 250% from its $1.01 level just two years earlier (NASDAQ, 2013).

QUESTIONS FOR DISCUSSION

1. Table 2 reveals that Rite Aid's net losses before income taxes averaged $470 million in fiscal years 2010 and 2011, before turning slightly positive in fiscal 2012. How did Rite Aid manage to pay for salaries, merchandise, rent, and utilities in years in which some would say that the firm "lost money"?

2. Stockholders' equity ranged from *negative* $2.2 billion to *negative* $2.5 billion in fiscal years 2010-2012. On the other hand, working capital ranged from *positive* $1.8 billion to *positive* $2.0 billion. How did Rite Aid's stockholders' equity become so negative? Do other key elements presented for Rite Aid in Table 2 temper your concern over Rite Aid's negative stockholders' equity?

3. As noted in Table 2, fiscal 2011 saw the most favorable overall change in the balance of cash and cash equivalents, while fiscal 2012 was the least favorable. Examine the cash-flow data and explain why it is NOT accurate to characterize Rite Aid's cash-flow situation as most favorable in fiscal 2011 and least favorable in fiscal 2012.

4. As noted in the case, drug-store industry analysts predicted lower sales revenue but higher gross profits for fiscal 2012 as more generic versions of brand-name drugs become available for sale. Use the data presented in Table 2 to first calculate sales revenue for each fiscal year and then calculate the gross-profit (gross-margin) percentages. Is the direction of changes in sales revenue and gross-profit percentages for fiscal 2012 vis-à-vis fiscal 2011 consistent with analysts' predictions? Explain.

5. Raymond James' "outperform" recommendation and the sharp increase in Rite Aid's stock price could suggest that the firm "turned the corner" on its financial difficulties. Are the trends in Rite Aid's financial data observed in Table 2 consistent with this viewpoint? Explain.

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SWEET PEAS STITCHERY: AN INTRODUCTORY CASE IN ACCOUNTING FOR MERCHANDISING

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CASE DESCRIPTION

The primary subject matter of this case concerns accounting. Secondary issues examined include marketing, entrepreneurship, retail management, and merchandising. The case is appropriate for freshman, sophomores, or juniors in a core course of financial accounting or marketing, entrepreneurship, retail management, and fashion merchandising. More specifically, it should be used after completing the retail financial accounting chapter of the textbook. This case will take approximately three class hours. It will not require students to do any outside preparation provided they have successfully completed the retail financial accounting portion of the core accounting class. However, the case can be started in a one-hour class so that students can get assistance in the set up if necessary. Students can then complete it as a homework assignment followed by class discussion the following class period. If the professor or instructor wants to devote less time than anticipated, the solution has 16 questions. He can select a smaller number of the most appropriate questions for his class.

CASE SYNOPSIS

Imagine quitting your secure job to open a new business on a mere $10,000 in a time of uncertainty. You don't have any experience in the industry nor does your partner. You are running on blind faith that your initial capital investment will be enough for the business to survive and generate enough revenue to draw a paycheck within the first six months. This case provides an overview of the operations of such a business that opened in 2011 at a time when unemployment rates were some of the highest in more than a decade. Several things are considered in this case, including the risks of an inexperienced entrepreneur starting a new business during a time of high unemployment and difficult economic times. The odds of success are against the owner because of her limited funds, unemployment rates, and high failure rate, what the Small Business Administration calls death rate, of new businesses. With no experience in and little knowledge of accounting, it's easy for the owner to fail to recognize when her "accountant" and "CFO" submit financial statements that are incorrect and do not make sense, which happens in this case. It requires students to recognize the errors in the company's financial statement, analyze the statement, provide insight to the owner, and give recommendations.

ORGANIZING AND FINANCING A NEW BUSINESS VENTURE

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Benjamin L. Dow III, Southeast Missouri State University

CASE DESCRIPTION

The primary subject matter of this case concerns business startup issues. Issues examined include the components and importance of a business plan, evaluation and selection of a business organization form, and evaluating sources and types of startup capital. The case requires students to have an introductory knowledge of accounting, finance and general business issues thus the case has a difficulty level of three (junior level) or higher. The case is designed to be taught in one class session of approximately 1.25 hours and is expected to require 2-3 hours of preparation time from the students.

CASE SYNOPSIS

Eric Colin has learned that his employer, a regional chemical manufacturer and distributor, had been sold and he will soon be unemployed. Colin, a young business professional, had been the Director of Sales for the distribution division of Superior Chemical. As a result of his chemical distribution business experience, he is considering beginning a chemical distribution business. Superior has a solid understanding of the chemical industry and the distribution process but his knowledge of accounting and finance is limited. He has completed a preliminary investigation into a number of business startup issues but is not sure how to put everything together.

The learning objectives of the case include: 1) An introduction to the purpose and content of a business plan 2) A review of the different business organization forms and the importance of organization selection to the new business and 3) An examination of the alternative sources of startup capital and the type of capital provided by each. The case also introduces students to the chemical distribution process, the Small Business Development Center (SBDC) Program administered by the U.S. Small Business Administration and the RMA Annual Statement Studies.

THE SITUATION

Eric Colin, the Director of Sales at Superior Chemicals, a regional chemical manufacturer and distributor, has been told that the company has been sold to a large multi-national chemical manufacturer. While he was aware of a possible sale, the actual sale came as a surprise to Colin and most employees. The company had entered sale negotiations a number of times during the

previous years, but for a variety of reasons the sale was never completed. As a result of the sale, Colin was told his position would be eliminated and that his services would no longer be required. Most members of Superior's senior management received the same message. This didn't necessarily reflect unfavorably on Superior's management team but without staff adjustments, combining the two firms would result in substantial management duplication. While the actual sale of Superior was unexpected, Colin had considered his career options.

Colin is thirty-two years old and has been employed by Superior Chemical, since graduation from University of Missouri with a degree in chemical engineering. With Superior he moved through a number of management positions, each with an increased management responsibility, but only in his current position as Director of Sales for the distribution operation in Kansas City did he have Profit & Loss (P&L) responsibility. In an effort to develop the business skills necessary to handle a senior management position and to increase his accounting and finance knowledge, he continued his formal business education. He recently earned an MBA from University of Missouri – Kansas City after attending evening classes for three years.

Colin's career has reached a decision point. Should he seek a management position with another firm or pursue his aspirations of someday owning and operating a chemical distribution business? He favors the latter and has elected to pursue the startup option.

Colin previously investigated beginning a chemical distribution business in the Kansas City area and understands the availability of startup capital is the critical factor in the process. At this point, the required startup capital is only a very rough estimate but he believes a minimum equity investment of $500,000, and maybe as much as a $1,000,000 will be required.

The proceeds from the sale of his Superior holdings (stock and stock options), severance pay and family savings could be used to start the new business. Although he is not sure of his exact tax liability, he expects to net about $280,000 from the buyout of his stock options and the sale of his Superior stock. In addition, he will receive a severance package amounting to $90,000, of which $60,000 could be used to start the new business. He and his wife could contribute $120,000 from savings, and a second mortgage on their home could add another $40,000, but his wife is hesitant to consider a second mortgage. In fact, his wife has reservations about the whole idea of starting a business.

Colin and his wife have sufficient other funds to cover living expenses for nine months and if they sold their luxury SUV and leased a more economical vehicle they could cover another three to four months of living expenses.

Despite the reservations expressed by his wife, Colin estimates personal assets would, at a maximum, provide only the minimum required equity investment of $500,000.

	$
Sale of Superior stock and buyout of stock options	280,000
Severance package	60,000
Savings	120,000
Second mortgage on home	40,000
Family contribution	500,000

Colin's father may be another source of startup equity capital. His father is retired and living in Florida but recently sold a chain of fast food restaurants for a profit of more than $12,000,000. He has expressed a willingness and interest in investing in new business ventures. Colin thinks his father may be willing to invest as much as $500,000 in his new business.

Preparing projected financial statements for the first three years will allow a more accurate estimate, but at this time Colin feels sufficient startup capital could be raised using his personal assets and a substantial investment ($500,000) from his father.

COLIN'S EXPERIENCE

Colin has a solid understanding of the chemical distribution process. While with Superior, Colin developed customer contacts in the Kansas City metropolitan area, as well as with major customers in Missouri, Kansas and other Midwest states. He has also developed valuable contacts with key chemical manufacturers. While at Superior, he had Profit & Loss responsibility but he is uncomfortable analyzing and interpreting financial results. He has very limited balance sheet responsibility.

Colin had completed a preliminary site location investigation and examined other startup issues but is not sure how to put everything together. Colin has discussed his situation with a friend who is a commercial lending officer with a large local bank. He suggested Colin visit the Small Business Development Center (SBDC) at the University of Missouri – Kansas City. His friend thinks the Small Business Development Center could provide the assistance Colin needs to determine if his new business is feasible.

SMALL BUSINESS DEVELOPMENT CENTERS

The U.S. Small Business Administration administers the Small Business Development Center Program to provide management assistance to current and prospective small business owners. SBDCs are a combined effort of the private sector, education community and government (state and federal) to stimulate economic growth by aiding development of new businesses. Most SBDCs are housed on university campuses and receive a portion of their operating funds from the schools. Many SBDC counselors are faculty members from a variety of academic fields.

THE MEETING

Colin arranged a meeting with Joe Blake, the Director of the Small Business Development Center at the University of Missouri - Kansas City, to determine what assistance, if any, the SBDC could provide in beginning his new venture. Before becoming the Director of the SBDC, Blake owned and operated a number of small businesses as well as worked as a commercial loan officer for a commercial bank. Blake explained the services available and asked Colin to describe his proposed new business.

Blake described the chemical industry and the role of a distributor. He would begin operations in Kansas City from a leased warehouse/office building located in an industrial park. The facility would be leased for five years at an annual cost of $90,000 and includes two, five-year renewal options. The facility would need to be modified to handle both liquid and dry chemical repacking operations, as well as storage tanks for bulk liquids. Exact numbers have not been developed but he thinks the modifications would cost approximately $400,000. With the modifications and six employees, Williams estimates the facility would support an annual sales volume between four and six million dollars. First-year sales dollars are estimated to approach five million, with his existing customer contacts providing the majority of the sales. Initial inventory would require an investment of $600,000. Colin expects to offer credit terms of net 30, the industry average. Colin is very confident the estimated first year sales can be achieved and can be doubled in the second year of operation. According to *RMA Annual Statement Studies,* distributors report a "Sales/Total Asset" ratio between 2 and 4.

In addition to questions regarding financing requirements for the new venture, Blake asked Colin what form of business organization he intended to select. Colin indicated he hadn't really given it much thought and didn't know much about any organization form other than the corporation.

Given the industry experience of Colin, Blake thinks the proposed new business venture has merit, but told Colin he needs to convert his ideas and thoughts to a business plan. A formal business plan would provide Colin with a guide to starting the business. Colin has been involved in preparing three year plans and annual budgets but has had no experience in preparing a business plan. Colin admitted he doesn't even really know what a business plan includes. Blake suggested that one of the SBDCs counselors could provide help in preparing the plan. Blake said the plan would also help quantify the assets and financing needed to start the business. Colin agreed to work with a counselor to develop a plan before a final decision to begin the business is made.

THE TASK

Assume the role of a SBDC counselor and help Colin begin planning his new business. Prepare answers to the following questions.

1) What is the purpose of a business plan?
2) What are the components of a business plan?
3) What business organization forms are available for selection? What are the advantages and disadvantages of each form? What organization form would be best for Colin's new venture? Why?
4) What sources of capital, other than personal funds and his father's investment, might Colin consider? Examine the type of capital provided by commercial banks, venture capital firms and business angels. What are the characteristics of each?
5) Colin has considered some startup costs. What other costs might/should be included in determining financing requirements? What operating costs should be included and how should they be estimated?

6) Describe the function of Small Business Development Centers.

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ALPHA C306 PROJECT (B): PLANNING THE PROJECT

Patricia A. Lapoint, McMurry University
Carrol R. Haggard, Fort Hays State University

CASE DESCRIPTION

The primary subject matter of this case concerns project management. This case can be used in Project Management, Operations Management, or Quality Management courses. The case has a difficulty level of four. The case is designed to be taught in two class hours and is expected to require four to six hours of outside preparation by students.

CASE SYNOPSIS

After 9 years at Design Prototypes Inc., Raef Conley is leading his first major project. While Raef had worked on several small projects, he has never taken on the leadership of a major project. The Alpha C306 project is a significant opportunity for him, one that could advance his career in many ways. Although excited about the opportunity, Raef is also somewhat anxious. as while there is the potential for career advancement, he is also well aware that failure could mean the end of his career at Design Prototypes. Raef's first task was to assemble a project team. Although he has selected his team, he still needs to get time commitments from the supervisors so that he can finalize the team. The case starts with Raef completing the team selection process where he encountered an unexpected complication which had to be resolved. The next step is to complete the project planning process. In order to do this, the team developed a Work Breakdown Schedule (WBS). However a Critical Path Analysis (CPA) revealed that the initial WBS did not meet the 18 month timeline established by management, therefore the team developed a revised WBS. The case revolves around the question of whether the revised WBS is feasible.

EKU CENTER FOR THE ARTS: WHO'S THE BOSS?

Stephen L. Loy, Eastern Kentucky University
Kambiz Tabibzadeh, Eastern Kentucky University

ABSTRACT

The primary subject of this case concerns issues related to an inter-governmental joint venture comprised of a state university, a county government, and two city governments, in overseeing a jointly funded operation. The case describes the problems resulting from this organizational structure, such as an ambiguous chain of command and failure to provide necessary management support. These problems culminated in a power conflict. The conflict led to a compromise that smoothed over the organizational structure problem, without resolving it.

This case is suitable for graduate and advanced undergraduate business management or management information systems classes. The case has a difficulty level of four. Students should spend from eight to ten hours outside of class analyzing the case, depending on the breadth and depth of the analysis the instructor desires.

CASE SYNOPSIS

The Eastern Kentucky University Center for the Arts opened in September 2011. The $32 million Center was a long-time dream for EKU and surrounding communities that would enhance the image of EKU as it transitions from a regional focus to a national and international focus.

Arts Center is 2,100-seat facility with a Broadway-quality theater, a grand lobby suitable for multiple events, and a configurable "black box theater," with a capacity of 250 for small events. It is largest in performing arts center in central Kentucky. An experienced and locally well-known arts administrator, was hired to be the Center's Executive Operations Director.

The first season was a smashing success with twenty-one performances and revenues that exceeded expectations. Despite these successes, there were internal accusations that the Center was being seriously mismanaged. These problems came to a head when the university President attempted to fire the executive director for:

"*…fiscal misconduct and falsification of university records and documents. Violation of human-resources policies (e.g., improprieties such as submitting inappropriate meals and items on expense reports, and directing students to falsify time cards, creating a "discourteous and unfriendly work environment, inappropriate behavior toward students, improper handling of customers' credit card information, and the misleading of university officials …*" (Copley, 2013, April).

The executive director denied the accusations claiming she misunderstood or was unaware of university policies. To avoid being fired, she submitted a letter of resignation to the Center's Community Operations Board which had recruited and hired her. Surprisingly, the Board rejected her resignation, and rejected the university president's claim of authority to fire the executive director without the Board's approval. Thus, set the stage for a battle between the university and the Board over who is the boss of the executive director.

BACKGROUND

EKU, the fourth largest university in the state, is located in Madison County which is the fastest growing county in Kentucky. In 2003, EKU adopted a strategy to reposition itself from a regional focus to a national and international focus. A first-class performing arts center was viewed as way to enhance the status of the Eastern Kentucky University (EKU) and its surrounding community.

The nearest performing arts centers are Singletary Center located in Lexington, 25 miles away, and Danville, 40 miles away. The Norton Center at Centre College in Danville is an internationally acclaimed performing arts center that routinely hosts outstanding guest artists, touring productions, symphony orchestras, and hosted Vice Presidential Candidates debates in 2000 and 2012.

POOLING RESOURCES

From the beginning, the university sought out local government officials to participate in developing plans for a Center for the Performing Arts on the EKU main campus. By 2009, construction costs had dropped substantially due to the "Great Recession." Local leaders and the EKU president turned their attention toward the construction of the Center for the Arts. The financial situation of the state was poor with no likelihood for improvement for the next few years. In order to build the Center while construction costs were down, the university needed a funding strategy that did not depend solely on the state government. The strategy that evolved pooled financial support from two city governments, one county government, and the university. An oversight board for Center was formed with representatives of EKU, the cities of Richmond and Berea, and Madison County. The board assumed responsibility for the overseeing the design, construction and operations of the Center for the Arts.

EKU's share had to be appropriated in the state budget. Fortunately, EKU had two powerful allies in the state legislature, Harry Moberly and Ed Worley. Moberly was the EKU Vice President for Finance & Administration and Chairman of the House Appropriations Committee in the state legislature and Worley was the minority leader in the state senate. Moberly and Worley, ushered the bill through the legislature. During the drafting of the bill, Moberly inserted a provision stating that oversight control of the Center would be jointly shared by a board of representatives from Madison County, City of Richmond, City of Berea, and EKU, and that the board would be responsible for hiring the Center's Executive Director.

The bill passed both chambers of the legislature and signed into law by the governor. A 13-member Community Operations Board was created with representatives from EKU, the City of Richmond, the City of Berea and Madison County to oversee construction of the Center and to hire an executive director. Composition of the Board is comprised as follows (EKU, 2011):

Two members appointed by Mayor City of Richmond
Two member by Mayor City of Berea
Four members appointed by Madison County Judge-Executive
Five members appointed by EKU President
One ex officio member representing EKU

Following a national search, Katherine Eckstrand was hired and assumed the duties of Executive Director on January 1, 2010 while the Center was under construction. Eckstrand had eleven years of experience as executive director of the Clark State Community College Performing Arts Center in Springfield, Ohio and four years of experience as director of community development for the Ohio Arts Council (Mandell, 2009).

Surprisingly, in October 2011 Eckstrand resigned. Officially, she was moving back to Ohio to attend to family health issues, but it was known that she felt frustrated about having to deal with two bosses—the university and the board. For payroll purposes, the executive director is classified as a non-contract employee, even though the director is hired by and reports to the Community Operations Board, which is independent of the university. As a university employee, the university administration was demanding that she clear her decisions and actions through them, and to follow university policies related to expenses, budgets, and personnel management.

With Eskstrand's resignation, the Board had to act quickly to hire a new executive director to make decisions about the Center's interior designs and furnishings, and to book acts for the first season that was scheduled to begin in September 2012. After a month long search, the Board hired Deborah Hoskins as Executive Director without a contract, effective February 1, 2012.

For eighteen years, Hoskins had been the assistant managing director for the Norton Center for the Arts at Centre College in Danville, KY, which is one of Kentucky's premier performing arts venues. The Norton Center had recently hired a new executive director, a job for which Hoskins had applied and hoped to get, but do not get (Copley, 2010).

In an interview, she said being passed over for the top post was not her reason for leaving the Norton Center for the new Center at EKU. "Things feel like they are going in a different direction, and it felt like it was time to move on…If you are going to make a career change, you need to do it when you are still young and smart enough to make the right moves." (Copley, 2010)

Centre vice president for college relations said, "(Hoskins) service to Centre has been marked by exceptional energy and initiative. Her efforts have made possible many of the extraordinary events for which the college and its arts center have become well known." (Copley, 2010)

TROUBLE IN PARADISE

The grand opening, on September 24, 2011, was a smashing success. However, there was one hitch: A long line for tickets at the will-call window delayed the performance by nearly an hour. The executive director explained that the center's ticketing system was not set up yet, and organizers did not anticipate how much time it would take to manually distribute tickets and process credit/debit card payments.

The first season, Hoskins brought in an extraordinary line up of acts. More than 50,500 tickets were sold which generated more than $2 million in revenue. The first year operating loss of $65,000, was less than half the planned first year loss of $150,000.

While the Arts Center was a financial success, there were serious complaints about personnel and operational mismanagement coming to the attention of the university administration. An investigation into the internal complaints was conducted by authorization of the university president and resulted in a 740-page report.

CRISIS

The report listed the following problems.

The Center overpaid and underpaid artists appearing at the center, resulting in "an aggregate overpayment of $46,622." The center did not accurately pay production companies for 12 out of 26 events. After the irregularities were discovered, artists who were underpaid were immediately issued payments for the balance due.

Weakness in the center's system of internal controls over cash handling such that should errors or irregularities occur, it may not be possible to fix responsibility for the loss on one individual. Cashiers were not required to balance their activity at the ends of their shifts, and sales reports were not routinely compared with deposits. Recorded ticket revenue for the season was nearly $1.8 million, but the ticketing sales system indicated nearly $1.9 million in sales, a discrepancy of $104,731.

Invoices were falsified to calculate and to support settlement payments made to production companies to decrease the amount the center owed them.

The report said 6,899 complimentary tickets, valued at $389,039, were distributed. Of those, there was no way to account for the recipients of 3,125 of those tickets.

A "Save Your Seat" fundraising program placed 74 engraved plaques on the center's seats, but records indicated only 29 patrons who made the designated $500 donation.

Irregularities existed in the use of Hoskins' EKU pro-card, including 98 transactions totaling $14,564 by unauthorized individuals and disallowed purchases of meals.

Hoskins said she was not aware others should not use her ProCard when it was issued. "The bureaucracy was overwhelming because I had never worked in state bureaucracy before," Hoskins said. "But, as I was told of these policies and procedures, they were implemented."

"As I told the board (when I was hired), I'm no financial manager — that's not my strong suit." She was hired with the understanding that a financial manager would be hired for the

Center, but after two unsuccessful searches, the center continued to operate with no financial manager (Copley, March 2013).

Based on the report findings, the university president sent a letter to inform the director that her employment was being terminated and ordering her to vacate her office. To avoid being fired by the university, she submitted a letter of resignation to the Center's Community Operations Board, which surprisingly, rejected her resignation. Thus, the stage was set for a battle between the university and the Community Operations Board over who controls the EKU Center for the Arts.

WHO'S IN CHARGE?

The board claimed the university president did not have authority to fire the director, as that rested with the board.

"... a majority of the center board disagreed with the university's action, saying the board had authority over personnel decisions at the center. Board member Harry Moberly cited state law regarding the center which states the board "shall make all decisions regarding personnel." At the June 14 meeting, the board voted 8-3 for a resolution to retain Hoskins. The resolution said the university did not have "authority to take unilateral personnel action" against employees at the center." (Copley, 2012)

After a few contentious days, the Board accepted Hoskins resignation and appointed an interim director on June 19. Six months later, the president and the board were grappling over the wording of a formal agreement between the university and the board. Job announcements for the executive director were posted in newspapers and relevant trade newsletters. The search committee received more than twenty-five applications from across the country by February 1, 2013. However, the search was put on hold until the board and the university resolved the issue of who will have authority over the new director (Copley, June 2013).

QUESTIONS

How did the university and the Community Operations Board create the problems described in the case?

What problems arise when the line of authority is ambiguous or conflicting?

Do you think Hoskins is a victim? Explain your answer.

What changes should be made before hiring a new executive director?

SPEEDY DSL CORPORATION

Leah Marcal, California State University Northridge
Richard Tontz, California State University Northridge

CASE DESCRIPTION

The primary subject matter of this case concerns the pricing decision of a service firm, and the use of the appropriate economic model to analyze that decision. A comparison of price-elasticity and cross-elasticity of demand highlights the market structure in which the firm operates and thereby an understanding of how a price change will impact the firm's total profit. Secondary issues involve calculating the cost of the firm's business activities and allocating those costs by sales revenue.

The case has a difficulty level of three and is intended for use in junior-level courses. It can be covered in three hours, including a class presentation by a student team. The case requires a minimum of nine hours of outside preparation by students.

This case is designed for use in an upper-division, inter-disciplinary business course. The purpose of the course is to enable students to apply the knowledge they have gained in their lower-division business core courses that include microeconomics, financial accounting, and managerial accounting. Specifically, the case incorporates the understanding of profit-maximizing pricing under monopoly and duopoly models of competition, how price and cross-elasticity of demand are interpreted, and how cost data can be organized for management decisions.

CASE SYNOPSIS

Students are faced with a factual setting that presents practical business issues. The Client, Speedy DSL, has a profit margin that is below the industry average and is considering a price increase to raise its profitability. Speedy faces strong competition from Timely Cable in the local broadband market. Currently, the two firms (Speedy and Timely) charge the same price for basic Internet connectivity that is similar in speed and reliability. Speedy has an estimated monopoly demand schedule and its own cost data from which students must calculate the profit-maximizing price. Additionally, Speedy has an estimate of the cross-elasticity of demand between DSL price and Cable subscriptions. Understanding that Timely's gain of customers would be Speedy's loss; students evaluate the impact of a price increase on Speedy's profit in a duopoly setting. Students must also estimate the cost of Speedy's business activities and show the breakdown of those costs against sales revenue.

MACONDO: A REAL-WORLD FAILURE OF ENTERPRISE RISK MANAGEMENT (ERM)

Robert B. Matthews, Sam Houston State University
Ronald Daigle, Sam Houston State University
Paul Vanek, Sam Houston State University

ABSTRACT

The Enterprise Risk Management (ERM) framework set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission provides a useful framework for evaluating an entity's risk analysis and management process. This case study applies those principles as a guide for examining the conduct of British Petroleum (BP) and its affiliates and contractors in dealing with the 2010 Gulf of Mexico blowout and oil spill on BP's Macondo prospect. The lessons learned from this experience can guide other enterprises in similar situations.

WASTE MANAGEMENT INC.

Jennifer Nevin, Towson University
Arundhati Rao, Towson University
Charles L. Martin Jr., Towson University

CASE DESCRIPTION

This case describes a financial statement fraud perpetuated by top management of Waste Management Inc., with the knowledge of their external auditors. It describes the business opportunities and circumstances leading to the growth, the fraud and eventual downfall of the top management and its implication for the shareholders. This case study is based on library research involving Accounting Series Litigation Release No. 17435 and Administrative Proceeding File No. 3-10513 [1]. It is designed for an Undergraduate Auditing course with a difficulty rating of 3, Graduate Auditing course with a difficulty rating of 3 or a Graduate MBA course with a difficulty rating of 4. Classroom presentation and discussion time of one hour.Outside preparation time of 4 hours. The case may be presented individually or in a small group.

CASE SYNOPSIS

After a humble childhood in South Dakota, Dean Buntrock worked his way up the corporate ladder to become an industry leader and founder and CEO of Waste Management Inc. Whenever an opportunity presented itself, Buntrock made the most of it; it seemed like he had the "Midas Touch" in the garage business! He was also known for his charitable contributions and even has a building named after him at his alma mater. Unfortunately this real life story has a sad ending. Although he began Waste Management as an honest businessman making it big in America, Buntrock turned into a dishonest businessman when his company began using accounting methods to recover from bad decision-making during times of intense regulation in the industry. The auditors, Arthur Anderson, knew about the accounting irregularities the entire time. In 1998, 30 years later after going public, Waste Management Inc. acknowledged that it had misstated its pre-tax earnings by approximately $1.7 billion over a 5-year period and had to restate earnings; at the time, this was the largest restatement in corporate history [2]. This case study examines how the Sarbanes-Oxley Act may have protected the stockholders.

UNION BANK OF NIGERIA

Basil Okoli, Baze University
D. K. Smith, Baze University

CASE OVERVIEW

This case invites students to play the role of Mr. Basil Okoli, a Nigerian who worked for many years at Union Bank of Nigeria. At one time, Union Bank of Nigeria was the market leader in the banking industry in Nigeria; over the years, however, Union Bank has fallen from #1 to "emerging big bank." Currently, Mr. Okoli serves as a lecturer for the Faculty of Business Administration at Baze University, a new private University located in Abuja, Nigeria; yesterday, however, Mr. Okoli received an offer to take up a consultancy appointment with Union Bank, so as to assist the bank in developing a strategy to regain (in retail banking) the market leadership position it once held in Nigeria in many areas including retail banking. The case is appropriate for senior level undergraduates as well as students in MBA and/or 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. Data and information provided in the case include:

For Nigeria, the Nigerian environment, and the Nigerian economy: Historical background plus selected statistics.

For the banking sector in Nigeria: Historical background plus selected statistics.

For Union Bank of Nigeria: Historical background plus selected statistics.

EDUTAINMENT STUDIOS NIGERIA, LTD

D. K. Smith, Baze University

CASE OVERVIEW

This case invites students to play the role of Prof. Jonas Davidson, Dean of the Faculty of Business Administration & Social Sciences (FBASS) at Baze University and longtime Visiting Professor of Marketing at Lagos Business School (LBS) in Lagos, Nigeria. At the end of an LBS seminar he taught recently, Mr. Olusegun Adegboye, one of the executives attending the seminar and the Director of Marketing for Edutainment Studios Nigeria, Ltd., asked Prof. Davidson's advice on how to increase the probability of successfully soliciting the business of "bottom of the pyramid" customers from the large corporate bodies which Edutainment Studios has targeted; companies interested in "bottom of the pyramid" business opportunities include banks, Fast Moving Consumer Goods (FMCG)companies, pharmaceutical companies, and so on. The case is appropriate for senior level undergraduates as well as students in MBA and/or 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. The data and information in the case include:

For Nigeria: Information on the Nigerian environment plus selected statistics.

For Edutainment Studios Nigeria, Ltd.: Background information on the company, marketing strategy being used by the company, and problems and opportunities the company has encountered so far.

For customers in the "bottom of the pyramid" socioeconomic group: Information on their attitudes and behaviors regarding banks and banking (that is, one industry which has an interest in pursuing business opportunities with members of this socioeconomic class.

OPERATIONS CULTURE IN AN INTERNATIONAL ENVIRONMENT

Jon Austin Gastrock, University of Texas at Dallas

ABSTRACT

In the current case I examine the confirmations and regulatory reporting portion of JP Morgan Chase & Co. and make suggestions as to how to improve operations with suggestions for how this can be used for instructional purposes.

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NEW PRODUCT INNOVATION AT CFM, INC.

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Chet's Fan Manufacturing Inc. (CFM), established in 1992 to manufacture and distribute quality ventilation equipment, was known for superior products, dependable service, competitive pricing, and custom fans. Since its inception until 2010, CFM's sales were to original equipment manufacturers for industrial and commercial fans. Seeking revenue growth, CFM recently entered the residential ventilation market with standard fans and blowers for bathroom exhaust, kitchen range hoods and laundry ventilation that it sold to major wholesalers for distribution in Canada and the US. The quality of CFM's products caused Home Depot to approach the company with a business proposal. They offered CFM a two year contract for 40,000 basement ceiling fans, sold under Home Depot's brand, and exclusively in their stores.

With adequate capacity on existing lines, CFM's managers must decide if they can accept the terms of Home Depot's contract. Home Depot's customer specifications must be met at a retail selling price of $150, and Home Depot requires a 30% gross margin on the sale. CFM must also earn its required profit margin on the product, which would be impossible without considering cost during design.

This three case sequence about a fictitious company and transaction provides students an introduction to Target Costing and requires them to apply its principles from product concept through the preliminary design phase. Students develop the product's target cost, perform a first look cost estimation, and use activity based costing and a value index to suggest ways that the target can be met. The case also requires students to budget the cash flow consequences of the contract. Through these requirements, students experience entrepreneurial activities of shaping an opportunity within an established organization seeking revenue growth. This case is appropriate for a core managerial accounting class at either the undergraduate or graduate level.