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TABLE OF CONTENTS

LETTER FROM THE EDITORS

Welcome to the *Journal of the International Academy for Case Studies*. The editorial content of this journal is under the control of the Allied Academies, Inc., a non profit association of scholars whose purpose is to encourage and support the advancement and exchange of knowledge, understanding and teaching throughout the world. The purpose of the *JIACS* is to encourage the development and use of cases and the case method of teaching throughout higher education. Its editorial mission is to publish cases in a wide variety of disciplines which are of educational, pedagogic, and practical value to educators.

The cases contained in this volume have been double blind refereed, and each was required to have a complete teaching note before consideration. The acceptance rate for manuscripts in this issue, 25%, conforms to our editorial policies. The Instructor's Note for each case in this volume will be published in a separate issue of the *JIACS*.

If any reader is interested in obtaining a case, an instructor's note, permission to publish, or any other information about a case, the reader must correspond directly with the Executive Director of the Allied Academies: info@alliedacademies.org.

We intend to foster a supportive, mentoring effort on the part of the referees which will result in encouraging and supporting writers. We welcome different viewpoints because in differences we find learning; in differences we develop understanding; in differences we gain knowledge and in differences we develop the discipline into a more comprehensive, less esoteric, and dynamic metier.

The Editorial Policy, background and history of the organization, and calls for conferences are published on our web site. In addition, we keep the web site updated with the latest activities of the organization. Please visit our site and know that we welcome hearing from you at any time.

Inge Nickerson, Barry University

Charles Rarick, Purdue University, Calumet

CHRIS THOMPSON'S CAREER DILEMMA! WHAT SHOULD I DO?

Hafiz Greigre, Bryant University
Shirley Wilson, Bryant University
Harsh K. Luthar, Bryant University

CASE DESCRIPTION

The primary subject matter of this case concerns the individual processes that influence behavior in organizations in the context of career choice, career development, and career management. This case examines and analyzes the impact of personal values, attitudes, and motivation on major organizational outcomes such as job satisfaction, performance, and turnover.

This case can be used to discuss a number of secondary issues such as organizational culture and person-organization fit. The case has a difficulty level of three or four and is best utilized with juniors and seniors in Organizational Behavior (OB) or Human Resource Management (HRM) classes. This case is best used later in the course as an illustration of both micro and macro topics in OB/HRM. It can be taught in two hours of class time and requires approximately four hours of outside preparation by students.

CASE SYNOPSIS

This case discusses the moral dilemma experienced by Chris Thompson. Thompson, an African American University student and top athlete, accepted a summer internship at American Brands International, the nation's largest tobacco company.

Although Chris Thompson held long-standing negative attitudes toward smoking and the use of tobacco products, he was flattered by the fact that American Brands, a company known for recruiting the best and brightest, aggressively recruited him for the internship with the potential for a bright future career in the organization. Chris accepted the internship based on pay, benefits, freedom on the job, and future advancement opportunities. However, as the internship progressed, he began to have doubts about whether or not American Brands was the right company for him.

The case raises a variety of behavioral issues including the fit between personal and organizational values, the role of attitudes in job satisfaction, turnover and decision-making in organizations. This case, which has been used successfully in several Organizational Behavior classes, suggests that congruence between the individual and the organization is essential for both career development as well as organizational effectiveness.

CHRIS THOMPSON'S DILEMMA

Chris Thompson, an African American university student is facing a difficult dilemma regarding a career choice that he will soon be making. Should he continue his internship at American Brands, the nation's top tobacco company or should he follow his conscious and resign his position? Although his father was a smoker, Chris hated cigarettes. As a child, whenever his father smoked in the house, Chris would run out of his bedroom and act like he was choking just so his father would stop smoking or at least smoke outside. As Chris grew older, he got into athletics and his attitude towards smoking became even more negative and hostile.

With a tremendous focus on health and fitness, Chris became a track star in high school. Now at the age of 21, his rigorous discipline and focus on excellence had placed him among the top athletes at his University.

As if this was not enough, Chris was also an academic superstar and had maintained a 3.85 GPA since his freshman year. Because of Chris' unique combination of talents he was often called on by the local elementary schools to talk about health and fitness and its importance in everyone's life. Chris always took the time to make presentations to the school children and explain how smoking and drugs can severely undermine athletic performance as well as academic performance, and the overall health of people.

All the values that Chris held dear were now being challenged by the attraction of a lucrative career opportunity and financial success.

THE RECRUITING PROCESS AND DECISION TO JOIN

American Brands, International is the nation's largest tobacco company. Within the U.S., it controls nearly half of the tobacco market. Through its subsidiaries, American Brands engages in the manufacture and sale of cigarettes and other tobacco products in more than 160 countries around the world. Despite the public's negative attitude toward smoking, American Brands is considered an attractive place to work, offering new hires good pay and great benefits. Forty-seven percent of new hires since January, 2006, earned an annual base salary in the range of $40,000 and $44,000 annually. Over half received a signing bonus and all were eligible for performance bonuses in their first year of employment. In addition to a great starting salary, new hires at American Brands are eligible for reimbursement of educational expenses, an employer-sponsored health plan, and access to a 401k savings plan that becomes fully vested after only three months of employment.

During the 2005-2006 academic years, American Brands actively recruited on 32 undergraduate campuses in the United States. In 2005, the number of applicants for entry-level jobs at American Brands was 83,207. The number of new hires from this pool of candidates was 148. American Brands, International is clearly in search of the best and the brightest.

Chris had picked a business management major, with a minor in legal studies while in college. When people asked him what business did he want to manage, he would reply, "My own, of course?" So it came as no surprise that when he started to interview, he would look for the company that allowed him the most freedom.

Freedom, however, was not the only deciding factor. He also wanted a position with great stability and a chance to move up the ranks. Since he would be graduating soon, he also needed a position that was well paid so that he could pay off his college debt in a short time frame. What job would have everything he was looking for? Quite remarkably, American Brands turned out to be the company that offered him everything he was looking for.

During Chris' sophomore year, a man named Gerald Spears made a guest presentation in his marketing class. Spears was representing the tobacco giant, American Brands. During the presentation, Chris raised many issues and objections regarding smoking and pointed out the harm that cigarettes cause. Spears, faithfully representing American Brands, responded to all of Chris' questions politely and professionally saying that in America, people had the freedom to choose what they wanted to consume and reminded Chris that cigarettes was a legal product. Chris was unconvinced by Spears' argument.

As fate would have it, during Chris' junior year, he became friends with a guy named Brian Alexander who sat next to him in their legal studies class. Brian was smart, outspoken and determined to succeed. He had all of the qualities Chris admired. The two men got along well. Shortly after that first meeting, Chris received an email from Brian who was working for American Brands as an ambassador and intern. In his ambassador role, Brian was responsible for identifying potential talent for the Company. Brian had asked Chris bluntly in the email, "Would you be interested in a fantastic internship at American Brands which more than likely would lead to a job offer three months before you even graduate?" Oddly enough, Chris emailed him back and said, "Yes, of course!"

Before he knew it, Chris was sitting in a chair across from Gerald Spears, the same man that had come to his marketing class sophomore year, being interviewed for a job at the multibillion dollar company. Chris was happy to be there, too. It seemed that all of a sudden he forgot who he was and the money and freedom that career success brings took over his thoughts. All of a sudden Chris' only goal was to get the internship that would lead to a job at American Brands.

It came as no surprise when Gerald called him back in two weeks to further discuss the position. Chris got through round one, but there was a slight problem. Because he had transferred to his current university he was technically a first semester junior instead of a second semester junior as the internship job required. So everything was put on hold, but that year American Brands did not hire any other student from his university.

Throughout the summer Gerald Spears, the American Brands district manager, kept in touch. During the next year's recruiting process, Spears wanted to speak to Chris and only Chris. He even requested that Chris' university not make the position public, but he was unable to accomplish that. Spears visited campus early in the fall just to touch base with Chris and to see how things were going. When Chris told him that he was considering several other companies, Spears said that Chris should not even bother with other jobs because he felt Chris would fit in at American Brands. Chris was so flattered! After all, Chris was a young African American male, from humble means, and this huge company was pursuing only him out of many other qualified candidates. Chris ate Spears' words up! Chris was then told that he would have to redo the interview process, but that was okay. He agreed to start at step one.

The interview process began for the second time. Chris successfully made it through three preliminary interviews with ease and confidence. After the final interview, Chris was sure that he would receive an offer. He had made it! He saw the green of money and the lure of freedom.

During this time, Chris had also been working his way up the ranks in the nation for track. It had always been his goal to make it to the Olympics, and now that could very well happen. He was ranked number two in the nation for the 400m and number nine for the 200m. Chris was happy at school; he had a potential job lined up that would offer $50,000 after the first year, and he was in better shape physically than ever before. He even earned a 4.0 GPA with seven classes the semester before. What more could a man ask for?

Chris had always wanted to go to the Olympics. His track times continued to improve. Chris had to decide whether he should continue working on his track with some possibility of qualifying for the Olympics or the internship at American Brands. Although Chris was deeply conflicted, he decided that taking the American Brands Internship was the safe route. Chris' reasoning was that if he did not qualify for the Olympics, he would have nothing. However, the internship would give him the experience and foundation to support himself and jumpstart his career.

Chris was pleased with his decision to join American Brands and had no second thoughts about going to work for a tobacco company. Since he did not smoke, that was all that mattered. The important issue for Chris was the money he would be earning. As an intern, he would earn $19.50 an hour, and would be reimbursed $0.485 for every mile he drove. He would be earning more than enough money to help his family and have a great summer. Breaking from his past, Chris now had no moral issues with being one of the country's top athletes in track and working for a tobacco company at the same time. This was the same company Chris had spent most of his life fighting, still he had no problem with working for this company.

Chris was surprised to learn that his mother was happy when she learned of his internship. She was probably one person who hated smoking more than Chris. On the other hand, his father who was a long-term smoker was 100% against the internship. He felt that Chris should have joined a different company.

THE JOB

The actual job began on a Friday, which was orientation day. Chris and the other new hires were taught many of the technical aspects of the company in a fun, upbeat way. The orientation day reinforced Chris' thoughts that he made the right decision about joining American Brands despite his attitude about smoking and cigarettes in general.

At the orientation, he was given a specific project to complete during the tenure of his internship. The project would involve visiting Crown gas stations (which retail all American Brands cigarettes) In Massachusetts and Rhode Island and doing an analysis of their operations. Finally, the orientation discussed the moral issues facing employees of American Brands. Chris felt that the American Brands culture encouraged everyone to speak up and not fear rejection of their views. Positive communication and mutual respect were two values that formed the foundation of the day's activities.

After the two orientation days, the real work began. Chris' job was to visit the Crown gas stations in his territory and provide support for their retail efforts in selling more cigarettes. This could be as simple as fixing the signs located in retailer windows, or establishing an entirely new display for the products. This was done in teams with another American Brands employee. Whatever the challenge, Chris and his coworker were always able to tackle the issue.

After about a week or so of doing actual American Brands field work, Chris was still very much into the job. He felt that American Brands was the right company for him. He was well paid, and managed to take short vacation trips every weekend.

During the week Chris worked very long days, often leaving his house very early and arriving back home late in the evening. The job was very demanding, but he loved it! Chris had an expansive territory that involved a lot of driving. Often, he would awaken at 5:00 am and be out of the door at 6:15 am to get to a place that was about an hour and a half away, not including traffic. He had to make sure that he left early because you never know what might happen on the road. And in the event that something did happen, you would have to be resourceful enough to know what to do.

Chris quickly learned that a lot of time, planning and organization went into this job. After he got back home at the end of the day, he would go online and track the mileage he drove so that he could be reimbursed. He would have to check his email to see if anything had come up that he should be aware of. He would have to listen to his voice mail both morning and night to see if there was anything he should know.

Every day, after Chris finished all of his paper work and other little things for the next day, he would run out and get to the track. Sometimes he would not get to the track until about 8 at night and from there go to the gym. Often, he would not get back home until 11 pm, shower, go to bed, and get ready to do it all over again the next day. Still, despite the long hours, Chris loved the job.

YOU SOLD OUT CHRIS!

Things started to unravel when Chris visited his old high school for a reunion and bumped into some of his former teachers. They asked him what he was going to do after graduation. When Chris told them that he worked for American Brands, they were all taken aback.

His former coach gave him strange looks, as if to say, "Come on Chris, you can do much better than that." One of Chris' favorite teachers voiced her opinion more directly, calling him a "sellout," and challenging him to justify his decision to work for American Brands. As he put it, "Someday, you're going to look back on your life and question your decisions. There will be a day of judgment and you will have to think about all of your actions. You'll have to ask yourself, 'what did I do to make this world a better place?' It's not about how much money you made or how big a house you lived in or the number of cars you owned. It's about what did you do for your fellow man. You might be able to claim that cigarettes are lawful products that every adult has the right to buy, but we all know the risks associated with smoking. Can you really make peace with the company's mission?"

The high school encounter with his former coaches and teachers left Chris badly shaken. Things got worse from there.

As part of his community service requirement, Chris tutored students at a local Boys and Girls Club several times a month. Chris considered himself more than a tutor; he was a friend and role model to the kids. One evening after one of the tutoring sessions, some of the parents and the other club officials were talking to Chris and asked him what he was doing during the summer. When Chris told them what the job was, a grandmother who had brought her granddaughter that day for tutoring told him that he was working for the "devil". Another parent and also one of the officials made sarcastic comments that implied that Chris was a big hypocrite for preaching to the kids not to smoke, while working for the biggest tobacco company in the country.

Chris began to wrestle with these events. No other industry has been so deeply vilified and so thoroughly discredited as Big Tobacco and its largest domestic player, American Brands. Finally, one morning, in the quiet of his own apartment, the moral dilemma finally hit him; he hated cigarettes and everything associated with them yet he worked for a cigarette company. He was ashamed to tell people that he worked for American Brands. He began to feel like he needed to find an escape route and he needed to find one fast. As an athlete he could not be associated with a tobacco company. He wanted to be able to talk to people about his work without them questioning why he would choose to work for a tobacco company. He wanted to be happy to tell people about his work, and lately, he was not! Still, American Brands was his employer and he owed them loyalty and his best efforts.

DISCUSSION QUESTIONS

1. What is the source of Chris' dilemma?
2. How does Chris find himself in this situation?
3. How does Chris perceive himself? Does his self-concept change over time? If yes, what factors influence the changes in his self-concept?
4. What OB theories explain the change in Chris' attitude?
5. What lessons does this case teach about career choices?
6. What decision making model did Chris use in deciding to accept the internship at American Brands? Was it an ethical decision given his attitudes toward cigarettes and the uses of tobacco products? Does he have an obligation to American Brands?
7. What should Chris do?
8. What are the implications of this case in other situations? What are your key takeaways from this case?

A FAMILY'S TRAGEDY- LEAKED PICTURES OF A TEEN'S FATAL ACCIDENT

Issam A. Ghazzawi, University of La Verne

CASE DESCRIPTION

Moral standards of behavior vary between individuals. They are reflection of norms, beliefs, values, and personal preferences. Individuals in organizations cannot rely only on their moral standards or intuition when deciding what is right or wrong, fair or unfair, and appropriate or inappropriate. They need to follow policies, standard operating procedures, and need to understand that not adhering to such procedures may lead to costly mistakes.

The core pedagogical objective of the case is to help provide an applied, hands-on format for students to increase their understanding of what responsibilities organizations and their professionals have towards the general public (i.e. customers/citizens); to further engage students in the topics of: Professional ethics, privacy rights, and privacy issues; and the right of the public to know.

CASE SYNOPSIS

This case is about a much- publicized story of an eighteen year old girl that lost her life instantly after losing control of her father's Porsche car on a toll road in Orange County's Lake Forest, (Southern California) on October 31, 2006. In this case, the California Highway Patrol "CHP" has acknowledged that against its policies and procedure, one of its dispatchers leaked the graphic pictures of the teen's nearly decapitated body onto the internet. The leaked images made their way to about 1,600 websites world-wide and were sent by strangers to her family and relatives by means of e-mails and text messages. The CHP apologized to the family and took disciplinary actions against two dispatchers who violated the agency's standard operating procedures.

In 2007, the girl's family filed a civil lawsuit against the California Highway Patrol agency and its dispatchers for the leaked images and cited violation of privacy, negligence and infliction of emotional distress. On the other hand, the CHP maintained a position that while the release of the photographs was morally wrong, the CHP and its dispatchers did not violate any governmental regulation or statute, and accordingly, the plaintiffs did not have a civil case against them. In 2008, the court dismissed the case and the family criticized the ruling and appealed it. After three years (December 28, 2010), the outcome of the law suit of this case was still undetermined.

This case serves as a great educational topic for discussing what responsibilities organizations and its professionals have towards the general public (i.e. customers/citizens);to further engage students in the topics of professional ethics, privacy rights and privacy issues, and the process of making ethical decisions.

NICOLE "NIKKI" CATSOURAS

Until her death, Nicole "Nikki" Catsouras of Ladera Ranch, [1] California lived with her parents, Christos and Lesli, and three beautiful sisters in a multimillion-dollar planned community in Orange County. [2]

Unfortunate events controlled Nikki's young life. In third grade, she was diagnosed with a brain tumor that doctors felt would be fatal. [3] It turned out to be benign "be·nign". [4] At the young age of 8, Nikki had to undergo intensive radiation. [5] Nikki's parents were told by her treating doctors that the effects of that treatment on her young brain may cause changes in her judgment, or an impulse control might show up someday in the future. [6] According to Nikki's parents: "Nikki tried cocaine in her teenage time and ended up in the hospital in a cocaine-induced psychosis". [7] Nikki used cocaine the night of October 30, 2006 (i.e. the night before her fatal accident). Her parents had planned a visit with her to a brain disorders specialist to have taken place a few days after the incident.[8]

A TRAGEDY HIT

It was Halloween day (October 31) of 2006. Nikki had just finished eating lunch with her parents. She flashed her dad a peace sign from the couch while he was leaving the house to go back to work. [9] About 10 minutes later, she slammed the house door and took off in her dad's Porsche 911 Carrera-a car she was never allowed to drive. Nikki accelerated out of the cul-de-sac and on to the 241 toll road. [10]

Watching her daughter leaving, Nikki's mom Lesli quickly called Christos Catsouras "Nikki's father" who rushed out of his office and started driving around searching for his daughter. He called 911 to ask for help. As Christos Catsouras waited on hold with 911 dispatcher, two siren blaring police cars were heading toward the toll road raced past him. The horrified father asked "has there been an accident?" "Yes," the dispatcher told him. "A black Porsche". [11] The black convertible Porsche Nikki was driving at a speed of about 100 miles per hour had clipped a Honda car. She lost control of the Porsche, causing it to go airborne, and it slammed into a cement toll booth near Lake Forest, California. [12]

The accident was so horrifying and lurid that the coroner did not allow her parents, Christos and Lesli, to identify their daughter's body. [13] An autopsy later revealed that Nikki still had cocaine in her system. [14] The Orange County coroner could not determine if the manner of death was an accident or a suicide, said coroner ruled it "undetermined." [15] According to her father, she had never driven his car before and she took it without permission.[16]
Photographs of the accident scene were taken by California Highway Patrol officers as part of standard operating procedure for fatal accidents. [17]

THE AFTERMATH: ADDING MORE PAIN TO THE DEVASTATED FAMILY

A few days after the accident, nine close-up images of the remains of the black Porsche, with Nikki still strapped in the driver's seat, started circulating on the internet included websites that specialize in morbid curiosities. [18] In addition to that, her pictures had been sent via e-mails and text messages to Nikki's parents and relatives.[19]

Soon, e-mails and disguised e-mails directly connected to the internet from strangers containing graphic images of Nicole's accident scene became so pervasive that Nikki's mom stopped checking her e-mail. In addition to that, fake MySpace.com sites were set up by strangers after her death and "spam" that popped up in the e-mail baskets of her parents, with attached photos of her corpse, was common. [20] In Lesli's words:

> *"I've stopped using my e-mail, I don't want to see these every single day. ...And you know, I take a risk every time I go on the computer". [21]*

Nikki's fathers, a real estate agent, started getting e-mails that appeared to be property listings but instead were of his daughter's bloodied face. Additionally, while the Catsouras' three younger daughters were forbidden to use the Internet, the family's 16-year old Danielle left her school out of fear of being confronted by peers with her sister's pictures and became home schooled. [22] According to Danielle:

> *"There was threats that people were gonna put the pictures on my locker, in my locker. I remember her in such a great way, I don't wanna see it and have that image stuck in my head". [23]*

According to an investigator hired by the Catsouras family "the pictures, taken by California Highway Patrol officers and e-mailed outside the department, spread around the Internet, making their way to about 1,600 Web sites". [24] 20/20, an ABC popular television program, aired a segment on the crash and its aftermath that focused on Internet users who carelessly bombarded the Catsouras family with Nikki's images of her face with most of her head missing. [25]

Important to note that accident-related scene photos were supposed to be used only for investigative purposes and making them available to the public was against CHP regulations. [26] As a result, the California Highway Patrol agency acknowledged that one of its employees is responsible for leaking to the Internet the graphic pictures of Nikki's nearly decapitated body after she died in the high-speed car crash. [27] The CHP later apologized for the leak and blamed it on two dispatchers. [28]

THE CATSOURAS FAMILY FILED CHARGES

In December 2006, The Catsouras family filed a $20 million claim against the State of California for emotional and punitive damages, citing negligence and blaming the California Highway Patrol for leaking the photos that were supposed to be used only for the agency's investigative purposes. [29]

The California Highway Patrol "CHP" wrote a letter of apology to the parents of Nikki Catsouras and an official with the CHP's Orange County Communications Center told the family that after a thorough and complete investigation, the CHP had identified the responsible employee who leaked the images. [30] In the same letter dated January 26, 2007, the CHP's Orange

County Communications Center official wrote that that its dispatchers violated department policy, [31] and an "appropriate action has been taken to preclude a similar occurrence in the future". [32] Commenting on the claim against the state: "An apology isn't good enough," Lesli Catsouras said, [33] and claimed that such ordeal had taken a financial toll on her family.

The Catsouras' claim against the state was rejected in February 2007 by the California Victim Compensation and Government Claims Board. [34]

In July 2007, the Catsouras family sued the California Highway Patrol agency and its dispatchers for the leaked images. [35] The lawsuit detailed the anguish suffered by the Catsouras' parents and Nikki's three little sisters. [36] The family's lawsuit accused Thomas O'Donnell, an 18-year CHP veteran and dispatch supervisor in Irvine and another dispatcher, Aaron Reich of violation of privacy, negligence and infliction of emotional distress through "illegally transmitting to the public gory images of car-crash victim Nicole "Nikki" Catsouras – turning her into an online sensation and further traumatizing her grieving Ladera Ranch family". [37]

According to Christos Catsouras:

> *"They were crime scene pictures that never, ever should have gone out… There was a big mistake made by the California Highway Patrol that was never really acknowledged, or they never wanted to help us once that mistake had been made."* [38]

Citing the pending litigation, the California Highway Patrol declined to comment on the case. [39] Although the CHP has admitted that its dispatchers violated department policy, it has maintained that it is legally not responsible for the Catsouras' anguish and suffering. [40] The Catsouras family was hoping to settle with the CHP and avoid litigation. [41]

THE DEFENSE FIRED BACK

The most interesting thing about this case was the fact that the CHP has fully admitted responsibility for leaking these photos, however; it said that it is not responsible for the family's pain and grief. [42] However, according to Keith Bremer, an attorney for the Catsouras' "the CHP has taken the position that plaintiffs do not have a civil case against them because the release of the photographs, while morally wrong, did not violate any governmental regulation or statute," [43] One of the named defendants in the lawsuit, Thomas O'Donnell admitted to violating CHP policy when he sent the images to his home e-mail account to view on his unsecured computer. He claimed that he did it only for work related reasons since he was too busy to view them at work.[44]

According to Greg Hardesty, a reporter for the Orange County Register "Dispatchers and other CHP officials routinely review and reproduce grisly images of car crashes for training purposes and to educate the public about the dangers of driving recklessly or while under the influence". [45]

On the other side and through a published interview, Thomas O'Donnell and his attorney (R. Rex Parris) indicated that Thomas's supervisor recommended that he receive a written reprimand for emailing the photos to his home computer, however, another CHP superior suspended him for 25 days without pay and that O'Donnell took the penalty in the form of reduced pay while continuing to work. [46]

In addition to that, O'Donnell said that as a dispatcher, he has spent his career trying to help people and that he never thought of causing pain and suffering to the accident victim's family. [47] In court papers and in an interview, R. Rex Parris, Thomas O'Donnell's attorney said

> *"O'Donnell was within his right to look at the pictures at home, and even if he did post the pictures online – which he did not ... the images are appropriate for public consumption…Why shouldn't these photos be in every school? The real culprits are the anonymous cyber bullies who transmitted the images worldwide, often with mocking comments about Nikki and her family... more responsibility should be placed on Nikki and her parents – not O'Donnell or the CHP".* [48]

Parris also argued that Nikki's condition preceding her death should be a factor in determining the merits of the lawsuit and that her behavior was not a responsible one. [49] Responding to this argument, Mr. Bremer, the Catsouras family attorney said:

> *"What I'm uncomfortable about is disparaging my client…The conduct of my client before the crash, whether she was a Girl Scout or a dope dealer, is irrelevant…The fact that they brought this up shows a total lack of understanding and compassion."* [50]

On the other hand, CHP officials have told attorneys for the Catsouras family that Mr. Aaron Reich, the second CHP dispatcher named in the lawsuit has sent the photos to at least four people outside the agency. [51] Reich's attorney, Jon R. Schlueter, said in court papers that his client acted within his free-speech rights when he distributed the photos, therefore he did not violate any law. [52] Mr. Schlueter (Reich's attorney), further said in court papers that "under California law, publication of pictures of a dead person violates no privacy rights of the dead person's relatives". [53] According to Reich's attorney, Aaron quit soon after-for different and unrelated reasons.

Why the dispatchers did it may never be known, they both declined requests for comment. However, Jon Schlueter said that his client sent said images to relatives and friends as a public service message-to warn them of the dangers of the road.

COMBATING THE INTERNET: AN ARGUMENT AND A COUNTER ARGUMENT

According to Greg Hardesty, a reporter for the Orange County Register, "the case has magnified the dark side of the Internet while raising questions about an individual's right to privacy following a very public death". [54]

To help ease the family's pain and devastation, the CHP along with a private company hired by the Catsouras family (Reputation Defender), [55] collaborated and requested website operators to remove the offending images. [56]

On the efforts to remove the gruesome images off the internet, Michael Fertik, the founder of Reputation Defender said, *"We go at it by just direct human to human contact. We reach out to the people who are posting them, or chiefly in these cases, hosting the website where they are posted, and saying 'Look, this is in no one's interest. You're getting less pleasure out of this than these people are suffering pain."* [57]

On the other hand, Lesli Catsouras commented on the Web sites that did not cooperate by saying that while they were kindly asked to take down the pictures, said sites claimed their First Amendment rights. [58]

An owner of a site who did not want to remove the photos declined a request to be interviewed, but instead provided the following statement to a news agency, which reads in part:

"Wanting to view photographs of tragic events is a part of human nature. It's a very rare person who doesn't rubberneck as they pass the scene of an accident, because we're all interested in a glimpse into death and misfortune. When we look upon photographs, like those of a young girl who has been violently struck down in the prime of her life by a moment's recklessness, we gaze upon our own mortality, and we think about how easily this could have been us. ...While I sympathize with the family and have no desire to perpetuate the pain of their loss, I also realize the reality of the internet. Once photographs like these leak online, they spread like a virus. ... For those who find photographs of deceased individuals disturbing, they have the option of not visiting the sort of sites that display those images. (Most of those sites have ample warnings before anything disturbing is shown.) But the right of the rest of us to view such images should not be infringed upon". [59]

This case has also divided the public. While supporters of the case against CHP and its two dispatchers believed that the family deserved compensation for pain and suffering as a result of the leaked images, and that memories of Nikki will be stained forever. [60] On the other side, while critics of the lawsuit said that the leak of the grisly images were unfortunate, the leaked images came as a consequence of the Catsouras' daughter actions. [61] They also believed that these photos helped shock drivers into being more careful. [62]

THE FATE OF THE LAWSUIT

As Thomas O'Donnell, the accused CHP dispatcher sat in his attorney's office, he maintained his innocence to the charges and said in a quiet voice that while he felt sorry for the Catsouras family, the suit over the crash photos is misguided and that he did nothing wrong. [63]

While lawyers for the family of Nikki Catsouras needed the case to move forward at least against one dispatcher in order for the CHP to be held liable for its employees' action of publicly circulating the gross images of their deceased daughter. [64] Accordingly, in separate legal motions, attorneys for dispatchers O'Donnell and Reich, wanted to get the lawsuit dismissed before it got a chance to move toward a possible trial. [65]

On February 2008, a Santa Ana Superior Court Judge, Steven L. Perk ruled that the dispatchers had no special duty to protect the privacy of the Catsouras family and should have been removed as defendants. [66] He also "determined that the legal arguments seeking to hold O'Donnell and Reich liable didn't hold water". [67] Since the CHP faced potential liability because of its dispatchers' actions, the dismissal of the lawsuit against the agency was expected too. On March 21, 2008, Judge Perk dismissed the law suit against the California Highway Patrol. [68]

Attorneys for the Catsouras family moved quickly to reject Judge Perk's decision and criticized his ruling, "We're just absolutely shocked at the ruling," Catsouras family attorney Keith Bremer said right after the ruling. [69] Bremer referenced a law that required cemeteries to show due care when handling the remains of the deceased and said that same law applied here in the Catsouras' case. [70]

> *"The CHP and its officers, in cordoning off the area, assumed a fiduciary role and had a legal duty to the deceased's family to show due care in the handling and control of Nikki's body."* [71] *Mr. Bremer added.*

Catsouras' attorneys have filed the paperwork to appeal the ruling. [72] Based on that, the 4th District Court of Appeals in Santa Ana, CA had until June 1, 2009 to decide whether to retain the dismissed case or send the case back for trial. [73] The Catsouras and their attorneys were hoping to reach a settlement with the CHP or to get the lawsuit before a jury. [74]

On June 2009, the three-justice panel at the 4th District Court of Appeals in Santa Ana, California requested attorneys of the family of Nikki Catsouras to answer seven questions about their civil lawsuit against the California Highway Patrol. Said questions need to be answered by July 2, 2009. [75] The appellate court then must issue a ruling within 90 days after the answers submittal deadline (i.e. July 2, 2009). [76]

One of the seven required questions to be answered was for attorneys to further elaborate on "whether the CHP had a duty, when collecting evidence at the crash scene, to "handle the evidence in such a manner as not to create or increase a risk of emotional harm to the family members of Nicole Catsouras," according to a legal filing". [77]

As of this month (i.e. November 2009), neither the family nor the CHP and its dispatchers were certain on the results of this case.

AUTHOR'S NOTE

The author developed the case for class discussion rather than to illustrate either effective or ineffective handling of the situation. The case is based on published secondary data.
The case, instructor's manual, and synopsis were anonymously peer reviewed and accepted by the Western Casewriters Association Conference, March 25, 2010, Kona, Hawaii.

The author extends his deepest appreciation to external reviewers of this case who offered instructive criticism and advice. The case has benefited by incisive comments from Duane Helleloid of the University of North Dakota, Ph.D.; Rob Barrett, J.D.; Sue Callahan, Ph.D.; and David Warner, Ph.D. of the University of La Verne. Additionally, the author is deeply appreciative to Abdullah S. Farrukh, M.D. (Board Certified Neurosurgeon and Chairman of the Board of the Antelope Valley Health Center) for his advice, definitions, and explanations of the medical terminologies used in this case; and to Mr. Stephen Monteros, COO of Linear Systems for his insight on law enforcement agencies procedures (S.O.P) relating to crime scenes.

CASE ENDNOTES

1. Ladera Ranch is located in South Orange County outside the city limits of Mission Viejo and San Juan Capistrano.
2. Bennett, J. (2009). A tragedy that won't fade away: When grisly images of their daughter's death went viral on the Internet, the Catsouras family decided to fight back. Newsweek, (April 25, 2009). The story was retrieved on August 31, 2009 from http://www.newsweek.com/id/195073.

3. Ibid.
4. Abdullah S. Farrukh, M.D., Board Certified Neurosurgeon and Chairman of the Board of the Antelope Valley Health Center explained during a personal interview with the author that "Benign tumor is an abnormal growth that may occur in different parts of the body and creates damages to the neighboring tissues usually by displacement but not by invading nor infiltrating or by spreading to other parts of the body. It may recruit vessels or develop their own vessels via angiogenesis. Usually a Benign tumor may be cured by complete surgical removal. Some Benign tumor cannot be removed surgically safely due to its location or its vascular involvement; hence treatment by radiation is reasonable". (September 21, 2009; Lancaster, CA).

Benign Tumors, also called "Benign cancer, Benign neoplasms, Noncancerous tumors". According to Medline Plus "tumors can be either benign or malignant. Benign tumors aren't cancer. Malignant ones are. Benign tumors grow only in one place. They cannot spread or invade other parts of your body. Even so, they can be dangerous if they press on vital organs, such your brain. Treatment often involves surgery. Benign tumors usually don't grow back" (Medline Plus, 2009, p. 1, 3, &4). This definition was retrieved on September 11, 2009 from http://www.nlm.nih.gov/medlineplus/benigntumors.html. For more information and specific conditions refer to Medline Plus site.

5. According to Dr. Abdullah Faroukh, "certain types of benign "be·nign" tumor requires radiation.

6. Bennett, J. (2009). A tragedy that won't fade away: When grisly images of their daughter's death went viral on the Internet, the Catsouras family decided to fight back. Newsweek, (April 25, 2009). The story was retrieved on August 31, 2009 from http://www.newsweek.com/id/195073.
7. Ibid. Para. 6.
8. Ibid.
9. Ibid.
10. Route 241 is a toll road highway in Orange County, California. This highway currently runs from Rancho Santa Margarita to Yorba Linda. It connects with State Route 133, State Route 261, and State Route 81. This route is part of the California Freeway and Expressway System. This definition and its related information were retrieved on October 5, 2008 from: http://en.wikipedia.org/wiki/California_State_Highway_241.
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12. Hardesty, G. (2007). Employee leaked photos, CHP says. *Orange County Register*, (Tuesday, February 13, 2007). The story was retrieved on April 11, 2009 from: http://www.ocregister.com/ocregister/homepage/abox/article_1578192.php.

See also Avila, J.; Whitcraft, T.; & Michels, S. (2007). A family's nightmare: Accident photos of their beautiful daughter released. ABC News, (November 16, 2007). The story was retrieved on October 12, 2008 from http://abcnews.go.com/TheLaw/story?id=3872556&page=1.

See also "The Criminal Report Daily" (2009). Nikki Catsouras Crime Scene Photos Haunt Deceased Teen's Family. (May 05, 2009). The story was retrieved on September 9, 2009 from: http://blogs.discovery.com/criminal_report/2009/05/nikki-catsouras-crime-scene-photos-haunt-decease teens-family.html.

See also Hardesty, G. (2007). CHP sued over photos: Grisly accident images of decapitated teen were circulated on the internet. *Orange County Register*, (Saturday, July 14, 2007-paragraph 3). The story was retrieved on August 9, 2009 from: http://www.ocregister.com/articles/catsouras-family-lawsuit-1766686-chp-photos.

Lake Forest is a city in Orange County, California. As of 2007, its population was 78,243. "With 6,274 people per square mile, it is the most densely populated city in South County to this day" (Wikipedia.org: Para. 1). Lake Forest incorporated as a new city on December 20, 1991. Lake Forest has two man-made lakes from which the city gets its name. This definition and its related information were retrieved on October 5, 2008 from http://en.wikipedia.org/wiki/Lake_Forest%2C_California.

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14. Ibid.
15. Hardesty, G. (2008). CHP dispatcher says suit over crash photos is misguided: Images of body of Nicole 'Nikki' Catsouras were circulated worldwide. *Orange County Register*, (Wednesday, January 23, 2008, Para. 14). The story was retrieved on August 9, 2009 from: http://www.ocregister.com/news/nikki-catsouras-chp-1965415-donnell-family.
16. Hardesty, G. (2007). A Ladera Ranch family can proceed with suit against CHP over leak of accident scene photos of Nicole "Nikki" Catsouras: Eighteen-year-old was killed in crash on 241. *Orange County Register*, (Friday, November 16, 2007). The story was retrieved on June 12, 2009 from http://www.ocregister.com/news/nikki-catsouras-lawsuit-1924446-chp-lesli.

See also a posting titled "Catsouras accident pictures" in The News Leak, (November 16, 2007). The story was retrieved on August 9, 2009 from: http://thenewsleak.com/2007/11/16/nikki-catsouras-accident-pictures/.

17. According to Mr. Stephen Monteros, " When it comes to crime scenes photos, many Police Departments' procedures fall within the framework of the Federal Bureau of Investigations Scientific Working Group on Imaging Technologies' (SWIGIT) guidelines. Many of these procedures contain specific instructions related to the photographing, processing, storage, distribution, and control of all digital images to make it secure and keep it secure. Many police departments across the U.S. require certain type of photographic equipments for the field officer to ensure compatibility with the police agency imaging management system such as DIMS system" (Stephen Monteros, COO of Linear Systems and a consultant on law enforcement agencies' imaging and chain of custody standard Operating Procedures, October 9, 2009).

DIMS system "Data Imaging Management System" stores images in an embedded multi-level security to prevent challenges to authenticity or validation of digital evidence while giving administrators, and other authorized staff, access to photo, audio, or video evidence and metadata in a Windows based browser or a web interface viewer. This system was developed by Linear Systems, a California digital imaging corporation. For more information on DIMS or on Linear Systems, visit http://www.linear-systems.com.

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See also Hardesty, G. (2007). A Ladera Ranch family can proceed with suit against CHP over leak of accident scene photos of Nicole "Nikki" Catsouras: Eighteen-year-old was killed in crash on 241. *Orange County Register*, (Friday, November 16, 2007). The story was retrieved on June 12, 2009 from http://www.ocregister.com/news/nikki-catsouras-lawsuit-1924446-chp-lesli.

19. Ibid.
20. Hardesty, G. (2008). Catsouras family appeals grisly toll road photo case. *Orange County Register*, (Tuesday, August 26, 2008). The story was retrieved on August 1, 2009 from: http://www.ocregister.com/articles/catsouras-nikki-family-2137164-chp-lawsuit.
21. See Avila, J.; Whitcraft, T.; & Michels, S. (2007). A family's nightmare: Accident photos of their beautiful daughter released. ABC News, (November 16, 2007, paragraph 6). The story was retrieved on October 12, 2008 from http://abcnews.go.com/TheLaw/story?id=3872556&page=1.

See also a posting titled "Catsouras accident pictures" in The News Leak, (November 16, 2007). The story was retrieved on August 9, 2009 from: http://thenewsleak.com/2007/11/16/nikki-catsouras-accident-pictures/.

22. See Avila, J.; Whitcraft, T.; & Michels, S. (2007). A family's nightmare: Accident photos of their beautiful daughter released. ABC News, (November 16, 2007). The story was retrieved on October 12, 2008 from http://abcnews.go.com/TheLaw/story?id=3872556&page=1.

See also Hardesty, G. (2007). CHP sued over photos: Grisly accident images of decapitated teen were circulated on the internet. *Orange County Register*, (Saturday, July 14, 2007). The story was retrieved on August 9, 2009 from: http://www.ocregister.com/articles/catsouras-family-lawsuit-1766686-chp-photos.

23. See Avila, J.; Whitcraft, T.; & Michels, S. (2007). A family's nightmare: Accident photos of their beautiful daughter released. ABC News, (November 16, 2007, paragraph 5). The story was retrieved on October 12, 2008 from http://abcnews.go.com/TheLaw/story?id=3872556&page=1.
24. Ibid. Para. 4.
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See also Hardesty, G. (2008). A Ladera Ranch family can proceed with suit against CHP over leak of accident scene photos of Nicole "Nikki" Catsouras: Eighteen-year-old was killed in crash on 241. *Orange County Register*, (Friday, November 16, 2007). The story was retrieved on June 12, 2009 from http://www.ocregister.com/news/nikki-catsouras-lawsuit-1924446-chp-lesli.

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32. Ibid. Para. 9.

See also Hardesty, G. (2007). CHP sued over photos: Grisly accident images of decapitated teen were circulated on the internet. *Orange County Register*, (Saturday, July 14, 2007-paragraph 15). The story was retrieved on August 9, 2009 from: http://www.ocregister.com/articles/catsouras-family-lawsuit-1766686-chp-photos.

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38. Avila, J.; Whitcraft, T.; & Michels, S. (2007). A family's nightmare: Accident photos of their beautiful daughter released. ABC News, (November 16, 2007, Para. 19). The story was retrieved on October 12, 2008 from http://abcnews.go.com/TheLaw/story?id=3872556&page=1.
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47. Ibid.
48. Ibid. Para. 17.
49. Ibid.
50. Ibid. Para. 54.
51. Ibid.
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54. Ibid. Para. 9.
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63. Hardesty, G. (2008). CHP dispatcher says suit over crash photos is misguided: Images of body of Nicole 'Nikki' Catsouras were circulated worldwide. *Orange County Register*, (Wednesday, January 23, 2008). The story was retrieved on September 6, 2009 from: http://www.ocregister.com/news/nikki-catsouras-chp-1965415-donnell-family.
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FMCG NIGERIA, PLC

D. K. Smith, Baze University

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.*

THE SITUATION

The meeting to discuss FMCG Nigeria's plans to double (over the next three years) the volume of FMCG's business was over. As Mr. Henry Adjai, FMCG Nigeria's Supply Chain Manager, gathered his materials from the meeting, the Managing Director (M.D.) asked Mr. Adjai to overview for him one more time the nature of the trucking service-related challenges faced by FMCG Nigeria. In response, Mr. Adjai confirmed to his M.D. that the major trucking services-related challenges facing the company included the following issues:

1) The percentage of cargoes entering the port of Lagos in containers has increased dramatically over the last couple of years. To handle the increased number of containers, more trucks are needed; however, transport operators have not substantially increased the number of trucks available.
2) Due to the substantial increase in the number of containers needing to be transported, and the fact that the number of trucks available to transport those containers has not increased much, the cost to FMCG Nigeria of hiring a truck to transport containers has increased over the last couple of years by as much as 30%.
3) Due to the substantial increase in the number of containers needing to be transported, and the fact that the number of trucks available to transport these containers has not increased much, FMCG Nigeria is not able to ensure its distributors that the products they need will be available when needed. The problem tends to be especially acute the final week of every month, when every consumer goods company in Nigeria is attempting to ship products to customers. At FMCG Nigeria, internal procedures prohibit the company from invoicing customers until goods are shipped. The implication is that if no trucks are available, the company will be unable to ship; in this case, because it will be unable to invoice customers, FMCG Nigeria is very likely to miss its monthly sales targets.
4) In the long run, FMCG Nigeria is trying to reduce the "final week of every month" peak in demand for trucking services, by changing its distribution policies, changing its trade terms, changing the details of its ordering policies, and so on. In the short run, however, FMCG Nigeria's current policies and the "final week of every month" peak in demand for trucking services which they create are unlikely to change very much.
5) FMCG Nigeria has 46 trucking companies registered in its database. Currently, FMCG's transport manager meets with the trucking company representatives on a daily basis, to inform them of FMCG's trucking needs for the day and then see which companies are interested (on an ad hoc basis) in helping FMCG meet its trucking services-related needs for that particular day. In other words, FMCG currently procures all of the trucking services it purchases (more than 1 billion naira worth of trucking services per year) using this ad-hoc day-by-day process. When other companies are willing to pay higher rates (the final week of the month, for example) , FMCG Nigeria can end up being unable to ship and (as explained earlier) unable to invoice.
6) FMCG Nigeria's aggressive growth plans for the next three years are very likely to dramatically exacerbate all of the above problems and issues.

Knowing his M.D. quite well, Mr. Adjai was not surprised, after he confirmed the above trucking services-related challenges facing FMCG Nigeria, that the M. D. now requested that Mr. Adjai develop a solution to address the trucking services-related problems and exploit (over the next three years) the trucking services-related opportunities facing FMCG Nigeria. In making this request, the M.D. indicated that:

1) He feared that the bids the trucking companies were likely to submit (FMCG Nigeria was currently receiving bids for trucking services from the trucking companies; the trucking service contracts which FMCG Nigeria expects to sign with the trucking companies will cover the next three years) would all be quite similar. In other words, the M.D. feared that the trucking companies were unlikely to compete aggressively on the prices they quote to FMCG Nigeria).
2) He also indicated that because FMCG Nigeria spends more than one billion naira per year on trucking services, it was very important that Mr. Adjai do anything he can to reduce the costs of the three year contracts for transportation services which FMCG Nigeria would soon be signing with the trucking companies.
3) The M.D. reminded Mr. Ajai that the #1 objective (as he addresses the trucking services-related problems and opportunities discussed above) is to develop not just a "fix" to the current challenges FMCG Nigeria is facing, but rather to develop a long term strategic solution which will provide a permanent solution to the availability of trucks for FMCG, both now and in the future.

ADDITIONAL INFORMATION: THE COUNTRY

The Federal Republic of Nigeria is a large (one seventh the landmass of the United States) country in West Africa. It is composed of 36 states plus the Federal Capital Territory (FCT). These states differ in many ways, one of which is that the terrain ranges from beaches and swamps in the south to desert conditions in the north. Levels of education and income tend to be higher in the south than in the north. The dominant religion in the north is Islam while the south is predominantly Christian. Hausa is the dominant ethnic group in the north; in the east, the dominant group is the Igbo, while the west is predominantly Yoruba. Nationwide, the median age is 15. For a small sample of World Bank statistics on Nigeria, together with comparative data for the United States, see appendix 1.

In the early 1950s, oil was discovered in Nigeria. By the late 1970s, oil sold for $40 per barrel was generating massive amounts of money. The Federal Government of Nigeria made huge investments in roads, bridges, and buildings for the public sector (administrative buildings, housing estates, apartments, etc.). The Government also invested huge amounts of money in a large number of "showcase projects," including steel mills, paper plants, expensive hotels, and a new federal capital city called Abuja. Many people moved to the oil areas, the project areas, and/or the large cities, hoping to find jobs in the oil sector, work on the private/public projects financed by petrodollars, and so on.

As a consequence of the massive cash inflows and the changing opportunities available in Nigeria, agriculture and agricultural production were badly neglected. By the early 1980s, agricultural exports had nearly disappeared, and Nigeria no longer produced enough food to feed itself. The shortfall in food production was made up by importing numerous food products, including both traditional staples and alternative foodstuffs such as wheat.

In the early 1980s, the price of oil collapsed. Over the next 10 years, the price was in the range of $10-$20 per barrel. The actual impact of this price collapse depended on the level of production. However, it is probably correct to say that each decrease of one dollar of the price of a barrel of oil reduced Nigeria's export earnings by at least $700 million per year. Over the decade of the 1980s, the total revenue loss for Nigeria from oil price decreases undoubtedly exceeded $70 billion.

It took years for the impact on the Nigerian economy of the drying up of the oil revenues to fully manifest itself. The first economic consequences, caused by the shortage of foreign exchange, were the scaling back of the importation of big-ticket consumer items. Subsequently manufacturing activity relying exclusively on imported equipment, raw materials, and supplies began to suffer. For companies in these industries, the cost of imported equipment, spares, raw materials, and supplies increased sharply, as large amounts of local currency chased an ever shrinking pool of hard currencies including dollars. The increased cost of overseas materials led many industries to substitute local materials for imported ones (for example, brewers substituted sorghum for malt). Companies not able to find local substitutes increased prices, downsized their operations, or dropped out of business entirely.

The drying up of oil revenues had additional negative effects on the quality of life and economic activity in Nigeria. Over time, basic services like roads, electricity, water supply, and telecommunications began to deteriorate. By the late 1980s, neither industrial nor residential customers relied exclusively on public service providers for electricity or water. Instead, both groups had invested vast amounts of money in back-up generating equipment for electricity and private boreholes and/or trucking for water. In addition, because Nigeria's hardwire phone equipment barely functioned due to severe overloads and lack of maintenance, numerous business persons invested large amounts of money first in dedicated radio/microwave links and later, cellular telephone equipment. The need to make such investments increased the cost of doing business in Nigeria, and dramatically reduced the international competitiveness of Nigerian products and industry.

Another effect of the tremendous decrease in oil revenues was a very substantial increase in corruption. Due to the revenue decreases, federal, state, and local governments in Nigeria were unable to pay public sector employees. As prices of goods and services containing imported materials increased (most goods do include some overseas parts or components), and as public-sector salaries fell or went unpaid, civil service and public sector employees searched for alternative sources of funds to maintain their standards of living. Ultimately, the public-sector employees started demanding bribes before they would act on requests for service by individual and/or corporate customers. By the late 1980s, Nigeria and especially its international Airport in Lagos (Murtala Muhammed Airport) had acquired the reputation of being both lawless and corrupt.

For most of the decade of the 1980s, Nigeria was a military dictatorship. This continued on into the decade of the 1990s. From 1993 until the middle of 1998, however, the military dictatorship led by General Sani Abacha was particularly harsh and oppressive. During these years, the country of Nigeria became quite isolated internationally, as more and more countries backed away from Abacha and his regime.

In June 1998, General Abacha died of a heart attack. In an extraordinary chain of events, Nigeria moved quite rapidly from being an outcast country under a military dictatorship to a democracy. In the first presidential elections, held in 1999, former general (and, under Abacha, prisoner) Olusegun Obasanjo, running on a platform which promised to tackle corruption and other major problems faced by Nigeria, was elected president. While Obasanjo's efforts to address the country's problems and move Nigeria forward met with limited success, Obasanjo was reelected to a second term in 2003. In 2007, however, when Obasanjo attempted to change Nigeria's constitution so as to be allowed to contest for a third term, the Nigerian Senate refused to support that change. Subsequently, Obasanjo stepped down and was replaced, as president of Nigeria, by Yar' Adua, a former governor of the northern Nigerian state of Katsina.

As indicated above, since the last days of the decade of the 1990s, military dictatorship has been replaced by democratic governance. Along with the move to democracy, there has been a move in Nigeria toward privatization and a more market-oriented approach to managing the economy. Over the last several years, there have been some huge private sector success stories in Nigeria; one of these has been the telecoms industry and especially the rise of MTN, a provider of cell phone services in much of sub-Saharan Africa including Nigeria. In January 2001, MTN purchased its first GSM license in Nigeria. At that time, the company had a subscriber base of zero; by the end of 2008, however, MTN had a customer base in Nigeria of more than 20,000,000 subscribers. Nigerians have been very eager to purchase cell phones and use cell phone service; companies such as Cadbury Nigeria, Nestlé Nigeria, and Unilever Nigeria (that is, companies which sell foods, beverages, and personal care items including soap and laundry detergent) have discovered that individuals with very low levels of disposable income (millions of Nigerians are in this category) are very likely to reduce their purchases of foods, beverages, and personal care items, so as to be able to afford to purchase minutes for their cell phones.

There is another economic development which must be mentioned. After Nigeria moved to democratic governance in 1999, and continuing until the last quarter of 2008, the average price of a barrel of oil increased most years, as indicated below:

YEAR	YEAR-END PRICE OF A BARREL OF OIL
2000	$30.00
2001	$28.00
2002	$30.00
2003	$31.00
2004	$50.00
2005	$62.00
2006	$65.00
2007	$100.00
2008	$146.00 (July)
2008	$42.00 (December)

Because the country had been producing (prior to the worsening of the insurgency in the Niger Delta) somewhere in the range of 2 million barrels of oil per day, the increase in the price of a barrel of oil has a huge impact on the revenues of the Federal Government of Nigeria. The good news in the above figures is of course that for years Nigeria benefited from a steady increase in the value of each barrel of oil produced. The bad news in the above figures is of course that the dramatic drop in oil prices in the last quarter of 2008 will have massive implications not just for the Federal Government of Nigeria and its budgets but for the country and its people as well.

ADDITIONAL INFORMATION: THE TRUCKING INDUSTRY IN NIGERIA

The trucks run by transport companies in Nigeria come in a variety of sizes and configurations. Three of the common sizes, and three of the common configurations, together with elaborative comments, are as indicated below:

SIZES OF TRUCKS COMMONLY AVAILABLE IN NIGERIA: 15 ton, 30 ton, and 50 ton. Most of FMCG Nigeria's transportation needs are filled using 15 or 30 ton vehicles.

COMMON CONFIGURATIONS OF TRUCKS AVAILABLE FOR HIRE IN NIGERIA

Containerized: this sort of truck offers a closed box in which goods to be shipped may be placed. One advantage of the closed box is that it can be locked; a disadvantage is that goods arriving in Nigeria in containers will have to be unpacked from their containers and then re-packed into the closed box truck. For FMCG Nigeria products being shipped from its distribution center to customers all across the country, FMCG Nigeria prefers to use containerized trucks, because of the protection these trucks provide both against the weather and against thieves..

Flat bed: this sort of truck offers simply an open platform with wheels. One advantage of flat bed trucks is that containers from overseas and/or pallets of goods produced by the factory can simply be lifted on or off the truck by a crane or (in the case of pallets) a fork lift, without having to unpack the goods. One disadvantage of flatbed trucks is that if the goods being transported are not in a container, the flatbed configuration offers no protection either from the weather or from thieves.

Flatbed with wings: like a regular flatbed, this sort of truck offers an open platform with wheels; unlike a regular flatbed, however, a flatbed with wings has sides on hinges which can be folded down for loading (for example, when a container is placed on the truck) but then folded up to offer both security and at least a bit protection from the weather. Protection from the weather can be substantially increased by folding the wings up around the cargo and then fastening a tarpaulin to the tops of the wings; however, if the cargo is not in a container, a flatbed with wings provides very little protection from thieves. Because the distance from its factory to its distribution center is small, because this kind of truck can be loaded by forklift from both sides at once, and because the wings and the tarpaulin do offer some protection against both weather and thieves, FMCG Nigeria prefers to use this kind of truck to transport goods from its factory to its distribution center.

ADDITIONAL INFORMATION: TRUCKING-RELATED OPERATIONS AND NEEDS OF FMCG NIGERIA

The corporate headquarters of FMCG Nigeria is located in the greater Lagos Metropolitan area. However, both the FMCG Nigeria factory and the FMCG Nigeria distribution center are located outside of Lagos. The distance between the factory and the distribution center is about 45 km. The map in Appendix 2 indicates the approximate locations of the FMCG Nigeria factory, the FMCG Nigeria distribution center, and the locations of a number of FMCG Nigeria's major customers as well.

Regarding the trucking services-related needs of FMCG Nigeria, key considerations for Mr. Adjai included:

1) Because he believed that no one trucking company would be able to fulfill the nationwide trucking needs of FMCG Nigeria, Mr. Adjai had divided Nigeria up into five regions, which (for purposes of soliciting bids from trucking companies) he called "lots". In addition to providing information on the location of major cities in Nigeria, Appendix 2 indicates the geographic locations of these five "lots" of trucking needs, for which Mr. Adjai would be soliciting bids from trucking companies. While no single company is likely to be able to fulfill all FMCG Nigeria's needs for trucking services, it is possible that a company could service more than one "lot."

2) Over the life of the three-year contracts which FMCG Nigeria hopes to sign with various trucking companies, the needs of FMCG Nigeria (organized by the lots which Mr. Adjai had created) would be approximately as indicated below:

LOT	PREFERRED TRUCK	TOTAL TRIPS (1)	AVERAGE/KM/TRIP	ESTIMATED COST OF SERVICE, BASED ON EXISTING PRICES (2)
1	15 ton bed w/wings	16416	45	N120,193,754
2	30 ton containerized	4717	692	N359,789,699
3	30 ton containerized	2341	578	N228,047,774
4	30 ton containerized	4200	1150	N421,320,011
5	30 ton containerized	6402	294	N270, 168,088

(1)For each lot, the figure in the "Total Trips" column is Mr. Adjai's estimate of the total number of trips which the trucking company which wins the contract for that particular lot will need to provide to FMCG Nigeria over the three year life of the contract. For Lot #1, 99% of these trips are from FMCG Nigeria's factory to FMCG Nigeria's distribution center. For each of the other lots, the figure in the "Total Trips" column is Mr. Adjai's estimate of the total number of trips which the trucking company winning the contract for that particular lot will need to make to all FMCG Nigeria customers located within that particular lot, over the three year period of the contract.

(2)For each lot, the figure in the "Cost Using Existing Prices" column is Mr. Adjai's estimate of the total amount which FMCG Nigeria would owe the trucking company which wins the contract to provide trucking services within that particular lot, over the three year life of the contract, based on the prices FMCG Nigeria is paying to trucking companies currently providing trucking services to the company.

Based on his experience as supply chain manager for the company, Mr. Adjai believed that the criteria FMCG Nigeria would use to decide which trucking companies to work with (that is, over and above the need to satisfy FMCG Nigeria with regards to destinations to be served and the number of trips per year to each of those destinations) would include the following:

1) To be in the consideration set, a trucking company must have at least 20 trucks which it can dedicate to serving the needs of FMCG Nigeria. It seems worth noting that a large trucking company may be running more than 200 trucks; however, if all of those trucks are already fully utilized, such a company may not be capable of dedicating 20 trucks to serve the needs of FMCG Nigeria.
2) To be in the consideration set, a trucking company must have its own maintenance workshop.
3) To be in the consideration set company a trucking company must be financially sound; furthermore, it must be capable of investing in additional trucks, so as to be able to meet the expanding transportation needs of FMCG Nigeria. Mr. Adjai estimates that the number of trips is likely to increase by about 20% per year, over the 3 year contract period, in each “lot” for which he will be soliciting bids from the trucking companies.
4) To be in the consideration set, a trucking company must be using a GPS-based tracking system, so that if a truck does not arrive at the expected time, it is possible to find out where the truck is located and when it will arrive. The GPS system also makes it possible for FMCG Nigeria to monitor the issue of whether a driver is exceeding the number of hours he should rest, in-between his driving assignments.
5) To be in the consideration set, the vehicles a trucking company uses to provide trucking services to FMCG Nigeria must meet a number of different criteria. These criteria include:
    a. The external appearance of the vehicle (dents, rust, paint, etc.) must be acceptable.
    b. The vehicle must be rodent and insect-free; in addition, the vehicle must be odor-free.
    c. There should be no condensation on the walls and/or ceiling of the vehicle.
    d. The tires and brakes of the vehicle must measure up to standards set by FMCG Nigeria.

While the trucking industry in Nigeria is full of small, undercapitalized, and under-managed operators, there are a few trucking companies which are better capitalized and better managed, and do meet the criteria set forth above. Those companies, and the number of trucks each of them currently operates, are as indicated below:

NAME OF COMPANY	NUMBER OF TRUCKS COMPANY CURRENTLY OPERATES
ABC Logistics	200+
DEF Logistics	200+
GHI Logistics	100+
JKL Logistics	100+
MNO Logistics	50+
PQR Logistics	50
STU Logistics	40

ADDITIONAL INFORMATION: BIDS FOR TRUCKING SERVICES CONTRACTS RECEIVED EARLIER TODAY BY MR. ADJAI FROM THE TRUCKING COMPANIES

As indicated earlier, FMCG Nigeria is in the process of soliciting bids from qualified trucking companies interested in providing FMCG Nigeria with trucking services in one or more of the "lots" identified by Mr. Adjai. Earlier today, those bids came in. As indicated below, the bids from the lowest and next lowest bidders are quite similar. In other words, they confirm the fears of the M.D., that is, that the trucking companies are not competing vigorously on prices, when they bid on the contracts to supply trucking services to FMCG Nigeria.

LOT	LOWEST BIDDER	LOWEST BIDDER'S BID	NEXT LOWEST BIDDER	NEXT LOWEST BIDDER'S BID
1	ABC	117,819,000	MNO	118,039,000
2	GHI	357,279,000	JKL	357,922,000
3	GHI	226,106,000	ABC	226,128,000
4	ABC	414,550,000	JKL	414,662,000
5	DEF	258,537,000	PQR	269,386,000

ADDITIONAL INFORMATION: FMCG WORLDWIDE, LTD (THE GLOBAL COMPANY).

FMCG Worldwide is one of the world's largest food companies. It is the successor corporation to a company started in the mid-nineteenth century by a European scientist to produce a highly nutritious yet easy-to-eat gruel (that is, breakfast food) he had developed for elderly consumers. This gruel was a lifesaver for many elderly consumers. The product was extremely successful, and soon it was being sold all across Europe.

Eight years after founding his company, the European scientist sold it to a group of investors. The new investor group changed the name of the company to FMCG Worldwide, Ltd. The new investor group also expanded the company's product line; in particular, they developed a condensed milk product and then introduced that product in the market. In doing so, FMCG Worldwide put itself in direct competition with a very serious competitor founded by two North Americans living in Europe. Part of the reason FMCG Worldwide moved into the condensed milk market was that this competitor had, very recently, introduced its own geriatric gruel, in direct competition with FMCG Worldwide.

While both of the above companies competed fiercely in the areas of geriatric gruel and condensed milk, each of them continued to grow and to expand the geographic coverage of the markets they served. In the case of FMCG Worldwide, by the beginning of the 20th century, the company had factories located not only in Europe but also in the United States. As for its competitor, this company also had, at one point, factories all across Europe and in the United States as well. Due to a combination of leadership changes and financial challenges, however, early in the 19th century the competitor sold its American factories to a food company based in the U.S.

Shortly after its leading competitor sold its American factories, FMCG Worldwide and this competitor merged. Soon afterwards, the new company (it retained the name "FMCG Worldwide Ltd.) expanded its operations to include manufacturing in its second largest export market (Australia) and warehouse facilities in Bombay, Hong Kong, and Singapore.

During the years of the first world war, fresh milk was in very short supply in Europe, and governments in Europe were very eager to sign contracts for milk products. As a result, FMCG Worldwide purchased a number of factories in the United States, so as to be able to meet the need from Europe for milk products. By the end of the first world war, the company's production of milk products was twice the amount the company had produced at the beginning of the war.

The end of the first world war brought huge changes to the business environment. Suddenly, milk contracts from governments dried up; in addition, as fresh milk once again became available, customers shifted away from condensed milk back to fresh dairy products. FMCG Worldwide suddenly found itself recording losses rather than profits for the year; this was the first time this had ever happened. In the face of these losses, the directors of FMCG Worldwide restructured the company. By focusing on balancing demand for its products and the amount of those products the company was producing, and by finding ways to reduce debt, the directors ensured both a return to profitability and the ongoing survival of the company.

In the early post-war period, FMCG Worldwide introduced a variety of new beverage and confectionary products. Some of these products, which dramatically changed both the beverage and confections-related behaviors of consumers, were huge and instant successes.

In 1939, with the beginning of the war in Europe, many of FMCG Worldwide's executives were transferred to offices in the United States. During the war, FMCG's beverage and confectionary products continued to sell very well.

As indicated earlier, the period immediately following the first world war had been a period of financial challenges severe enough so that FMCG Worldwide had been forced to restructure. However, the period following the second world war was a period of enormous growth for FMCG Worldwide, both in terms of increases in volumes of existing products plus increases due to addition of new products. As regards existing products, during the decade of the 1950s, sales of FMCG Worldwide's leading beverage product nearly tripled; over the next decade, they grew at least that much again. As for new products, in the 30 years following the end of the Second World War, FMCG Worldwide acquired a number of companies in new (for the company) food areas; those new (for FMCG) food areas included:

FOOD AREAS ADDED TO THE FMCG WORLDWIDE PORTFOLIO, IN THE 30 YEARS AFTER THE SECOND WORLD WAR

seasonings and soups
preserves and canned foods
frozen foods
fruit juices

In the 197Os, FMCG Worldwide made major investments in a couple of companies outside of the foods and beverage area. Starting in the 1980s and continuing on to the present, FMCG Worldwide resumed making acquisitions in the food industry. Product lines added to the FMCG Worldwide portfolio starting in the 1980s and forward into the new millennium are as indicated below:

PRODUCTS ADDED TO THE FMCG WORLDWIDE PORTFOLIO

mineral water
pet foods
ice cream
weight loss programs
medical nutrition
pharmaceuticals
baby food

In 2008, FMCG Worldwide's performance worldwide was as indicated below:

consolidated sales:	more than 30 billion euros
net profit:	more than 6 billion euros
research & development	more than 600 million euros

In its annual report, FMCG Worldwide provides sales breakdowns both by geography and by category. For 2008, sales broken down by category and sales broken down by geography are as indicated below:

2008 FMCG WORLDWIDE SALES BROKEN DOWN BY PRODUCT CATEGORY	
drinks:	20%
dairy and food products:	20%
ready prepared dishes:	20%
chocolate:	10%
pet products:	10%
all other	20%
TOTAL	100 %

2008 FMCG WORLDWIDE SALES BROKEN DOWN BY GEOGRAPHY	
Europe:	33%
Americas	33%
Rest of the world	34%
TOTAL	100%

Regarding the global presence of the company, FMCG Worldwide is one of the market-leaders in a number of different product categories, including beverages, confectionary, food seasoning, and pet food.

ADDITIONAL INFORMATION: FMCG NIGERIA

FMCG Nigeria was founded in the 1960s. Prior to that date, FMCG products had been available in Nigeria for many years, provided by small traders on an informal and irregular basis.

Over the years, the way FMCG Nigeria conducts its business in Nigeria has changed dramatically. In the beginning, FMCG Nigeria imported products produced elsewhere in the world and then used its own distribution system (company trucks, company warehouses, and so on) to deliver these imported products to major markets all across Nigeria. Over the years, the system FMCG Nigeria used to develop and grow its business in Nigeria changed in a number of ways, including the following:

1) In the 1980s, FMCG Nigeria established a factory outside of Lagos, to produce locally the products which originally had been imported from overseas. Over the years, the factory has been dramatically expanded; at this point, it produces and/or packages most of the products which FMCG Nigeria sells in Nigeria.
2) Over time, FMCG Nigeria realized that its key skills and competencies related primarily to the production and marketing of its various products. For this reason, FMCG Nigeria outsourced the transportation function and scaled-back dramatically its system of company-owned warehouses. Currently, FMCG Nigeria uses more than 40 transportation companies to transport its products to distributors based in major cities all across the Federation. For a map showing the location of many of FMCG Nigeria's largest distributor customers, see Appendix 2. For a list of the population of the 36 states in Nigeria (plus the Federal Capital Territory), see Appendix 3.

The approach which FMCG Nigeria has used to develop its business in Nigeria has been very successful. Turnover in a recent year exceeded 100 million euros; pretax profit that same year exceeded 17 million euros; and after-tax profit that same year exceeded 10 million euros. Key elements of FMCG Nigeria's approach to the market include:

1) FMCG Nigeria uses a "Popularly Priced Products"(that is, PPP) approach to pricing. In other words, when it sets and/or revises prices, FMCG pays serious attention to the question of whether customers perceive that FMCG products offer good value for money. Having said this, it is also true that FMCG's products are formulated and

manufactured to world-class standards, and often provide nutritional benefits which are totally lacking in products which consumers might view as "competitors" and/or "substitutes."

2) The products produced by FMCG Nigeria are promoted using a variety of "above the line" and "below the line" activities. Regarding "above the line" activities, FMCG Nigeria advertises many of its products using television, radio, and print media. Regarding "below the line" activities, these include sponsorships from FMCG Nigeria for a number of different organizations and/or events. In addition, some of the products produced by FMCG Nigeria are sampled very intensively to schools and other target audiences.

THE CHALLENGE

Please assume you are Mr. Henry Adjai. What actions will you take, and what recommendations will you make, in awarding trucking services contracts to the companies which have now submitted their bids, bearing in mind the special concerns of the M.D., which include:

1) The M.D. fears (and the bids you have just received confirm his fears) that the bids the trucking companies will all be quite similar. In other words, the M.D. fears (and his fears have now been confirmed) that the trucking companies are not likely to compete very intensively on the prices they quote to FMCG Nigeria).
2) The M.D. also indicated that because FMCG Nigeria spends over a billion naira per year on trucking services, it is very important that Mr. Adjai do anything he can to reduce the costs of the three year contracts for transportation services which FMCG Nigeria will soon be signing with the trucking companies.
3) The M.D. reminded Mr. Ajai that the #1 objective (as he addresses the trucking services-related problems and opportunities discussed above) is to develop not just a "fix" to the current challenges FMCG Nigeria is facing, but rather to develop a long term strategic solution which will provide a permanent solution to the availability of trucks for FMCG, both now and in the future.

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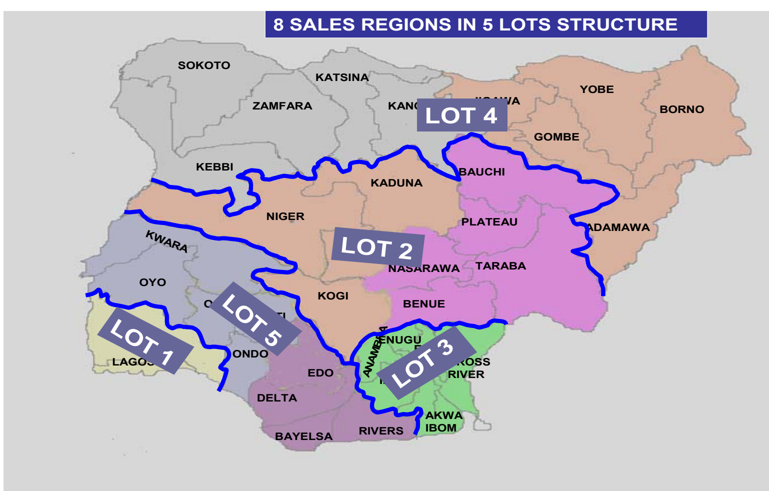
APPENDIX 1:
SAMPLE OF COMPARABLE STATISTICS FOR NIGERIA AND THE U.S.

	NIGERIA	UNITED STATES
SIZE OF ECONOMY		
Population millions 2006	144.7	299.4
Population millions 2015	175.6	323.9
Surface Area thousand sq km 2006	924	9,632
Gross National Income $billions 2006	90.0	13,386.9
Rank	52	1
Gross National Income per capita$	650	44,710
Rank	173	11
Gross Domestic Product: % growth 2005-2006	5.2	2.9
NEW PURCHASING POWER PARITY		
Market Exchange Rate, Local Currency to $ 2005	131	1
Gross Domestic Product PPP $ billions	214.8	12,397.9
Per Capita PPP	1,520	41,813
Consumption Expenditure (per capita ppp) 2005		
Food	269	1,998
Individual Education	280	2,725
Health	97	5,853
MILLENUIM GOALS 2006		
Fixed-line & Mobile Phone Subscribers Per 100 People	24	135
PARTICIPATION IN EDUCATION 2006		
Gross Enrollment Ratio, % of relevant age group		
Preprimary	14	61
Primary	96	98
Secondary	32	94
Tertiary	10	82
ENERGY PRODUCTION 2005		
Total Energy Production , million metric tons of oil equiv.	231.8	1,630.7
URBANIZATION, millions 2006		
Millions	70.9	242.8
% of Total Population	49	81
Average Annual % Growth 1990-2006	4.8	1.6
MONETARY INDICATORS 2006		
Interest Rate		
Deposit	9.7	
% Lending	16.9	8.6
Real	8.3	4.6
BALANCE OF PAYMENTS Current ACCOUNTS 2006		

Goods & Services		
Exports	52,233	1,445,702
Imports	24,609	2,204,226
DOMESTIC BUSINESS INDICATORS		
Starting a Business		
Number of Procedures	9	6
Time Required Days	34	6
Cost % of Per Capita Income	56.6	0.7
STOCK MARKET		
Market Capitalization		
$ millions 2007	86,347	19,425,855
% GDP 2006	28.6	147.6
Listed Domestic Companies, Number 2007	212	5,133
TAX POLICIES, June 2007		
Taxes Payable by Businesses		
Number of Payments	35	10
Time to Prepare, File and Pay Taxes Hours	1,120	325
Total Tax Rate % of Profit	29.9	46.2
TRANSPORT SERVICES		
Total Road Network km 2000-05	193,200	6,544,257
Pave Road % 2000-05	15.0	65.3
Passengers carried thousands 2006	1,308	725,531
Source: The World Bank		

APPENDIX 2: MAP OF NIGERIA, SHOWING LOCATIONS OF FMCG NIGERIA FACILTIES AND MAJOR CUSTOMERS



APPENDIX 3

	POPULATION OF NIGERIA 36 STATES PLUS THE FCT	NUMBER OF FMCG NIGERIA LARGEST 85 DISTRIBUTORS LOCATED IN THIS STATE
1 Lagos State	15,000,000	37
2 Kano State	9,383,682	5
3 Kaduna State	6,066,562	1
4 Katsina State	5,792,578	0
5 Oyo State	5,591,589	6
6 Rivers State	5,185,400	2
7 Bauchi State	4,676,465	1
8 Jigawa State	4,348,649	0
9 Benue State	4,219,244	0
10 Anambra State	4,182,032	1
11 Borno State	4,151,193	2
12 Delta State	4,098,391	1
13 Imo State	3,934,899	1
14 Niger State	3,950,249	1
15 Akwa Ibom State	3,920,208	1
16 Ogun State	3,728,098	0
17 Sokoto State	3,696,999	1
18 Ondo State	3,441,024	1
19 Osun State	3,423,535	0
20 Kogi State	3,278,487	0
21 Zamfara State	3,259,846	0
22 Enugu State	3,257,298	2
23 Kebbi State	3,238,628	0
24 Edo State	3,218,332	3
25 Plateau State	3,178,712	1
26 Adamawa State	3,168,101	2
27 Cross River State	2,888,966	2
28 Abia State	2,833,999	6
29 Ekiti State	2,384,212	0
30 Kwara State	2,371,089	2
31 Gombe State	2,353,879	1
32 Yobe State	2,321,591	0
33 Taraba State	2,300,736	0
34 Ebonyi State	2,173,501	1
35 Nasarawa State	1,863,275	0
36 Bayelsa State	1,703,358	1
37 Federal Capital	1,405,201	3
TOTAL		85

TNK-BP: TREAD WITH CAUTION

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CASE DESCRIPTION

The primary subject matter of this case concerns the management of international joint ventures. Secondary issues examined include: business in Russia; government's intervention in business and how it affects multinational companies; market entry and modes of market entry decisions;; and dimensions and elements of culture (Fang 2003). The case has a difficulty level appropriate for first or second year graduate level. The case is designed to be taught in one class hour and is expected to require one hour of outside preparation by students.

CASE SYNOPSIS

BP, one of the largest publicly listed oil companies in the world, had been operating in Russia since 1997, initially through minority stakes in Russian oil companies and, since 2003, through TNK-BP, a 50-50 joint venture with AAR, a consortium of Russian investors. This joint venture allowed BP access to extensive oil reserves in Russia and was one of BP's most valuable assets, accounting for 25% of BP's production in 2007.

In 2008, BP and its partners in TNK-BP encountered serious disagreements about how to run the company. A string of government actions including raids by the Russian tax police on both BP and TNK-BP's offices in Russia concluded with the cancelation of TNK-BP's British CEO's work visa by Russian immigration authorities. Although BP and its partners reached an agreement in principle to renew the board of TNK-BP and appoint a new CEO in December 2008, by February 2009 they had not been able to appoint a Chief Executive acceptable to both parties.

INTRODUCTION

In May 2009 TNK-BP, a 50-50 joint venture between BP, one of the major western oil companies, and Alfa Access/Renova, a Russian consortium, was operating without a CEO. Robert Dudley, its previous CEO, had been forced to resign from his post following a bitter dispute between the partners in the joint venture, including raids on the company's offices by tax authorities and the revocation of Mr. Dudley's work visa in Russia. After an agreement in principle and the election of a new board, the new CEO would have to face the challenges of the politicized business environment in Russia, a partner with a history of strained relationships, and declining oil prices. However, nine months after its previous CEO had been ousted TNK-BP was still operating under its COO, Tim Summers, as Interim CEO With his Interim CEO contract recently extended, what tools would Summers need to prevent the mistakes of the past and build a more successful business model for these very different partners?

BRITISH PETROLEUM

British Petroleum had its origin in the early 1900's as the Anglo-Persian Oil Company (APOC). On May 26, 1908 at a depth of 1,180 feet in remote Persia, "a fountain of oil spewed out into the dawn sky" from what was later named the Naphtha Field (www.bp.com). Within a year the Anglo-Persian Oil Company was in business. By 1914 APOC was almost broke but Winston Churchill, then First Lord of the Admiralty, believed Britain needed a dedicated oil supply. He urged his colleagues to "look out upon the wide expanse of the oil regions of the world. Only the British-owned Anglo-Persian Oil Company could protect British Interests," he said. The resolution passed easily and the British government became a major shareholder in the company. No one had long to think of the implications as two weeks later, an assassin killed the Archduke Franz Ferdinand in Sarajevo and six weeks later, Germany attacked France and World War I had begun. By the end of the Great War, "war without oil would be unimaginable." (www.bp.com)

The British Petroleum brand was originally created by a German company as a way to market its products in Britain. During the war, the British government expropriated the company's assets and sold them to Anglo-Persian in 1917. Over the next decade, gas and electricity replaced kerosene for home heating and gasoline-fueled trucks competed with railroads and the automobile age had begun.

In 1935, Persia changed its name to Iran and Anglo-Persian changed its name to Anglo-Iranian. Then in 1939 Britain entered World War II and gasoline was rationed. With the high risk in transporting oil from Iran to the UK, the company increased production at a field in Nottingham, England. The quantities were small but large enough to help the country get by. The field was one of the best-kept secrets of World War II.

After World War II, as Europe rebuilt, Anglo-Iranian invested in refineries all over Europe and began selling gas in New Zealand. Middle Eastern nationalism was rapidly expanding, and Britain's control over Iran was rapidly diminishing. In 1951 the Iranian Parliament nationalized oil operations within the country's borders. Governments around the world boycotted Iranian oil, and within 18 months the Iranian economy was in ruins. Eventually a new arrangement was worked out with a consortium of companies including Amoco and others running the operation with Anglo-Iranian's stake down to 49%. In 1954 the board changed the company's name to The British Petroleum Company.

In the 1960's, expeditions started finding oil in places like Abu Dhabi, Nigeria and Libya. In 1965, BP found enough natural gas in the English Channel to power a medium-sized city. In 1968, a significantly larger discovery was made on the North Slope of Alaska by Arco and Exxon. A year later, BP drilled into the field which was one of the largest reservoirs found on the North American continent. Nobody believed that oil would be found in the North Sea. But in 1970 the "40's field" was discovered, which could produce 400,000 bbls oil per day.

In the 1970's, nationalization of oil fields in the Middle East and North Africa led to a decline in Middle Eastern oil from 80% to 10% of BP's total supply. This spurred the development of the North Sea and Alaskan fields. In 1987, BP bought Sohio and, in the late 1990's, Amoco and Arco. This gave BP new momentum.

By the 21st Century, BP was looking forward and had major long term projects in Russia, the Caspian, and elsewhere. There were also new projects in Angola and the Gulf of Mexico. It was in this time period that TNK-BP was formed to capitalize on the vast Russian reserves in a period of increasing oil prices and increasing demand.

TNK-BP BACKGROUND

With oil resources were naturally and politically limited, the industry was constantly looking for new supplies that were not off limits. Since the collapse of the Soviet Union, Russia had been modernizing its oil infrastructure. Russia had proved oil reserves of 60 billion bbls, mostly in Western Siberia, and also had the world's largest natural gas reserves.

Though Russia had major issues with NATO and the American plan for a missile shield, in the 21st century the power was in pipelines, not warheads. Russia's state-controlled Gazprom provided an increasingly significant proportion of Europe's natural gas supplies and controlled the pipeline network that distributed it. This gave Russia significant leverage over Western Europe's economy. However, this may also have given the West some leverage as Russia needed the revenue, technology and investment to broaden and develop Russia's own economy.
In 2002, energy accounted for nearly 20% of Russia's GDP. For the Russian oil industry, the drivers toward globalization include: "spreading portfolio risk, access to learning and expertise, more certain economic conditions and payment, enhanced ability to raise capital, securing a downstream market for crude oil, high cashflows from domestic operations providing resources for foreign investments and ego" (Dixon, 2004).

Analysts believed Russia had great potential and could eventually produce 10 million bbls of oil per day by 2010. However, Russia had an inefficient infrastructure, widespread government corruption and a lack of pipeline capacity. Some Russian oil companies were therefore quite open to the idea of partnering with western companies. For example, for the Russian partners Alfa Access/Renova (AAR), a western partnership could have provided access to new technology, international capital, world class management skills, and new international markets. (Dudley, 2003) Several factors in Russia helped make such a partnership possible, including: an improved investment climate in Russia; Russia's increased participation in the global economy; and enhanced political cooperation with the U.S. and European Union.

Still, most western oil companies kept their distance from the Russians by getting minority stakes short of management control. BP, however, had had a longer history of working with the Russians, including a 10% investment in Siberian oil company Sidanco in 1997 (the first by a western major in Russia) increasing to 25% and management control in 2000. During that period, TNK (controlled by Alpha Access/Renova) and Sidanco sued and countersued each other over Chernogorneft, a Siberian subsidiary. As part of a 2001 settlement, Sidanco regained control over Chernogorneft while TNK acquired a majority stake in Sidanco. Both BP and the Russians saw the opportunities in a partnership.

BP's past experience also provided some insight of the potential challenges ahead. Tony Hayward, chief executive of BP, was asked what suggestions he would offer to companies planning to do business in Russia. "My advice," he replied, "would be: tread with caution."

In February 2003, BP invested $6.75 billion in a new joint venture company with Russia's fourth-largest oil company, TNK, pooling the assets of both TNK and Sidanco and giving BP access to the large Samotlor oil field with reserves of 3.7 billion bbls (Grace, 2005) Thus TNK-BP, registered in the British Virgin Islands, was at the time of its formation the largest foreign investment in a Russian company, as well as one of the largest corporate transactions in Russian history. In newly appointed CEO Robert Dudley's 2003 presentation to BP stockholders, he identified the opportunities in Russia as:

1. New reserves to ensure long-term growth;
2. New production region to ensure diversity of supply;
3. Proximity to markets; and
4. Leverage on existing relationships with Russian partners.

TNK-BP had a shareholder agreement that established joint and equal control between BP and Russian partners AAR. The Board was comprised of five representatives from BP and five from AAR. A Senior Management Team consisted of seven representatives from each company. AAR appointed the Chairman and BP appointed the CEO. An audit committee was chaired by Rodney Chase, advisor to BP's CEO.

A compensation committee determined the compensation and performance package for both the CEO and Senior Management. BP's 50% stake in TNK-BP made it the world's largest crude oil producer in 2003.

The partnership had appeared golden for several years, with BP technology and expertise increasing the productivity of existing oil fields. BP became the world's number two Russian exporter, a figure that rivals had yet to match. From fiscal years 2006 to 2007, TNK-BP saw 9% growth, to revenues of $38.7 billion in 2007. By 2008, TNK-BP accounted for 25% of BP's global production. However, during this time the partnership began to show signs of strain. Board meetings became marathon battles with lots of screaming over different visions for corporate policy and strategy. There were also strident disagreements about payment terms to stockholders. When profits decreased 20% due to investments in new developments, necessary after the low hanging fruit of increasing productivity in existing assets, Russian shareholders claimed that CEO Robert Dudley was more focused on the interests of BP than TNK-BP profits. The Board failed to agree on a five-year plan.

In addition, in 2008 BP employees were increasingly coming under attack. (See Exhibit 1 for a timeline of key events.) In March 2008, Russian security services raided the offices of TNK-BP and BP in Moscow. Russia's interior ministry launched an investigation into tax-evasion by one of TNK-BP's former units. AAR demanded the ouster of Robert Dudley and said that the election of a new board at TNK-BP's main listed subsidiary was illegal. Soon visa delays forced BP to withdraw specialists from the country. When immigration authorities refused to issue the CEO a new work visa (because his contract had not been renewed), he was forced to leave the country. However, Mr. Dudley promised to run the company from outside the country, albeit from an undisclosed location. Concern increased considerably when James Owen, an independent C.F.O., resigned on August 4, 2008, and Anthony Considine, TNK-BP Vice President for Downstream, resigned on August 25th.

Even beyond the TNK-BP situation, Russia was exerting nationalistic goals in dealing with Western oil companies, making western access to Russian exploration prospects and fields increasingly difficult. As an editorial by Alan Cowelt in the August 2-3 International Herald Tribune stated, Robert Dudley, CEO of TNK-BP left Russia because of complications with his work visa. Those problems coincided mysteriously—and for the Russian side, conveniently—with broader disputes about the company's investment policies and senior personnel appointments. Since leaving, Dudley had tried to run the company from somewhere outside Russia, even though his partners in the joint venture no longer recognized him as chief executive. BP accused them of enlisting state agencies to pursue their battle—a familiar combination of commercial and government forces in Russia's quest to restrict foreign influence in its oil industry.

TNK-BP OPERATIONS

TNK-BP Operations, led by the Chief Operating Officer, consisted of Upstream, Downstream, Technology, and Field services. Key TNK-BP upstream subsidiaries included Samotlnirneftegas, Nizhnevartovsk NP, TNK-Nyagan, Tyumenneftegas, Orenburgneft, as well as upstream subsidiaries of Sidanco. Key downstream subsidiaries included Ryazan Refinery, Nizhnevartovsk NPO and Orsk Refinery in Russia and Lisichansk Refinery in Ukraine; as well as Sidanco refining subsidiary, Saratov Refinery (Russia).

Political risks were a big part of doing business in Russia, including: governmental control; state monopolies restricting oil transportation and exports; gas transportation; complex bureaucracy, and tax regime – incremental taxes take 90% after $25/bbl. Internally, TNK-BP Operations faced challenges of production overcapacity; government's reluctant support in private investment in infrastructure; outdated infrastructure; and production substantially outpaced by domestic demand growth. The government supported plans to expand export infrastructure but was reluctant to allow private investment in the infrastructure and export systems which needed major upgrade. More specifically, new export routes were required to access higher-growth markets (North America, Asia-Pacific).

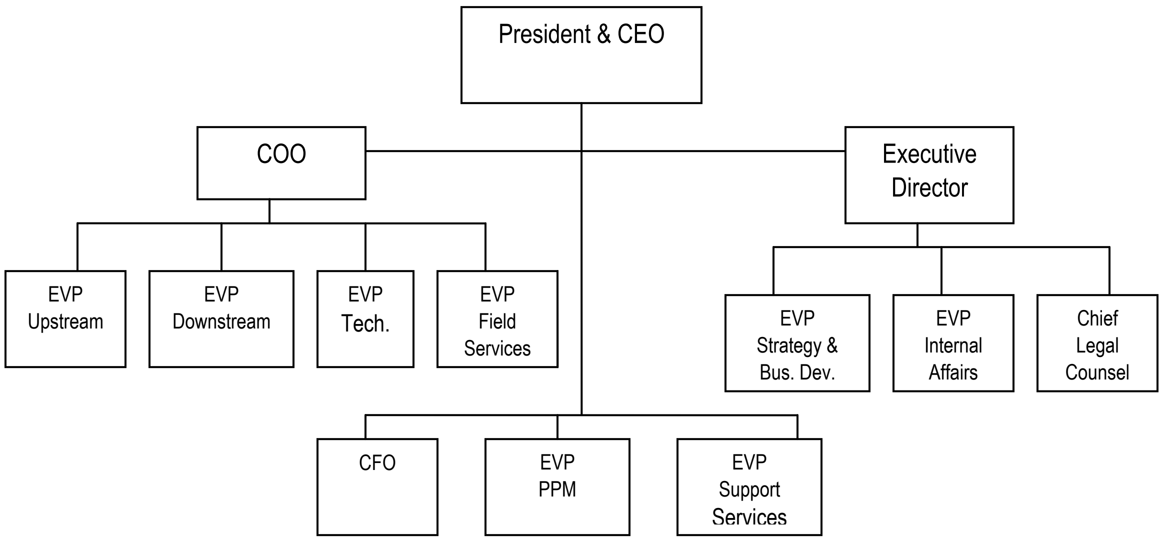
Recognizing the risks and challenges that TNK-BP had, CEO Robert Dudley laid out operations strategy priorities in February 2004. The upstream strategy priorities included:

* *Targeted aggressive production growth balanced by reserve replacement of 75% or more of production*
* *Organic growth –continue "brownfield renaissance" through integration of technology*
* *Inorganic growth –acquire assets with synergies and shared infrastructure*
* *Optimized portfolio*
* *Monetized gas reserves and build successful gas business*

The downstream priorities included:
* *Enhanced downstream margins*
* *Maximized exports*

** Expanded presence in key CIS markets (e.g. Central Russia and Ukraine)*
** Explored options for gas exports to China, South Korea, Europe*

TNK- BP Management Structure (TNK-BP General Presentation 2003).



Next Level of Number of Positions

TNK	29	42%
Sidanco	11	16%
BP	24	35%
External hire	5	7%

After the first full year since the joint venture was begun in 2003, TNK-BP Management successfully executed the strategy by a number of measures. As a result, the Chief Operating Officer reported production growth of 13%--72 million tons in 2004; a decrease in unit/lifting costs; replacement of 127% of production through reserves addition; and significant improvement in downstream netbacks through the opening of new distribution channels. Riding on the success, TNK-BP management again set aggressive milestones for 2005 to accelerate the progress. Key objectives included: production growth better than industry average; replacing 100% production with new reserves; maintaining a strong cost discipline through flat lifting costs; and improving capital efficiency. With a strong focus on investment in the infrastructure, improving capital utilization, and maintaining cost discipline, TNK-BP delivered another good year in 2007 in terms of production growth, technology improvement, and downstream expansion. Downstream expanded five refineries in Russia and Ukraine, became a major retailer of fuels in Russia and Ukraine, and 1600 TNK and BP branded sites. Production and Reserve Growth included oil production 30% higher than at the start of operations, a 132% organic replacement rate, the addition of 2.5 billion barrels of new proved reserves, and the development of new major projects in West and East Siberia, increasing share of gas in the production. Technology improvements included a focus on water injection, a waterflood program to increase recovery, an exploration drilling success rate of more than 60%, and refinery modernizations to produce lighter and cleaner products.

Despite months of acrimonious conflict between BP and its Russian partner, AAR, TNK-BP once again delivered strong performance in the first half of 2008. Tim Summers, Chief Operating Officer, reported four consecutive quarters of production growth, rapid early brownfield optimization, consolidation and development of new projects, and two new greenfields coming on line in 2009 (see Exhibit 3 for upstream performance data).

INDUSTRY OVERVIEW

The roots of the modern oil industry can be traced to the United States during the late 19th century when John D. Rockefeller, after investing in a Cleveland oil refinery during the Civil War, founded Standard Oil in 1870. In 1880, Standard refined 95% of all oil in the US. In 1911, the government determined that Standard was a monopoly and broke it up into 34 companies. Some of those companies survived into the 21st century, including ExxonMobil and Chevron.

With the rapid expansion of the auto industry, oil demand increased quickly. In the 1930s, the oil giants invested substantially in Texas exploration. Shortly thereafter, the legacy companies of Chevron, Texaco, Exxon and Mobil expanded their hunt for reserves outside the US, in particular buying oil rights in Saudi Arabia.

In 1960, the Organization of Petroleum Exporting Countries (OPEC) was formed in Baghdad during a meeting of the top oil producing countries of Iraq, Iran, Saudi Arabia, Kuwait and Venezuela. In 2008; OPEC membership stood at 13 countries (Algeria, Angola, Ecuador, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela). OPEC nations accounted for two-thirds of the world's oil reserves, and, as of March 2008, 35.6% of the world's oil production, which gave OPEC considerable influence over the world oil market.

As of Fall 2008, the five largest major integrated oil and gas listed companies by market capitalization were ExxonMobil, Petrochina, Royal Dutch Shell, BP and Chevron. Despite several oil price shocks and maximum prices well over $140/bbl in mid-2008 that resulted in record profits, big oil faced a crisis. Production declined in mature regions such as Alaska and the North Sea where the majors were represented, and in fact fell at all seven of the major western oil companies as few new fields were being discovered. Politics played a significant role as western oil companies were squeezed out of many oil- and gas-rich areas from the Caspian region to South America. The majors were forced to renegotiate contracts on less favorable terms and often lost battles with stronger state-owned oil companies. According to the *International Herald Tribune* (August 16-17, 2008), "…the unpleasant reality is that the giants that once dominated the global oil scene have lost much of their influence – and with it, their ability to increase supplies from traditional sources." In a world that consumed 86 million bbls/day, the market was so tight that the smallest shortfalls pushed up prices.

The global oil industry had been changing dramatically in preceding decades. In the 1970s, western corporations such as ExxonMobil, BP, Royal Dutch Shell, Chevron, Total, Conoco-Philips and Eni controlled over half of the world's production. By 2008, those companies controlled only 13% of production and less than 10% of global reserves.

Henry Lee, an energy expert at Harvard's Kennedy School of Government, said that western companies had "become small players." The 10 largest holders of petroleum reserves were state-owned companies such as Saudi Arabia's Aramco, Russia's Gazprom and Iran's National Oil Company (NIOC). In fact, in 2007, every firm in the top ten reserve holders in the world in 2006 (except Lukoil) was a state-owned oil company. Exhibit #2 shows these top ten companies in terms of liquid petroleum reserves in 2006 and 2000.

ExxonMobil was ranked fourteenth, BP seventeenth, Chevron nineteenth, ConocoPhillips twenty-third and Shell twenty-fifth in 2006. These five companies controlled 3.8% of the world's liquid reserves while the top ten companies in the table above (mostly state-owned) controlled 80.6% of total world liquid reserves. Additionally, the ten companies in the chart above had an average reserve to production ratio (RPR) of 78 years, while the five large international private oil companies previously mentioned had a ratio of eleven years (RPR=(reserves economically recoverable under existing conditions)/(yearly production)). This data suggests that the ten companies would be major forces in the world oil market seven times longer than the five major private international oil companies, reflecting a troubling trend for the energy security of western and other oil importing nations.

Exhibit #3 table shows the top ten companies by petroleum liquids production. In 2006, seven of the top ten producing companies were state-owned while three were private. A company needs access to both oil accumulations and technology to produce hydrocarbons. The private international oil companies had the most access to state-of-the-art technologies, which was one of the key reasons oil producing nations entered production-sharing agreements with private international oil companies.

The technical efficiency and upstream capital expenditures was far greater for the private major international oil companies than for the state-owned oil companies. According to a study of the industry, the efficiency score for the five private major oil companies was 0.73 while for the state-owned companies efficiency was 0.27 (Eller, Hartley & Medlock. 2007). Part of this inefficiency is shown in the number of employees necessary to extract the same amount of oil (See Exhibit #4).

The western majors invested much more in upstream capital expenditures (CAPEX) and this had implications for additions to the world reserve and production base. This was not only a problem for the state-owned oil companies, but rather a problem for the world. The most inefficient firms, which were reinvesting proportionately less CAPEX in finding new oil reserves, were in control of most of the world's oil reserves. With market demand expected to increase 30% by 2030, the world would most likely face an increased future shortage of available oil to market due to the increased share of world oil reserves held by inefficient and low budget state oil companies.

According to the International Herald Tribune, "Experts say the new oil order has unsettling implications for the future of the global supply because the private Western companies are far better than most national oil companies at finding and extracting petroleum. They have developed the world's most advanced exploration technologies, and can muster huge financial resources to develop new fields. Yet instead of drawing on this expertise, many of the world's exporting states have decided to spurn it in favor of keeping full control of their oil. As the power and clout of Western companies erode, many experts predict that the role of national oil companies will keep growing, making the world increasing[ly] dependent on these government-controlled entities." (Eller, Hartley, Medlock III, 2007) As Bruce Bullock, the director of the energy institute at Southern Methodist University said, "We are going to depend on the Venezuelan, the Nigerian, or the Iranian oil companies for the future of our oil supplies. This is a troubling trend." One country where trouble became increasingly manifest was Russia.

RUSSIAN POLITICAL, SOCIAL AND CULTURAL BACKGROUND

"In the State Duma there are still people who think that Western firms are imperialists: sharks, come to plunder the Motherland." – An un-named Russian analyst (Dixon, 2004).

In the mid-1980s, Soviet Premier Mikhail Gorbachev began a series of reforms that collectively came to be known as *perestroika*. Gorbachev intended these reforms to revitalize the Soviet Union. At the same time, he embarked on the policy of *glasnost*, or "openness," with the West, a marked departure from the secretive Soviet policies of the past. Rather than revitalizing the Soviet state, however, *perestroika* and *glasnost* had the effect of destabilizing the regime. *Glasnost* revealed the Western world to the Communist bloc, and the temptations of the West proved too alluring to many millions living the dramatically different and drab existence of a centrally planned economy.

In 1989 the Berlin Wall fell, an act inconceivable to most only a few years before. Such an event would have been impossible without Gorbachev's reforms, and in the West (and many parts of the Soviet bloc as well), he was hailed as a benefactor. There were many within Russia, however, who considered these developments a betrayal and a submission to the corrupting influences of the West, which was ever vigilant to encircle and destroy the Soviet Union. Among those who generally held this view were the Soviet Union's staunchest defenders, the KGB (the Soviet state security apparatus), whose *raison d'etre* during the Soviet era was service to the State, best achieved through surveillance and suppression of dissent from all within its reach.

In August 1991, in an effort to save the Soviet Union from these corrupting influences, various members of the government and KGB attempted to overthrow Gorbachev. The coup failed, and ultimately precipitated the collapse of the Soviet Union. The day before the coup was suppressed, a relatively unknown member of the KGB, Lieutenant Colonel Vladimir Putin, resigned from the service.

In the following years, under Russian President Boris Yeltsin, Russians experienced not only the collapse of the Soviet empire, but the stripping away of satellite states and the "security belt" they afforded, the loss of perceived super-power status, and the chaotic upheaval of transition to a capitalistic society. In short, in the span of less than a decade, many of the features of daily life in the Soviet Union were swept away, replaced by the opportunities and uncertainties of dramatic change. This transition was frightening to many and challenging to most. Russia's Real GDP shrank by 40% in the decade between 1989 and 1998, culminating with a bail-out by the International Monetary Fund.

Many citizens of the former Soviet republics were ill-prepared for the challenges a capitalistic society brought, but not all. At this time a small number of opportunistic and well-connected individuals maneuvered to grab much of the country's natural resources, oftentimes convincing ordinary citizens to sell them the "worthless" privatization deeds representing ownership shares in formerly collectivized land or industry for a bottle of vodka or a few coins. These opportunistic individuals, soon known collectively as oligarchs, built up astonishing fortunes seemingly overnight.

In 1995 Russian President Yeltsin signed a decree disbanding the KGB. In its stead was created the FSB (loosely translated as the Federal Security Service). While the name had changed, much of the security apparatus remained in place, with many members of the KGB moving to the FSB. Many other members of the KGB moved into private security positions, protecting the newly rich Russian oligarchy from the rampant crime that gripped Russia during the 1990s.

In 1998, Boris Yeltsin placed Vladimir Putin in charge of the FSB, and a year later, made him Prime Minister. On New Year's Eve 1999, Yeltsin resigned the presidency of Russia, handing the reins of power to Putin. Just prior to becoming president, Putin told his former colleagues at the FSB: "A group of FSB operatives, dispatched under cover to work in the government of the Russian Federation, is successfully fulfilling its task" (*The Economist*, 25 August 2007). It was reported that Putin appeared to be only half-joking.

As President, Putin identified his key priorities as restoring effective management to the country, consolidating political power, and neutralizing any competing sources of influence within Russia, such as the media, parliament and the oligarchs. To assist with these goals, Putin surrounded himself with trusted former colleagues from the KGB. The four key lieutenants who assisted Putin in administering Russian state affairs in the early 21st century all hailed from St. Petersburg (Putin's hometown), and formerly served within the KGB intelligence or counterintelligence units. These individuals were Deputy Prime Minister Igor Sechin, who officially controlled the flow of documents but also oversaw economic issues; Viktor Ivanov, responsible for the Kremlin personnel; Nikolai Patrushkev, head of the FSB; and Sergie Ivanov, the Deputy Prime Minister. Perhaps most striking of all, these individuals not only enjoyed political clout, but controlled considerable financial resources. Consider the following:

** Igor Sechin was the chairman of Russia's largest state-run oil company, Rosneft;*
** Viktor Ivanov was the chairman of the board of both Aeroflot and Almaz-Antey, Russia's primary producer of air-defense systems;*
** Sergei Ivanov oversaw both the military-industrial complex and the newly established aircraft-industry monopoly.*

During Putin's tenure as Russian president, annual economic growth averaged 7%, initially driven by high oil prices and a cheap ruble and later by domestic consumption and investment. In fact, exports of natural resources, in particular oil and gas, accounted for 80% of Russia's exports and 30% of government revenues. In May 2008, Vladimir Putin transferred the presidency to Vladimir Medvedev, while assuming the position of prime minister. During 2008 and into 2009, the global economic and financial crisis and especially lower oil prices took a toll on the Russian economy that was expected to contract by 4% in 2009.

Central to the understanding of the TNK-BP dynamic was the perception of the West, as viewed by Russia. Growing European (and particularly American) influence in the former Soviet bloc, and especially within Russia itself, was viewed by many Russians as an attempt to impose Western culture, philosophy or attitudes on a mostly unwilling people. The government did not discourage this view, but in fact frequently encouraged it with its pointed dislike of NATO encroachment, missile-defense systems, and western companies acquiring or exploiting assets within Russia and its sphere of influence. Deputy Prime Minister Sechin, for example, affirmed that only Gazprom and Rosneft would be allowed to develop the oil and gas reserves beneath Russia's Arctic continental shelf. http://www.russiaprofile.org/page.php?pageid=Business +New+Europe&articleid=a1217228548 Given these sentiments, there was little sympathy within Russia itself for the challenges BP or any other western company experienced when trying to do business within Russia.

It is important, too, to understand the long tradition of collectivism within Russian society, dating back to the time of the tsars. This collective instinct, which tended to ignore the importance of individuals, was at odds with the individualistic approach associated with Western traditions. Such a seemingly innocuous difference could assume potentially dramatic effect when one or both cultures were not inclined to collaborate fully. Along similar lines, the concept of *blat*, a kind of personal networking common within Russia, must be taken into account. *Blat*, in the words of one study, is "an essential lubricant of life" (Hutchings & Michailova,2004) within Russia, and any outsider attempting to do business in Russia without *blat* would be at a distinct disadvantage compared with those who enjoy its benefits.

Financial Overview and Significance of TNK-BP to BP, PLC

"Russians are not thieves. Russians are not bureaucrats by nature. It is just that the previous Soviet period makes them traditionally do what was the norm in this country." -- An un-named Russian Analyst (Dixon, 2004).

TNK-BP was a joint venture owned 50% by BP and 50% by a group of prominent Russian investors, Alfa, Access/Renova groups (AAR). It operated primarily in Russia and the Ukraine and employed about 71,000 people.

The parent company BP PLC had a market capitalization of $161.8 billion, making it the fifth largest major integrated oil company in the world behind Exxon Mobil, Petrochina, Royal Dutch Shell and Chevron. Founded in the early 1900's and headquartered in London, BP operated in Europe, the United States, Canada, Russia, South America, Australasia, Asia and Africa. BP PLC employed 97,600 employees and operated in two segments, Exploration & Production, and Refining & Marketing. The company had net proved reserves of 17.8 billion barrels of oil and gas equivalent.

TNK-BP was a very significant asset to BP PLC. Based on financial statements, in 2007 BP had sales and other operating revenues of $284.365 billion and profit for the year of $21.169 billion. TNK-BP reported financial data under various accounting standards including Russian accounting standards as well as under US GAAP. Financial statements were also filed with the Luxemburg Stock Exchange where the company's Eurobonds were listed. In 2007 TNK-BP reported total revenues of $38.7 billion and net income of $5.3 billion (US GAAP and approved by TNK-BP Audit Committee but prior to Board of Director's approval). These numbers were audited by PricewaterhouseCoopers.

TNK-BP sales and other operating revenues attributed to BP's financial statements were $19.463 billion with profit (after taxes) of $2.271 billion. Therefore BP's share of TNK-BP's sales were 6.8% of BP's total revenues and 10.7% of BP's total profit after taxes. The relevant financial summary tables are shown in Exhibit 7.

TNK-BP was one of the largest contributors to BP PLC's bottom line and was probably the single largest contributor to BP's profits. Therefore resolving the shareholder dispute with the TNK-BP Russian partners and government was of critical importance to BP. This was not an asset that BP could afford to walk away from. Even if compromises had to be made from BP's perspective, it was paramount that BP worked to resolve the "Russian Factor" to the mutual if imperfect satisfaction of all partners and stakeholders.

TNK-BP – SEPTEMBER 2008 RESOLUTION OF ISSUES

According to various sources including the *Miami Herald*, *The International Herald Tribune*, *Business Week*, the *Wall Street Journal* and TNK-BP, a resolution of the ongoing dispute between BP and TNK-BP's billionaire shareholders had emerged based on a September 4, 2008 news release. In this release Robert Dudley, CEO of TNK-BP, stated:

> *"I am pleased that our shareholders have reached agreement in principle on resolving their differences. Implementation of the agreement will allow TNK-BP to develop greater independence and identity and help prepare it for a successful public offering in due course. Becoming a more publicly held company will drive even higher standards of corporate governance and provide a fairer market valuation.…Meanwhile in 2008, we remain on track to deliver our best year of operational and financial performance in our five year history" (http://www.tnk-bp.com/press/news/2008/9/224/).*

The statement also noted that "TNK-BP remains a strong and competitive Russian oil and gas company and has contributed more than $80 billion in taxes, duties and excise to the Russian government in the five years since its inception. Its five year performance is second to none in the Russian oil and gas industry in terms of organic production growth, replacement of reserves and total shareholder returns."

BP CEO Tony Hayward commented that the agreement was "a sensible means of resolving a situation that could not continue without causing serious damage to what had been an immensely successful joint venture for all concerned. I now look forward to a fruitful conclusion of negotiations so that we can rebuild trust with AAR and resume our record of success for the benefit of all parties. A transparent, responsible approach to governance will be a critical factor in the appeal of TNK-BP to potential future investors."

Viktor Vekselberg of Renova of the AAR Russian shareholder consortium, which owns 50% of TNK-BP, stated that the agreement came after "very difficult negotiations. The main thing is that neither party allowed their emotions to overrule common sense during the conflict." Deputy Prime Minister Igor Sechin, who was involved in the negotiations, said " this will send the right signal to the market" (Stewart, 2008). Perhaps the performance results shown in

Exhibit 8 helped to encourage the TNK-BP shareholders to reach an agreement and end disruption to the highly profitable business. In addition, growing international concern about doing business in Russia, coupled with the major decline in both the Russian stock market and in the ruble's value against the dollar, may have helped spur the Russian side to reach an acceptable agreement and one not too onerous to BP and western perception about investing in Russia. According to the Wall Street Journal (Sept. 4, 2008) and other sources, BP agreed to:

> ** Remove TNK-BP CEO Robert Dudley, a former BP executive and a US citizen, by the end of 2008.*
> ** Ensure that Dudley's replacement spoke Russian, addressing the Russian Shareholders' complaint that top management at the company was too heavily foreign. The new CEO was to be approved by the TNK-BP board.*
> ** Reduce the 14-member Management Board to 4 executives to make decision-making more efficient.*
> ** Restructure and expand the TNK-BP Board of Directors from 10 to 11 directors to break the deadlock between BP and the Russian partners that had paralyzed the board for nearly a year. BP and AAR would each appoint 4 members of the board and there would be 3 independent directors.*
> ** Consider an international IPO of up to 20% of the shares of a TNK-BP subsidiary, addressing another demand of the Russian shareholders.*
> ** BP and TNK would each retain a 50% stake in the parent company, TNK-BP.*

The agreement involved substantial concessions from BP but did result in the company maintaining its 50% stake in TNK-BP, which was a very profitable business and accounted for about one quarter of BP's production and one fifth of its reserves. Extreme pressure from Russian regulators resulted in a court decision that disqualified Mr. Dudley as CEO based on minor paperwork violations related to employee contracts. BP believed this pressure was instigated by the Russian shareholders. AAR's main criticisms were that TNK-BP used too many expensive expatriates, ran the venture to best serve the interests of BP and that BP prevented TNK-BP from expanding abroad. The placement of more Russians in top management positions was expected to strengthen the positions of the two Russian shareholders who also held management posts. BP had in turn accused the Russian partners of wanting high dividend payments at the expense of capital expenditures needed for the future growth of the company.

BP's stock price rose 3% following the announcement of the agreement because it appeared to remove uncertainty over the ultimate outcome. Previously BP's share price had fallen by more than 20% since the dispute intensified in the public eye in May 2008. Prior to the announcement, Standard & Poor's Corporation had cut the long-term credit rating on BP PLC to AA from AA-plus on September 1st, at least in part as the result of the TNK-BP dispute. One school of thought previously believed that BP would be required to give up some of its 50% stake in TNK-BP or perhaps even lose it completely. However, there still remained the possibility that a Russian company like Gazprom could ultimately gain an interest in the company. The 20% IPO agreement was a concession to the Russian shareholders who wanted the IPO as a way to help determine a valuation of the company in case the Kremlin forced the Russian shareholders to sell part of their interest in TNK-BP.

OPPORTUNITIES AND RISKS

BP was again talking positively about the attractiveness of Russia. According to BP spokesman Toby Odone, "We don't have any regrets whatsoever about our Russian investment." Indeed, he noted that BP invested $8.5 billion into TNK-BP five years ago and had already received $10 billion in dividends (*Business Week*, September 4, 2008).

Some believed that though the immediate administrative pressure had eased, it had become apparent that the disagreements were linked to commercial disputes with AAR. Therefore the message could have been that foreign investors in Russia who had a falling out with their local partners could have similar problems in the future. *Business Week* (September 4, 2008) noted that:

> *"[I]indeed, the peace agreement at TNK-BP is in many ways reminiscent of the agreement that paved the way for TNK-BP's creation in the first place. Back in 1999, BP was involved in a public and damaging dispute with the same Russian tycoons over the fate of BP's investment in Siberian oil company Sidanco. After months of threats and name-calling, the two parties not only settled the dispute but also agreed to form a wider partnership that culminated in the creation of TNK-BP. Such flexibility shows that hardened investors in Russia know how to roll with the punches. But after two highly public bust-ups, cynics will inevitably wonder if the latest agreement may one day prove to be as brittle as the previous one."*

Indeed, according the *Wall Street Journal*, "suddenly we're supposed to believe that it's safe to do business in Russia… because BP managed to keep its 50% stake in TNK-BP. Investing in Russia remains a dangerous game and the fact that BP stood to lose a multibillion-dollar investment over a disagreement with Russian shareholders is a signal that markets will have received loud and clear" (September 8, 2008). Russian Deputy Prime Minister Igor Sechin made the comment that the deal was reached "without the involvement of third parties, such as the government," but such comments belied the facts. Moscow's refusal to renew the visas of TNK-BP CEO Robert Dudley and 148 other expatriates certainly did qualify as government involvement, despite assertions to the contrary. Absent the visa issue, it is unlikely that AAR would have had the leverage to get rid of Dudley and, as BP's CEO Tony Hayward noted, renegotiated about 10% of the joint venture terms. It had taken a long time for western investors to understand the risks of investing in Russia and it would probably take a lot longer for Russia to demonstrate that those dangers have passed.

According to a *Wall Street Journal* article dated September 11, 2008, after the previous week's decline Russian stock prices had plummeted by more than 40% from their May highs. While initially Russian officials explained these drops as transitory and driven by weak global markets, the ruble's exchange rate continued to slide against the dollar and started to cause official concern. The increasing weakness in both areas were increasingly attributed to fears about Kremlin pressure on companies such as TNK-BP as well as increased tensions between Moscow and the West after the war in Georgia. Even before the BP issue, Prime Minister Vladimir Putin made a public attack on a major steelmaker, spooking investors. Russia's market collapse had occurred in part because of the global credit crunch and weak foreign markets but it was also believed that Moscow's behavior has been a significant contributor.

CHALLENGES

BP chairman Peter Sutherland, commenting on a memorandum of understanding (MoU) issued by BP and AAR, said that the agreement created “a stable base from which to grow the joint venture to the benefit of everyone involved, including the Russian state for which strong capital investment and continued technical innovation to boost declining oil output are so important". (*The Guardian*, September 8, 2008.) It was hoped that the new CEO would ease the tension between BP and Russian shareholders in the cultural front. BP had agreed to appoint a replacement CEO who speaks Russian. However, he or she still faced political and legal challenges. Besides those, TNK-BP production output had peaked. The world-wide credit crunch didn’t help investment in modernization of the TNK-BP infrastructure. Russia’s tax regime - incremental taxes took 90% after $25/bbl – did little to incentivize oil producers. The new CEO had to understand the company operated in a country playing an increasingly important role in the global economy, where revenue from energy made a large portion of Russia’s GDP, and the Russian government could nationalize, and control a majority interest in TNK-BP - they had the power to set the price and through its legal and political arsenal, de-value the company to a point that met their bid and forced shareholders to sell. Specifically, the new CEO:

** Had to recognize that there was a growing nationalization trend in Russia.*
** Should expect that BP would have to have periodic difficult negotiations with AAR as Russia exerted more control over TNK-BP and changed the rules/contract.*
** Should expect that the Russian government would try to “change the rules” periodically and be prepared for elements of TNK-BP to become less and less favorable to BP.*
** Should anticipate BP could lose part or all of its 50% interest at some point as Gazprom or some other Russian entity was assigned an equity interest in TNK-BP at BP’s expense.*

THE WAY FORWARD

Despite the dispute, TNK-BP had even better results in the first half of 2008. On November 6, TNK-BP said the current global financial downturn would have little impact on plans to develop its resources. To remain financially healthy, TNK-BP had to stay the course to execute its current strategy - aggressive production growth, while making adjustments in how it operated in Russia. On December 22, 2008, TNK-BP elected a completely new board, but as of May 6, 2009, TNK had not appointed a new CEO, with Tim Summers, the Chief Operating Officer, acting as Chairman of the Management Board and eventually Interim CEO. Summers was British and a chemical engineer by training. Trained in England, Summers had began at TNK-BP as a chemical engineer in 1989. He had spent twenty years at BP, both in operational, commercial units and headquarters, including work in the Caspian region and Colombia. During the time that TNK-BP was being formed, Summers had led BP’s 24 international E&P business units in Scotland and was the Executive Assistant to BP Group Chief Executive Lord Browne, until he was hired as COO of TNK-BP in April 2006. Since his appointment as Interim, Summers focused on a prudent approach to TNK-BP’s investments, including reduced capital expenditure, and a flat output. In response to concern about the price of oil and access to global credit, the Board had also decided not to declare dividends for the second half of 2008. When asked how he viewed his own chances of becoming the CEO, Summers said, "(I'm) Fully focused on the job I have at the moment."

What are the main challenges TNK-BP's new Interim CEO faced? What should have been his or her priorities on taking this position? Would fluency in Russian be enough to guarantee the necessary cultural competency in the new Russian environment? How would the drop in world oil prices to around $40-60/bbl affect TNK-BP and especially what impact would it have on AAR's attitude towards TNK-BP? How would it affect the Russian government's attitude? Would BP's attitude towards its Russian venture change?

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APPENDIX

Exhibit 1 Drawn from Wall Street Journal, International Herald Tribune	
Feb 2003	BP announces new Russian oil joint venture called TNK-BP with partner AAR
March 19, 2008	Russian security services raid offices of TNK-BP and BP in Moscow
March 25, 2008	Interior Ministry says it's investigating a tax-evasion case against one of TNK-BP's former units
May 13, 2008	TNK-BP says a Siberian court, acting on a Moscow brokerage's request, has issued an injunction preventing BP specialists from working in Russia
May 30, 2008	AAR demands ouster of TNK-BP CEO Robert Dudley
May 31, 2008	Russian Prime Minister Vladimir Putin says he warned BP of the risks of a 50-50 joint venture in Russia
June 6, 2008	BP CEO Tony Hayward meets Russian Deputy Prime Minister Igor Sechin and some of the venture's Russian shareholders to resolve the dispute
June 8, 2008	Russian official says BP's conflict with AAR likely to worsen
June 9, 2008	Prosecutors in Moscow probe alleged labor violations by TNK-BP
June 10, 2008	CEO Dudley is questioned as a witness by the Russian Interior Ministry in the tax investigation
June 23, 2008	Russia's labor inspectorate fines TNK-BP for employment violations
June 26, 2008	AAR says election of new board at TNK-BP's main listed subsidiary was illegal
June 27, 2008	At EU-Russia summit, EU officials express concern to President Medvedev over the fate of BP's investment in TNK-BP
July 1, 2008	Mr. Dudley warns that visa delays could force all foreign staff to leave Russia by end of July
July 2, 2008	Russia authorities promise to issue 49 work permits promptly. AAR renews push to remove Mr. Dudley
July 11, 2008	BP, AAR fail to resolve differences at TNK-BP Board meeting; BP blocks dividend payout on the joint venture
July 17, 2008	Sixteen TNK-BP employees sue to oust Mr. Dudley; he blames shareholder conflict
July 18, 2008	Immigration authorities say they won't issue Mr. Dudley new work visa without work contract
July 22, 2008	BP pulls last specialists out of Russia
July 24, 2008	CEO Robert Dudley leaves Russia to manage TNK-BP from undisclosed location
Aug. 4, 2008	TNK-BP CFO resigns, citing challenges to working independently while share issues remain unresolved
Sept. 4, 2008	News Release states, TNK-BP shareholders have reached an "agreement in principle"
Dec. 22, 2008	TNK-BP elects new board according to the existing agreement

Exhibit 2 World Liquid Petroleum Reserves (millions of barrels) (Excerpted from *Energy Intelligence Research*, "The Energy Intelligence Top 100: Ranking the World's Oil Companies," 2007 and 2001 Editions)					
Rank 2006	Company	Reserves	Rank 2000	Company	Reserves
1	Saudi Aramco	264,200	1	Saudi Aramco	259,200
2	NIOC	137,500	2	INOC	112.500
3	INOC	115,000	3	KPC	96,500
4	KPC	101,500	4	NIOC	87,993
5	PDV	79,700	5	PDV	76,852
6	Adnoc	56,920	6	Adnoc	50,710
7	Libya NOC	33,235	7	Pemex	28,400
8	NNPC	21,540	8	Libya NOC	23,600
9	Lukoil	16,114	9	NNPC	13,500
10	QP	15,200	10	Lukoil	11,432

Exhibit 3 World Liquids Production ((Excerpted from *Energy Intelligence Research*, "The Energy Intelligence Top 100: Ranking the World's Oil Companies," 2007 and 2001 Editions)					
Rank 2006	Company	Reserves	Rank 2000	Company	Reserves
1	Saudi Aramco	11,035	1	Saudi Aramco	8,044
2	NIOC	4,049	2	INOC	3,620
3	Pemex	3,710	3	Pemex	3,343
4	PDV	2,650	4	PDV	2,950
5	KPC	2,643	5	INOC	2,528
6	BP	2,562	6	ExxonMobil	2,444
7	ExxonMobil	2,523	7	Shell	2,268
8	PetroChina	2,270	8	PetroChina	2,124
9	Shell	2,093	9	BP	2,061
10	Sonotrach	1,934	10	KPC	2,025

Exhibit 4 Total Employees per Million Barrels Equivalent Produced, 2004 (Jaffe & Baker, 2007)			
National Oil Companies	Employees	Private Oil Companies	Employees
Saudi Aramco	11	ExxonMobil	19
PDVSA	16	ConocoPhillips	20
CNOOC	18	Chevron	24
NNPC	20	Shell	27
Petromas	38	BP	27
Statoil	39		
NIOC	43		
ONGC	94		
Rosneft	172		
PetroChina	267		

Exhibit 5 Top Companies Upstream Capital Expenditures, 2006 (billions of dollars) (Excerpted from *Energy Intelligence Research*, "The Energy Intelligence Top 100: Ranking the World's Oil Companies," 2007 Edition)		
Rank	Company	Capex
1	ExxonMobil	14,470
2	Shell	12,046
3	BP	10, 237
4	PetroChina	10,160
5	Total SA	10,040
6	ConocoPhillips	8,844
7	Chevron	8,389
8	Petrobras	7,194
9	EnCana	6,650
10	Statoil	6,423

Exhibit 6: Group income statement (BP Annual Report and Accounts 2007)
Exerpted From Page 96 For the year ended 31 December $ million

	2007	2006	2005
Sales and other operating revenues	284,365	265,906	239,792
Earnings from jointly controlled entities – after interest and tax	3,135	3,553	3,083
Earnings from associates – after interest and tax	697	442	460
Interest and other revenues	754	701	613

5 Segmental analysis (Page 113)

By business	$ million Exploration and Production	Refining and Marketing	Gas, Power and Renewables	Other businesses and corporate	Consolidation adjustment and eliminations
Sales and other operating revenues					
Segment sales and other operating revenues	54,550	250,866	21,369	843	(43,263)
Less: sales between businesses	(38,803)	(2,024)	(2,436)	–	43,263
Third party sales	15,747	248,842	18,933	843	–
Equity-accounted earnings (JV's like TNK-BP)	3,061	538	233	–	–
Interest and other revenues	330	134	123	167	–
Total revenues	19,138	249,514	19,289	1,010	–
Segment results					
Profit (loss) before interest and tax	26,938	6,072	674	(1,128)	(204)
Finance costs and other finance income/expense	–	–	–	–	(741)
Profit (loss) before taxation	26,938	6,072	674	(1,128)	(945)
Taxation	–	–	–	–	(10,442)
Profit (loss) for the year	26,938	6,072	674	(1,128)	(11,387)

Exhibit 7: (BP Annual Report and Accounts 2007 - P.134 Note 26) Excerpted From Page 7 $ million except per share amounts					
	2007	2006	2005	2004	2003
Income Statement Data					
Sales and other operating revenues from continuing operations	284,365	265,906	239,792	192,024	164,653
Profit before interest and taxation from continuing operations	32,352	35,158	32,682	25,746	18,776
Profit from continuing operations	21,169	22,311	22,448	17,884	12,681
Profit for the year	21,169	22,286	22,632	17,262	12,618
Profit for the year attributable to BP shareholders	20,845	22,000	22,341	17,075	12,448
Capital expenditure and acquisitions	20,641	17,231	14,149	16,651	19,623
Per ordinary share - cents Capital expenditure and acquisitions Profit for the year attributable to BP shareholders					
Basic	108.76	109.84	105.74	78.24	56.14
Diluted	107.84	109	104.52	76.87	5.61
Profit from continuing operations attributable to BP Shareholders					
Basic	108.76	109.97	104.87	81.09	56.42
Diluted	107.84	109.12	103.66	79.66	5.89
Dividends paid per share-cents	42.3	38.4	34.85	27.7	25.5
Dividends paid per share-pence	20.995	21.104	19.152	15.251	15.658
Ordinary share data					
Average number outstanding of 25 cent ordinary shares (shares million undiluted)	19,163	20,028	21,126	21,821	22,171
Average number outstanding of 25 cent ordinary shares (shares million diluted)	19,327	20,195	21,411	22,293	22,424
Balance sheet data					
Total assets	236,076	217,601	206,914	194,630	172,491
Net assets	94,652	85,465	80,765	78,235	70,264
Share capital	5,237	5,385	5,185	5,403	5,552
BP shareholders' equity	93,690	84,624	79,976	76,892	69,139
Finance debt due after more than one year	15,651	11,086	10,230	12,907	12,869
Net debt to net debt plus equity	23%	20%	17%	22%	22%

Investments in jointly controlled entities((BP Annual Report and Accounts 2007 - P.134 Note 26)							
			2007			2006	
	TNK-BP	Other	Total	TNK-BP	Other	Total	TNK-BP
Sales and other operating revenues	19,463	7,245	26,708	17,863	6,119	23,982	15,122
Profit before interest and taxation	3,743	1,299	5,042	4,616	1,218	5,834	3,817
Finance costs and other finance expense	264	176	440	192	169	361	128
Profit before taxation	3,479	1,123	4,602	4,424	1,049	5,473	3,689
Taxation	993	259	1,252	1,467	260	1,727	976
Minority interest	215	–	215	193	–	193	104
Profit for the year[a]	2,271	864	3,135	2,764	789	3,553	2,609
Innovene operations	–	–	–	–	–	–	–
Continuing operations	2,271	864	3,135	2,764	789	3,553	2,609
Non-current assets	12,433	9,841	22,274	11,243	7,612	18,855	
Current assets	6,073	2,642	8,715	5,403	2,184	7,587	
Total assets	18,506	12,483	30,989	16,646	9,796	26,442	
Current liabilities	3,547	1,552	5,099	3,594	1,272	4,866	
Non-current liabilities	5,562	3,620	9,182	4,226	3,370	7,596	
Total liabilities	9,109	5,172	14,281	7,820	4,642	12,462	
Minority interest	580	–	580	473	–	473	
	8,817	7,311	16,128	8,353	5,154	13,507	
Group investment in jointly controlled entities							
Group share of net assets (as above)	8,817	7,311	16,128	8,353	5,154	13,507	
Loans made by group companies to jointly controlled entities	–	1,985	1,985	–	1,567	1,567	
	8,817	9,296	18,113	8,353	6,721	15,074	

TNK-BP INTERNATIONAL LTD

Financial reporting

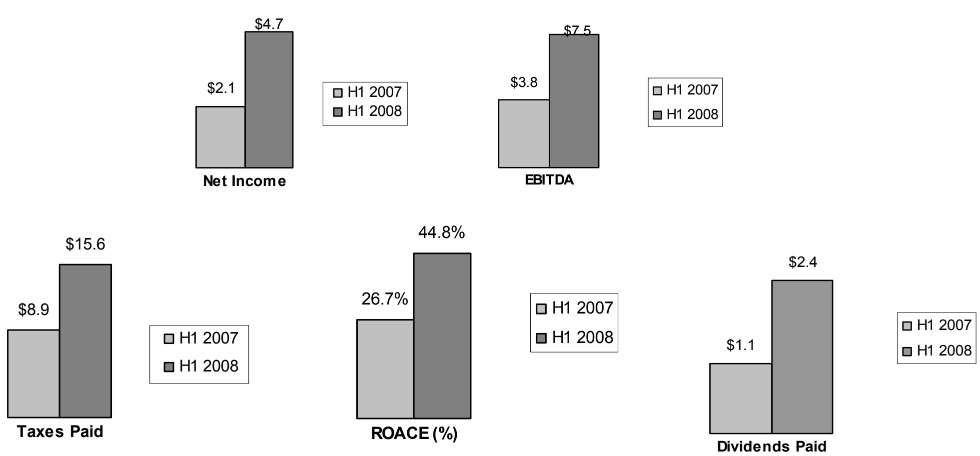
- TNK-BP International Ltd (TIL) publishes annual and half yearly financial statements on the TNK-BP corporate website and also files financial statements twice a year with the Luxemburg Stock Exchange, where the company's Eurobonds are listed.
- Financial Statements are based on consolidation accounts for the TIL group of companies and are prepared under US GAAP.
- The most significant difference between the two periods is the effect of the divestment of the TIL's interest in Udmurtneft which was sold in August 2006 as part of TNK-BP's portfolio management strategy. In 2006, these assets contributed oil production of 122 thousand barrels/day, and net income benefits of around $0.4 billion from trading operations, and $2.0 billion as a one-off gain on divestment.

Financial Highlights			
$ billions	2006	2007	% change
Total Revenues	35.5	38.7	9%
EBITDA	11.2	9.4	-16%
Net Income	6.6	5.3	-21%
Net Income (excluding divestment effect)	4.2	5.3	24%
CAPEX	2.3	3.5	53%
Dividends declared	5.0	2.6	-48%
ROACE (%)	48%	31%	-36%
Note: 2007 TIL accounts is approved by TNK-BP Board Audit Committee but still awaiting formal Board of Directors approval. Hence figures shown for 2007 should be treated as estimates			
Source: TNK-BP First Half 2008 Performance Results			

Exhibit 8

Short-term performance indicators

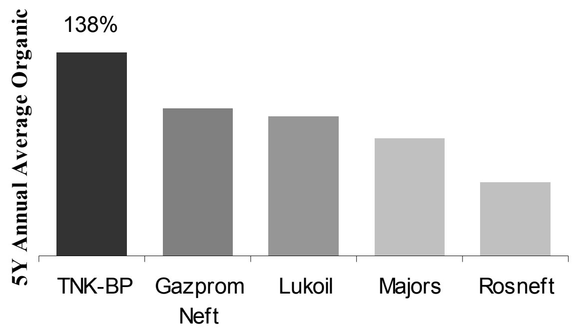
The numbers tell the story. In 2008 TNK-BP had a record first half in terms of income, return on capital, shareholder value and taxes.



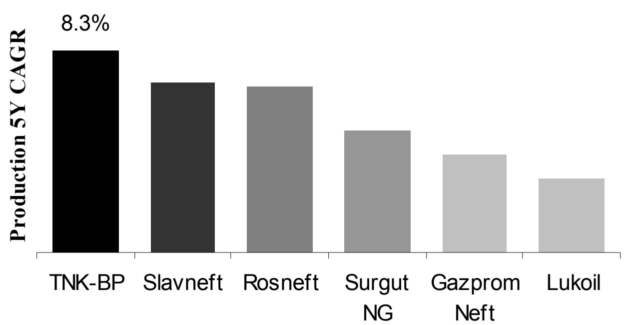
Long-term performance indicators

Since inception, TNK-BP delivered record performance in the industry in terms of production, reserves growth, shareholder return.*

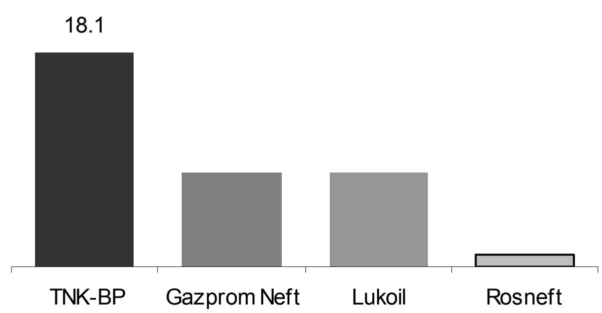
Highest reserve replacement rate



Highest production growth

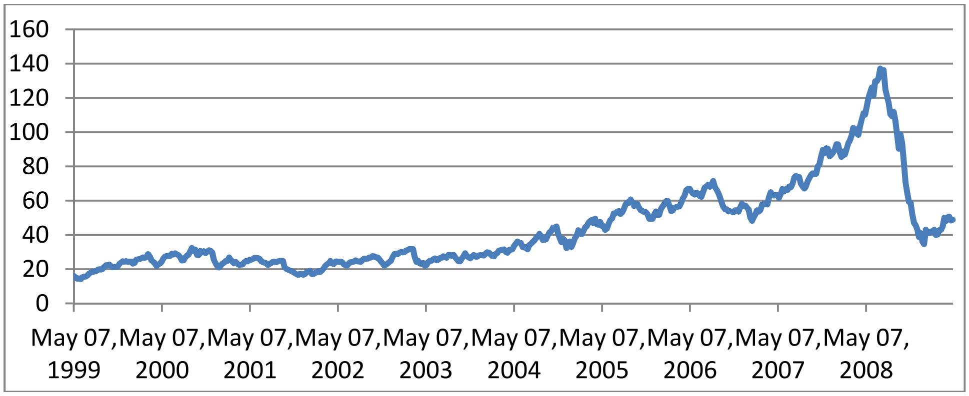


Highest total cash distribution to shareholders



*Through end 2007.
**Exxon Mobil, RD Shell, Chevron, Conoco Phillips

Exhibit 9: Weekly All Countries Spot Price FOB Weighted by Estimated Export Volume (Dollars per Barrel)



Source: U.S. Energy Information Administration

IS THE GRASS GREENER ON THE OTHER SIDE: AN INDEPENDENT CONTRACTOR CASE STUDY

Stan Newton, Jacksonville State University
Patricia C. Borstorff, Jacksonville State University

CASE DESCRIPTION

The principle focus of this case is the analysis of economic opportunity and work rule differences of individuals who work for firms as employees and those who work as independent contractors. Legalities, personal preferences, and job characteristics are analyzed in relations to the pros and cons of both categories. Job condition scenarios are investigated to determine which choice is better for the individual worker. Special consideration is given to specific personal situations and how the advantages and disadvantages of both options will likely affect the quality of life for our specific character. The areas to consider include: tax liabilities, freedom to choose the hours and methods of work completion, work-related equipment issues (i.e., transportation and office equipment), benefits options, and the impact of immediate supervision. This case is given a difficulty evaluation appropriate for higher management: level four.

CASE SYNOPSIS

This case deals with an individual as he tries to make his way through the maze of today's work place in route to becoming a self-sufficient and productive citizen. Specifically, the case involves a person choosing a worker category, employee or independent contractor, in relation to one's own self interest. While not every job is suited to the flexibility associated with the status of independent contractor, neither is each individual. As our character comes to life, we will see how he appraises this option as it relates to career choices and the work-life balance in his life. Jimmy is a skilled tradesman currently working as an employee of long standing with a reputable company but has become interested in an opportunity with a competitive firm as an independent contractor. Students find themselves personally involved in sorting through the pros and cons of either choice. And, like Jimmy, they are asked to make decisions.

THE SENARIO/CHARACTERS

It was approaching 3:00 pm Thursday afternoon as Jimmy Simms pulled his company-owned pick-up onto the grounds of the construction site. He couldn't help but notice again workers from another company loading up their gear and equipment. Soon it would be Friday and they were headed for a long weekend. As he could see no official company supervisor in the group, he wondered just how they got away with doing this every week. Jimmy was at work as usual on Friday, but as the afternoon wore on, he couldn't help but think of his peers in the construction trades as they made their way to the beach while he continued to labor.

Next Monday everyone was back at work and gathering up courage, he finally asked one of the guys working for ABC Construction how it was they were able to, as he put it , "pull this trick every week". Their story became very interesting as he heard the tale of how these guys were working under a different employment classification; that of independent contractor (IC). It seems their employer was interested in one thing from them and one thing only; results. If they could attain the desired results, as stipulated by their contract, they were free to come and go as they pleased. "How about pay" Jimmy asked? He almost couldn't conceive their stories to be true as their reported take home pay was an unbelievable 75-90 percent more than his.

Wow! Jimmy's mind was racing. Here he was a single guy with what seemed like never enough cash in his pocket and he had just met construction tradesmen who were younger than he, taking home significantly more money and with more freedom!! He had every intention of solving this puzzle. He continued to work during the week but his mind always came back to the tantalizing stories from his new found friends.

Come Monday morning, his pals were back at work and telling the stories of the great time they had over the last 3 days. Again his curiosity got the better of him and he asked if ABC was hiring as this arrangement sounded like an improvement over the one he had. His new friends answered "you bet they are", and said the owner would be coming out to the job site this afternoon.

Billy Brant had been the construction business for 20 plus years and was always looking for good people. When asked about an interview for a possible job, Brant agreed to meet with Jimmy that Monday afternoon. Jimmy made sure he was off the clock before sitting down to do personal business; however, he couldn't help but notice how ABC's employees seem to come and go without such restrictions. And he had been baffled by his perception that the ABC guys seem to work at a faster pace than Buell Construction's, his current employer. "Go figure" he had thought. But now, just maybe, it made sense. In his interview with Mr. Brant, he was eager to inquire about the details of independent contractor status.

Jimmy felt the interview was going well enough and it seemed like a win-win situation as he was a skilled electrician and ABC Incorporated was in particular need of just such a person. After the preliminaries, Jimmy got to the question that had prompted this inquiry to start with: the details of being an independent contractor.

Mr. Brant, as it turned out, was well versed in the history and legal technicalities of this employment classification. This was pretty obvious as he explained IC's are people who contract to perform services for others but do not have the legal status of employees. An individual may be classified as an IC if the employer has the right to determine the quality of the work but not the means or method of accomplishing the work. The IC often works on an irregular basis, is paid upon task completion, and is not subject to an employer's direction and control. The IC provides his or her own tools and equipment, purchases his or her own benefits, pays taxes independently from their employer, and is responsible for personal training and development. The IC has no office space or space to call his own.

Mr. Brant first discussed the IC status as it applied to the employer. The classification allowed him to have qualified people under contract to do specific jobs when the need arose and did not require him to keep this staff on hand year round, just in case they would be needed. Further Brant had no administrative burden of filing employee payroll withholding taxes, nor did he furnish benefits for his independent contractors.

Billy also explained the parameters of such an arrangement from an employee perspective. As payroll deductions were not withheld from an individual salary and benefits were not included in the agreement, it was possible for the employer to provide individuals employed as contractors with anywhere from 60 to 80 percent more take home pay than competition would allow under the normal employer-employee arrangement. He went on to say IC's have a level of independence as their contract only gives broad parameters within which the work is to be done, allowing employees considerable freedom as to how they go about it. For example, within certain parameters, employees may be allowed to set their own hours, with the only stipulation being that they get the job done.

As Billy explained it, another IC advantage was that, unlike regular employees, they can deduct the cost of fulfilling their contract from their taxable income creating another wage advantage. This deduction allowed normal work related expenses currently being incurred to be subtracted from an IC's taxable income and could amount to considerable savings. The amount of savings is determined by the amount spent and the individual's tax rate. For example, if Jimmy should spend $6,000 next year on allowable deductions, with his tax rate being 31% (5% state, 17% federal, 9% payroll withholdings) his tax liability would be decreased by 31% of the six thousand dollars: $1,860. Billy allowed that the savings from this aspect would probably be somewhat negated as IC's are required to furnish their own tools.

Jimmy was quite enamored with these details but was brought back to earth a little bit by Mr. Brant's answer to his inquiry about job security and dependability of year-round employment. Mr. Brant had just smiled and said, "Now Jimmy you need to understand that I love my independent contractors and I pay them well, but I only use them on an as-needed basis". He went on to say that the independent contractor work arrangement was not for everyone. Specifically, that the often present supervisor in normal employer-employee relations was missing as independent contractors were expected to be knowledgeable and capable of completing assignments without supervisor assistance. In addition, Billy had asked, "Jimmy, do you consider yourself to be a self starter?" As in the absence of a supervisor, this was thought to be essential.

Mr. Brant had concluded the conversation by saying, "Jimmy, think it over and if you are interested in coming to work as an independent contractor come by my office next week and we can get all the forms completed and get you on our team." Jimmy thanked Mr. Brant for the offer and over the weekend took time to analyze what he determined the conditions of working as an independent contractor to be.

THE FACTS

As Mr. Brant had explained, Jimmy saw the pro's and con's from a worker's stand point to stack up something like this:

The Pro's

- Independent contractor had an opportunity to receive more of their remuneration in take home pay.
- They could deduct their working expenses from their taxable income.
- IC's had a level of independence not found in the ranks of regular employees. allowing among other things, flexibility in work hours.
- IC's didn't have to contend with the constant nagging of an immediate supervisor.

The Con's

- Independent Contractors do not receive benefits as part of their compensation.
- They must furnish their own tools.
- ICs have very little job security.
- IC's do not have an immediate supervisor to make decisions, leaving the IC responsible for what would normally be management concerns.
- IC's are responsible for filing and paying their own state and federal taxes which is required by law and normally done by the employer.
- IC could be held responsible for any unpaid taxes, to include penalties and in cases determined to be of knowing and willful neglect, possibility even criminal charges.

THE DILEMMA

Now, Jimmy felt he had enough facts to assess his own personal situation and make a decision. Although he had strong desires and there was an emotional aspect to this decision, he decided to be rational and evaluate it analytically from an economic stand point first.

Payroll tax deductions and take home pay - At his current wage of twenty-five dollars an hour under Mr. Brant's IC program, his gross salary (take home) would be increased by a considerable amount. Given the $25 per hour rate Jimmy weekly gross income was $1,000 (40 x $25). However his take home pay was only $690 (at 22% combined federal and state income tax rate and 9% Federal withholding taxes-total 31%). While he knew his personal taxes would have to be paid at some point, he was of the opinion that submitting them quarterly as required for independent contractors as verses weekly by employee payroll deduction would put a little more cash in his pocket, albeit temporally.

Benefits and take home pay - Given that his research had revealed that normally employees receive 20-40 percent of their total compensation in benefits, he deduced that by eliminating benefits alone he could increase his take-home cash by $200 to $300 per week.

Deductable work related expenses and take home pay - he calculated he was spending about $100 per week in work related miscellaneous and transportation cost, currently being paid out of his after tax take home pay and as an independent contractor it would be tax deductable. This would produce a take home pay increase of $31 per week ($100 x .31%). Given he already owned the applicable tools, he was confident tool expense would be negligible.

Discretion in working hours - while hesitant to place a dollar amount on the idea, he felt confident if he so desired he could use this flexibility to create an outside source of revenue using his electrical expertise in part-time contracting opportunities. He estimated this potential at a minimum of $100 a week ($69 net after taxes).

Ok, he thought, while quite pleased with his analyses so far, with the economic facts on the table, it was time to consider the emotional issues. After all, pursuing what we really want out of life is known to be a very big motivator and a producer of personal satisfaction. It really came down to which he considered the most valuable to him personally: job and personal security (benefits) or more cash in his pocket. And at what point was he willing to give up one for the other. He had just turned 26 and had been with the Buell Company for 8 years. While it was nice to have benefits and job security it seemed that, at this stage of his life**,** more take home pay and more independence were very important to him personally. He was also intrigued by the idea that his working harder and more efficiently would contribute to the time he was required to spend on the job, leaving more time for him to pursue other interests, be they economic or personal.

And, there was room in this analysis for a hunch. His research had established that, when given applicable situations, employers were trending toward use of the IC classification more and more. Indeed, according to the U.S. Bureau of Labor Statistics the use of independent contractors is definitely on the rise with at least 60 percent of all businesses using them and over 8 million IC's currently in the workforce. As he saw it, that trend itself provided "some" level of job security for those craftsman who could and would produce. He definitely saw himself as a producer.

While giving this IC idea what he felt was a fair evaluation he knew he was becoming enamored with the concept of more freedom and more cash in his pocket. Suddenly he realized perhaps he should evaluate the negative aspects on a more personal basis. While realizing little job security came with this option, he had not evaluated how he might handle his current financial obligations should he become unemployed. While "healthy as a horse" as the cliche goes, he knew he should consider the effects of an inadvertent illness or accident; who would pay the bills (a $300 truck payment and a $500 mortgage payment) and provide a dependable income during his recuperation. As an independent contractor, he and he alone would be responsible for making sure these types of personal protections were in place. And, while quite excited about being able to offer his services to firms other than Buell Construction his research had revealed a high frequency of independent contractor employers reneging on their financial obligations, often leaving the IC responsible for job related debt. Also there were tales of woe from IC's who had spent their payroll tax monies on personal items and resultantly got into hot water with the state and federal government. It had been a little frightening went he discovered IC income is reported by employers to the appropriate taxing authorities via a 1099 form stating the gross dollar amounts paid to individual IC's.

Jimmy's confidence that he actually understood the parameters along with the advantages and disadvantages of being an independent contractor was eroded a bit when, while on an information seeking visit to the state employment office, he learned that the IRS had developed a qualifying test dividing the IC work classification into three groups with eleven stipulations. Further clouding the issue was the informal scoop that often the agency disagreed within its self as to the applicable legal criteria.

THE SOLUTION

WOW!!! Jimmy was thinking; I can't believe this decision is turning out to be so complicated. So, he reverted to a tried and true problem solving technique; reduce it to paper. As he saw it the economics added up to something like this:

Current Weekly Employee Compensation – as a cost to the employer	
Salary (gross wages)	1,000
Employer paid legally mandated personal payroll deduction taxes-9% (social security, unemployment insurance, worker's comp-nontaxed)	90
Insurance	70
Vacation-2 weeks/year	40
Total Employee Compensation-as a cost to the employer	1,200

Current Worker Take Home Pay- as an employee	
Salary (gross wages)	1,000
Less employee portion of legally mandated personal pay roll taxes (9%) (social security, unemployment insurance, worker's comp)	90
Less state and federal income taxes (5 + 17 % = 22 %)	220
Total take home pay – as an employee (69% of gross wages; 57.5% of cost to employer	690

Projected Worker Take-Home Pay as Independent Contractor	
Salary (gross wages) (total amount increased by $200 as employer paid taxes, insurance, and vacation is paid in cash instead of as a benefit)	1,200
Take Home Pay	1,200
No deduction for employee portion of legally mandated personal payroll taxes (as these taxes are due quarterly instead of weekly by payroll deduction)	0
No deduction for state and federal income taxes (as these taxes are due quarterly, not weekly by payroll deduction).	0
Take home pay as an independent contractor (from Jimmy's employer) (100 % of gross wages/100% of employer cost)	1200
Additional: Estimated tax savings on deductable expenses.	31
Estimated after tax additional income opportunities.	69
Total take home pay as an independent contractor	1300

Result: Independent contractor status shows an increase of $610 / 88.5% in weekly take home pay.

WOW! WOW!! WOW!!! What should Jimmy do? What would you do?

CAMPBELL: IS THE SOUP STILL SIMMERING?

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CASE DESCRIPTION

The primary subject matter of this case concerns the importance of doing an external and an internal analysis before selecting a business unit strategy. Secondary issues examined include discussions on how the new CEO makes a difference in changing the strategy. The case has a difficulty level of four, appropriate for senior level. This case would be most appropriate for business strategy courses. The case is designed to be taught in one to one and a half class hours and is expected to require two hours of outside preparation by students.

CASE SYNOPSIS

The soup business has been stagnant or slow growing for many years. Consumer preference has moved away from soup to frozen pizzas and microwave meals. Campbell has struggled in the face of this decline by first diversifying its products and then consolidating tangible assets in order to focus on soups. In July 2011 Douglas Conant is stepping down as the CEO of Campbell Soup Co. and Denise Morrison will step into his shoes. Morrison currently runs the company's struggling North American soup. She plans to change the focus of the company from salt reduction to taste adventure in the coming years. Will Morrison's change in strategic direction work for the Campbell?

INTRODUCTION

Change is stirring at Campbell Soup. Douglas R. Conant is stepping down as the chief executive of Campbell Soup on July 31, 2011 closing the book on a stint that began in January 2001. On deck to take his position is Denise Morrison, who currently heads the company's North American soup business, whose sales fell 5 percent in the last quarter of 2010, as consumers opted for frozen pizza and microwave dinners instead of the comfort of soup. The change at the top for the company received a lukewarm response from investors, who are left wondering what meaningful change will come from this new CEO (Gutierrez, 2010). The company may have missed an opportunity by picking insider Denise Morrison to eventually lead the world's largest soupmaker, instead of bringing in outside talent to revive sales, analysts said. "It is not a surprise to us that Campbell is making a change, given how it has struggled recently," said one analyst "What is surprising is that Conant will be replaced by the executive who currently heads the business unit that has struggled the most. Putting the head of the soup business in charge of the company doesn't seem to be the way to go when you consider this is the business that appears to have most of the problems." (Boyle, 2010).

In November 2010, Campbell Soup Co. said it will begin moving attention away from reducing salt in its products to focusing more on "taste adventure" as its U.S. soup business has turned cold. Campbell Soup was one of the first large U.S. packaged-food makers to focus heavily on decreasing sodium across its product line. The salt-reduction push was one of the company's biggest initiatives of the past decade. "The company had pursued reducing sodium levels and other nutritional health initiatives partly to prepare for expected nutritional labeling changes in the U.S. But amid the attention on salt-cutting, management focused less on other consumer needs, such as better tastes and exciting varieties", said Mr. Conant. "I think we've addressed the sodium issue in a very satisfactory way. The challenge for us now is to create some taste adventure." (Brat & Ziobro, 2010). This change comes as heavy supermarket promotions of simple meals as boxed macaroni and cheese have battered Campbell earnings in recent quarters of 2010 (Brat & Ziobro, 2010).

COMPANY BACKGROUND

Probably known best for its red and white soup cans, The Campbell Soup Company was founded in 1869 by Abram Anderson and Joseph Campbell as a canning and preserving business. Almost 140 years later, Campbell offers a whole lot more than just soup in a can. Today the company, headquartered in Camden, NJ, competitively operates in four segments: U.S. Soup, Sauces, and Beverages; Baking and Snacking; International Soup and Sauces; and Other ("Campbell Soup Co. Profile") (See Figure 1).

Figure 1 – Sales by Segment

	2010	2009	2008	% Change 2010/2009	% Change 2009/2008
		(Millions)			
U.S. Soup, Sauces and Beverages	$ 3,700	$ 3,784	$ 3,674	(2)	3
Baking and Snacking	1,975	1,846	2,058	7	(10)
International Soup, Sauces and Beverages	1,423	1,357	1,610	5	(16)
North America Foodservice	578	599	656	(4)	(9)
	$ 7,676	$ 7,586	$ 7,998	1	(5)

(Source: Annual Report, 2010)

In 2010 Campbell's products were sold in 120 countries around the world and the company had operations in the United States, Canada, Mexico, and Latin America (campbellsoupcompany.com, 2010) (See Figure 2).

Figure 2 – Campbell's Principal Manufacturing Facilities

Inside the U.S.

California
- Dixon (SSB)
- Sacramento (SSB)
- Stockton (SSB)

Connecticut
- Bloomfield (BS)

Florida
- Lakeland (BS)

Illinois
- Downers Grove (BS)

Michigan
- Marshall (SSB)

New Jersey
- South Plainfield (SSB)
- East Brunswick (BS)

North Carolina
- Maxton (SSB)

Ohio
- Napoleon (SSB/NAFS/ISSB)
- Willard (BS)

Pennsylvania
- Denver (BS)
- Downingtown (BS/NAFS)

South Carolina
- Aiken (BS)

Texas
- Paris (SSB/ISSB)

Utah
- Richmond (BS)

Washington
- Everett (NAFS)

Wisconsin
- Milwaukee (SSB)

Outside the U.S.

Australia
- Huntingwood (BS)
- Marleston (BS)
- Shepparton (ISSB)
- Virginia (BS)

Belgium
- Puurs (ISSB)

Canada
- Toronto (ISSB/NAFS)

France
- LePontet (ISSB)

Germany
- Luebeck (ISSB)

Indonesia
- Jawa Barat (BS)

Malaysia
- Selangor Darul Ehsan (ISSB)

Mexico
- Villagran (ISSB)

Netherlands
- Utrecht (ISSB)

Sweden
- Kristianstadt (ISSB)

SSB — U.S. Soup, Sauces and Beverages
BS — Baking and Snacking
ISSB — International Soup, Sauces and Beverages
NAFS — North America Foodservice

(Source: Annual Report, 2010)

The company was pursuing strategies designed to expand the availability of its products in existing markets and to capitalize on opportunities in emerging channels and markets around the globe. As a first step, Campbell Soup Company, synonymous with the all-American kitchen for 125 years, acquired in 1994 Pace Foods Ltd., the world's largest producer of Mexican sauces. Mr. Weise, CFO at that time, said that a major motivation for the purchase was to diversify Campbell, and to extend the Pace brand to other products. In addition, he said, the company saw a strong potential for Pace products internationally. Campbell also saw an overlap with its raw-materials purchasing operations, since peppers, onion and tomatoes were already used in the company's soups, V-8, barbecue sauce and pasta sauces (Collins, 1994). To help reduce some of the price volatility for ingredients, the company used various commodity risk management tools for a number of its ingredients and commodities, such as natural gas, heating oil, wheat, soybean oil, cocoa, aluminum and corn (Annual Report, 2009).

Campbell Soup, a leading food producer in the United States, had a presence in approximately 85 percent of U.S. households ("Investor News (a)"). However, in recent years, the company faced a slowdown in its soups sales as consumers were seeking out more convenient meal options, such as ready meals and dining out. In order to compete more effectively, especially against General Mills' Progresso brand, Campbell had undertaken various efforts to improve the quality and convenience of its products.

In 2006, in just under six years since he came on board, as CEO Conant, 55, had transformed Campbell from a beleaguered old brand rumored to be on the auction block to one of the food industry's best performers. The stock was up 100% since March, 2003, more than double other comparable food companies. The turnaround had been catalyzed by cost-cutting, smart innovations, and a concerted effort to reinvigorate the workforce. "We're hitting our stride a little bit more [than our peers]," said Conant, in his usual understated style ("Lighting a fire under Campbell", 2006).

CHINA AND RUSSIA

In addition to improving and expanding its product offerings within the U.S., in September 2007, Campbell launched new products in the emerging markets of China and Russia. Consumption of soup in Russia and China far exceeded that of the U.S., but in both countries, nearly all of the soup was homemade. With the launch of products tailored to the local tastes, trends, and eating habits, Campbell had the potential of leading the soup commercialization activity in Russia and China. "We have an unrivaled understanding of consumers' soup consumption behavior and innovative technology capabilities within the Simple Meals category. The products we developed are designed to serve as a base for the soups and other meals Russian and Chinese consumers prepare at home." (Annual Report, 2007)

In July 2008, Campbell was planning to increase their overseas product offerings, as well as the number of Russian and Chinese markets their products would be available in. If the company could capture at least 3% of the at home consumption, said Larry S. McWilliams, president of Campbell's international group, the size of the business would equal that of the U.S. "The numbers blow your hair back," he said (Boyle, 2009). In 2009 Campbell was offering three broth-like products that Russians could use as a base for soups. Campbell was preparing for expansion in Russia based on the recent distribution agreement with Coca-Cola Hellenic. Campbell planned to increase points of distribution and the variety of its "Domashnaya Klassika" line in fiscal 2010. The Russian portfolio would increase from three varieties in 1,500 stores in Moscow in 2009 to 14 varieties in more than 32,000 stores in 100 cities in fiscal 2010 ("Investor News (b)").

For about three years, in both Russia and China, Campbell sent their marketing teams to study the local markets. The main focus was on how Russians and Chinese eat soup, and how can Campbell offer something new. Larry McWilliams, President- Campbell International, said how surprised he was by the Russian's love for the soup while doing the research. "In Moscow, one lady was telling me very enthusiastically for a half an hour what soups she loves and how she prepares them," said McWilliams in an interview with "Vedomosti" newspaper – "It felt like I have asked her about her children." As a result Campbell came up with a production line specifically created for the local market, called "Domashnaya Klassika." It is a stock base for soups that contains pieces of mushrooms, beef or chicken. Based on this broth, the main traditional Russian soup recipes can be prepared. Maksim Klyagin, a financial analyst and Finam stated that Campbell Soup successfully launched its business in Russia. In his opinion, an important contribution to it had a large marketing campaign, successful adaptation of the product line to the traditional Russian kitchen, and the aggressive price policies: Campbell's offer was cheaper than that of its competitors. During its 10 months of operation in Moscow, Russia, Campbell's market share rose to 5-8%. The Company, in the Finam's opinion, was still far from its local producers, such as Mars (Gurmania brand), Unilever (Knorr brand) and DHV-S (Rollton brand), that controlled about 80% of the soup market in Russia (www.rb.ru). While not yet in the ready to serve soup category, these soup stocks were a natural entry point into the Russian soup culture.

U.S. SOUP REVITALIZATION

In July 2009, Campbell announced additional plans for revitalizing the U.S. soup business ("Investor News (c)"):

- "Campbell's Chunky" soups will undergo the most comprehensive series of enhancements in its 40-year history. The soups will feature "better for you" credentials now with 24 varieties made with lean meat and 30 items containing a full serving of vegetables.
- In the wellness arena, Campbell's iconic Tomato soup, which is enjoyed by 25 million Americans at least once a week, will feature the same great taste with a major sodium reduction of 32 percent to 480 mg per serving. Campbell will reposition "Healthy Request" soups in the heart health space by further reducing the sodium levels to 410 mg per serving and featuring the American Heart Association certification on a redesigned label. Both products will be available in September.
- Building on the successful launch of the "Select Harvest" line, Campbell will add five new Mediterranean-style varieties this fall, including Greek-style Minestrone and Zesty Tomato Bisque.
- Campbell will introduce five new condensed light soups to tap into this fast-growing segment of the category.
- As consumers continue to eat more meals at home, Campbell will increase its emphasis on value with a focus on money-saving meals and in-store merchandising. Campbell plans to enhance its Campbell's Kitchen web site [www.campbellskitchen.com] to help people find and prepare affordable, tasty and easy meals using Campbell's products.

In September 2010, Campbell launched its first-ever umbrella advertising campaign to support all of its U.S. soup brands with the slogan "It's amazing what soup can do," highlighting the convenience and health benefits of canned soup. The new campaign supported Campbell's condensed soup, Campbell's Chunky soup, Campbell's Healthy Request soups, Campbell's Select Harvest soup, as well as soups sold in microwaveable bowls and cups under these brands (News Release, 2010(a)).

FIRM STRUCTURE AND MANAGEMENT

Campbell Soup was controlled by the descendants of John T. Dorrance, the chemist who invented condensed soup more than a century ago. In struggling times, the Dorrance family faced agonizing decisions: Should they sell the Campbell Soup Company, which had been in the family's hands for three generations? Or should they hire new management to revive flagging sales of its chicken noodle and tomato soups and Pepperidge Farm cookies and perhaps become an acquirer itself? The company went public in 1954 when William Murphy was the president and CEO. Campbell is family held as well as publicly held. After CEO David W. Johnson left Campbell in 1998, the company started to weaken and lose customers (Aberson, 2000), until Douglas R. Conant became CEO and transformed Campbell in one of the foods industry best performers.

Douglas R. Conant became CEO and Director of Campbell Soup Co. in January 2001. Mr. Conant entered the Campbell's team with an extensive background in the processed and packaged food industry. He spent ten years with General Mills Inc., filled top management positions in marketing and strategy at Kraft Foods, and served as President of Nabisco Foods Company. Mr. Conant had worked towards a goal of implementing the Campbell's mission of "building the world's most extraordinary food company by nourishing people's lives everywhere, every day." (Annual Report, 2007) He was confident that the company possessed the people, the products, the capabilities, and the plans in place to actualize that mission.

Under Mr. Conant's direction, Campbell made many reforms through investments in improving product quality, packaging, marketing, and creating a company characterized by innovation. During his tenure the company improved its financial profile, upgraded its supply chain system, developed a more positive relationship with its customers, and enhanced employee engagement. Starting in 2005, Mr. Conant focused on winning in both the marketplace and the workplace. His efforts produced an increase in net sales of $7.1 billion in fiscal 2005 to $7.67 billion in fiscal 2010 (Annual Report, 2010).

The main targets for investment for Mr. Conant, following the divestiture of many other brands, included: Simple Meals, Baked Snacks, and Vegetable-Based Beverages. In 2010, Baking and Snacking sales increased 7% primarily due to currency. Pepperidge Farm sales were comparable to a year ago, as the additional sales from the acquisition of Ecce Panis, Inc. and volume gains were offset by increased promotional spending. Some of the reasons for this growth were the brand's positioning, advertising investments, and some improvements and additions in the distribution system. Mr. Conant also secured an agreement with Coca-Cola North America and Coca-Cola Enterprises Inc. for distribution of the refrigerated single-serve beverages in the U.S. and Canada through the Coca-Cola bottler network (Press Release, 2007).
In fiscal 2010, the company continued its focus on delivering superior long-term total shareowner returns by executing against the following seven key strategies (Annual Report, 2010):

- Grow its icon brands within simple meals, baked snacks and healthy beverages;
- Deliver higher levels of consumer satisfaction through superior innovation focused on wellness while providing good value, quality and convenience;
- Make its products more broadly available and relevant in existing and new markets, consumer segments and eating occasions;
- Strengthen its business through outside partnerships and acquisitions;
- Increase margins by improving price realization and company-wide total cost management;
- Improve overall organizational excellence, diversity and engagement; and
- Advance a powerful commitment to sustainability and corporate social responsibility.

Consistent with these strategies, the company had undertaken several portfolio adjustments, including: the divestiture of its luxury chocolate business Godiva for US$850 million to Turkish diversified food company Yildiz; divestiture of its United Kingdom and Ireland businesses to Premier Foods in 2006; and, the sale of its ownership interest in Papua New Guinea operations. All these portfolio adjustments intend to better focus Campbell on its competitive advantages of simple meal, baked snack, and vegetable-based beverage businesses in markets with the greatest potential for growth (Annual Report, 2007).

Another major focus for Mr. Conant and the Campbell company was care for the customers' wellness needs, overall product quality, and product convenience. Some of the main considerations regarding wellness with the U.S. market were obesity and high-blood pressure. For example, in fiscal 2011, building on the success of the V8 V-Fusion juice offerings, the company plans to introduce a number of new V8 V-Fusion Plus Tea products. In the baked snacks category, the company plans to continue upgrading the health credentials of its cracker (or savory biscuit) offerings. Responding to the consumer's value-oriented focus, Campbell's condensed soups will be re-launched with a new contemporary packaging design and an upgrade to the company's gravity-fed shelving system (Annual Report, 2010).

In order to build employee engagement, Campbell provides manager training across the organization. It is just one part of the curriculum at Campbell University, the company's internal employee learning and development program. Exemplary managers have also built strong engagement among their teams through consistent action planning. The company emphasizes on employee's innovation capabilities, leadership behavior, workplace flexibility and employee wellness.

CHALLENGES AHEAD

Conant made many reforms, yet the core soup business is still on a low simmer with slow sales growth overall. In July 2011, Conant is stepping down as the CEO and Denise Morrison will take over his place with the task of trying to reinvigorate sluggish sales in the company's soup category. Morrison joined Campbell in 2003 and served as president of the company's North America soup, sauce and beverages division before taking over as COO in September 2010. In her new role, Morrison says she plans to "accelerate the rate of innovation" at the company. The current executive vice president and COO says that Campbell plans to grow its brands through a combination of more healthy food and beverage offerings, global expansion and the use of technology to woo younger consumers. While "innovation" isn't a term typically associated with the food-processing industry, Morrison says it is key to the company's future success. As an example, she cites Campbell's development of an iPhone application that provides consumers with its Campbell Kitchen recipes. The company's marketing team devised the plan as a way to appeal to technological savvy, millennial generation consumers, Morrison says (Katz, 2011).

But analysts have a lukewarm response about Morrison taking over. They are skeptic about CEO replacement who currently heads the business unit that has struggled the most. They have expressed their doubt about whether Morrison is the right choice over some new blood as a CEO replacement.

INDUSTRY OVERVIEW

In 2010, the US packaged food market experienced moderate value growth, similar to that of the previous year. However, the value growth rate for 2010 was lower than the average for the five-year review period as a whole which had been driven up by price increases in previous years. Growth in 2010 was driven by consumers preparing more meals at home rather than going out to restaurants in response to a weak economy. Products offering convenience and health benefits such as frozen pizzas, fresh cut fruits, and nuts performed well in 2010 (Euromonitor, 2011).

The providers and consumers of food and nonalcoholic beverages were adapting to a conflicting confluence of economic, sociological, and demographic change. Overall, in a weak economic environment, the underlying demand for food and beverages was holding up relatively well: consumers were less likely to sharply reduce or defer such spending than they were for other products. However, in an effort to cut costs, there had been a shift toward consumers trading down to less expensive products, and toward more eating and cooking at home (Graves & Kwon, 2009).

The U.S. packaged foods market would continue to grow in the future, particularly in the areas of premium, wellness and convenient products. Manufacturers would introduce more restaurant-quality foods in the areas of ready meals and frozen pizzas as well as gourmet varieties of chocolate in the premium sector. In the wellness products sector, functional yogurt, wholegrain breads, and reduced-salt products will be the main focus. Convenient products would continue to expand, following the demand for quick, on-the-go meals ("Global Market Information Database Reports").

With considerable competition in the relatively mature US food market, and limited population growth expected, major food manufacturers were turning to the emerging markets of Eastern Europe and Asia. As countries in these regions increasingly participated in world trade, economies of both regions were growing quickly and consumer incomes had been rising. In addition, the pervasiveness of electronic media, especially Western media, had been making overseas consumers more aware of Western tastes and products. It is expected that the market for processed foods to grow, especially in urban areas, where busy consumers were seeking some of the same features (*e.g.*, convenience, healthier choices, variety, and quality) that were valued in the US. The increasing availability of refrigeration and other kinds of storage space in homes would also influence demand for packaged goods in emerging markets. However, for consumers that lack the ability to preserve and keep larger quantities, US companies could look to sell smaller packages, with portions that could be consumed more quickly (Graves & Kwon, 2009) (see Figure 3).

Figure 3– Leading U.S. Agricultural Export Destinations
Top 15 U.S. agricultural export destinations, $U.S. (in billions)

Country	FY 2010	Country	FY 2009	Country	FY 2008
World Total	108	World Total	96	World Total	114.9
Canada	16.5	Canada	15.5	Canada	16.2
China	15	Mexico	13.3	Japan	15.1
Mexico	13.9	Japan	11.1	China	13
Japan	11.2	China	11	Mexico	11.1
European Union-27	8.5	European Union-27	7.6	European Union-27	10.6
South Korea	4.9	South Korea	3.8	South Korea	5.5
Taiwan	3.1	Taiwan	2.8	Taiwan	3.5

Figure 3– Leading U.S. Agricultural Export Destinations
Top 15 U.S. agricultural export destinations, $U.S. (in billions)

Hong Kong	2.4	Hong Kong	1.7	Indonesia	2.2
Indonesia	2.1	Indonesia	1.6	Turkey	2.1
Turkey	2	Egypt	1.4	Dominican Republic	1.8
Philippines	1.6	Russia	1.4	Egypt	1.7
Egypt	1.5	Turkey	1.3	Russia	1.7
Vietnam	1.2	Philippines	1.2	Hong Kong	1.5
Thailand	1	Venezuela	1	Thailand	1.4
Venezuela	1	Thailand	0.9	Venezuela	1.1

(Source: US Economic Research Service, United States Department of Agriculture, 2010)

COMPETITION

Campbell operates in the highly competitive food industry and experiences worldwide competition in all of its principal products. The principal areas of competition are brand recognition, quality, price, advertising, promotion, convenience and service. (See Figures 4 & 5)

Figure 4 – Campbell's Competitors by Market Capitalization and Financials

Direct Competitor Comparison

	CPB	GIS	HNZ	KFT	Industry
Market Cap:	10.63B	24.58B	16.43B	58.62B	596.93M
Employees:	18,400	33,000	29,600	127,000	1.50K
Qtrly Rev Growth (yoy):	-1.20%	1.60%	1.50%	N/A	10.50%
Revenue (ttm):	7.62B	14.94B	10.54B	49.21B	625.14M
Gross Margin (ttm):	40.53%	39.73%	36.84%	36.38%	30.54%
EBITDA (ttm):	1.56B	3.17B	1.91B	7.99B	67.84M
Operating Margin (ttm):	17.09%	18.08%	15.31%	13.34%	7.35%
Net Income (ttm):	787.00M	1.69B	956.34M	2.47B	N/A
EPS (ttm):	2.33	2.51	2.97	2.40	0.65
P/E (ttm):	14.26	15.33	17.19	13.99	17.54
PEG (5 yr expected):	2.45	2.02	2.45	1.63	1.73
P/S (ttm):	1.39	1.65	1.56	1.19	1.06

CPB = Campbell Soup Co.
GIS = General Mills, Inc.
HNZ = HJ Heinz Co.
KFT = Kraft Foods Inc.
Industry = Processed & Packaged Goods

(Source: Yahoo Finance)

Figure 5 – CAMPBELL SOUP CO. Top Competitors share prices – as of 04/27/2011

Symbol	Company Name	Last	Change	% Change	Volume	News	Charts
CPB	CAMPBELL SOUP CO	33.30	0.21	0.63	1.19 M		
GIS	GENERAL MLS INC	38.53	0.04	0.10	2.64 M		
HNZ	HEINZ H J CO	51.1944	0.1844	0.36	1.10 M		
KFT	KRAFT FOODS INC	33.61	0.22	0.66	6.35 M		

CPB = Campbell Soup Co.
GIS = General Mills, Inc.
HNZ = HJ Heinz Co.
KFT = Kraft Foods Inc.
(Source: Retrieved from http://www.dailyfinance.com/company/campbell-soup-company/cpb/nys/top-competitors)

NESTLÉ

Nestlé is the world's #1 food company in terms of sales, the world leader in coffee (Nescafé), one of the world's largest bottled water (Perrier) makers, and a top player in the pet food business (Ralston Purina). Its most well-known global brands include Buitoni, Friskies, Maggi, Nescafé, Nestea, and Nestlé. The company owns Gerber Products, Jenny Craig, about

75% of Alcon Inc. (ophthalmic drugs, contact-lens solutions, and equipment for ocular surgery), and almost 28% of L'Oréal (hoovers.com). In July 2007 it purchased Novartis Medical Nutrition, and in August 2007 it purchased the Gerber business from Sandoz Ltd., with the goal of becoming a nutritional powerhouse. Furthermore, by adding Gerber baby foods to its baby formula business, Nestlé now becomes a major player in the U.S. baby food sector ("Global Market Information Database Reports").

GENERAL MILLS

General Mills is the U.S. #2 cereal maker behind Kellogg. Its brands include Cheerios, Chex, Total, Kix, and Wheaties. General Mills is also a brand leader in flour (Gold Medal), baking mixes (Betty Crocker, Bisquick), dinner mixes (Hamburger Helper), fruit snacks (Fruit Roll-Ups), grain snacks (Chex Mix, Pop Secret), and yogurt (Colombo, Go-Gurt, and Yoplait). In 2001 it acquired Pillsbury from Diageo and doubled the company's size, making General Mills one of the world's largest food companies (hoovers.com).

KRAFT FOODS

Kraft Foods is the U.S. #1 food company and #2 in the world behind Nestlé. Its North America unit makes the world's largest cheese brand (Kraft), owns a large share of the cookie and cracker business (Nabisco). and makes the all-American favorite Oreos. Its international business unit offers most of its U.S. brands, plus national favorites, including the Oscar Mayer, Kraft, Philadelphia, Maxwell House, Nabisco, Oreo, Jacobs, Milka, and LU; brands that have revenues of at least $1 billion. Kraft removed itself from the tobacco business and Altria in 2007, and later the same year announced the sale of its Post Cereals business to Ralcorp (hoovers.com).

HEINZ COMPANY

H. J. Heinz has thousands of products. Heinz products enjoy #1 or #2 market share in more than 50 countries. One of the world's largest food producers, Heinz produces ketchup, condiments, sauces, frozen foods, beans, pasta meals, infant food and other processed food products. Its flagship product is ketchup and the company dominates the U.S. ketchup market. Its leading brands include Heinz ketchup, the Lea & Perrins sauces, the Ore-Ida frozen potatoes, Boston Market, T.G.I. Friday's, and Weight Watchers foods (hoovers.com).

FINANCIALS

For fiscal 2010 adjusted net earnings were $767 million compared with $758 million in the prior fiscal year. Adjusted net earnings per share were $2.42 for the current fiscal year compared with $2.05 for the prior fiscal year. Marketing and selling expenses decreased by 2 percent in 2010 from previous year, primarily due to lower advertising and consumer promotion costs and lower marketing expenses (Annual Report, 2010). While advertising increased in the

U.S. Soup business, the company reduced marketing expenses in other businesses to fund increased promotional activity. (See Figures 6, 7 & 8)

Figure 6 – Campbell Balance Sheet

Period Ending	**Aug 1, 2010**	**Aug 2, 2009**	**Aug 3, 2008**
Assets			
Current Assets			
Cash And Cash Equivalents	254,000	51,000	81,000
Net Receivables	512,000	528,000	666,000
Inventory	724,000	824,000	870,000
Other Current Assets	197,000	148,000	76,000
Total Current Assets	**1,687,000**	**1,551,000**	**1,693,000**
Long Term Investments	-	7,000	8,000
Property Plant and Equipment	2,051,000	1,977,000	1,967,000
Goodwill	1,919,000	1,901,000	1,998,000
Intangible Assets	509,000	522,000	605,000
Other Assets	110,000	105,000	183,000
Deferred Long Term Asset Charges	-	24,000	20,000
Total Assets	**6,276,000**	**6,056,000**	**6,474,000**
Liabilities			
Current Liabilities			
Accounts Payable	1,230,000	1,250,000	2,382,000
Short/Current Long Term Debt	835,000	378,000	-
Other Current Liabilities	-	-	21,000
Total Current Liabilities	**2,065,000**	**1,628,000**	**2,403,000**
Long Term Debt	1,945,000	2,246,000	1,713,000
Other Liabilities	1,079,000	1,214,000	536,000
Deferred Long Term Liability Charges	258,000	237,000	504,000
Minority Interest	3,000	3,000	-
Total Liabilities	**5,350,000**	**5,328,000**	**5,156,000**
Stockholders' Equity			
Common Stock	20,000	20,000	20,000
Retained Earnings	8,760,000	8,288,000	7,909,000
Treasury Stock	(7,459,000)	(7,194,000)	(6,812,000)
Capital Surplus	341,000	332,000	337,000
Other Stockholder Equity	(736,000)	(718,000)	(136,000)
Total Stockholder Equity	**926,000**	**728,000**	**1,318,000**
Net Tangible Assets	**(1,502,000)**	**(1,695,000)**	**(1,285,000)**

(Source: Yahoo Finance)

Figure 7 – Campbell Income Statement

Period Ending	**Aug 1, 2010**	**Aug 2, 2009**	**Aug 3, 2008**
Total Revenue	**7,676,000**	**7,586,000**	**7,998,000**
Cost of Revenue	4,526,000	4,558,000	4,827,000
Gross Profit	**3,150,000**	**3,028,000**	**3,171,000**
Operating Expenses			
Research Development	123,000	114,000	115,000
Selling General and Administrative	1,667,000	1,729,000	1,770,000
Non Recurring	12,000	-	175,000
Operating Income or Loss	**1,348,000**	**1,185,000**	**1,111,000**
Income from Continuing Operations			
Total Other Income/Expenses Net	6,000	4,000	(5,000)
Earnings Before Interest And Taxes	1,354,000	1,189,000	1,106,000
Interest Expense	112,000	110,000	167,000
Income Before Tax	1,242,000	1,079,000	939,000
Income Tax Expense	398,000	347,000	268,000
Net Income From Continuing Ops	844,000	732,000	671,000
Discontinued Operations	-	4,000	494,000
Net Income	**844,000**	**736,000**	**1,165,000**

(Source: Yahoo Finance)

Figure 8 – Campbell's Key Ratios

CAMPBELL SOUP CO Key Ratios

Valuation Ratio: CPB	
P/E (TTM)	14.60
Price to CashFlow	7.59
Price to Sales (TTM)	1.55
Price to Book	13.03

Per Share Ratio: CPB	
Dividend Per Share (TTM)	1.12
Book Value Per Share	4.45
EPS Fully Diluted	2.38
Revenue Per Share	22.38

5 Year Annual Growth: CPB	
Net Income	3.26%
Revenue	0.34%
Dividend Per Share (TTM)	9.78%
EPS	5.28%

Dividends: CPB	
Dividend Yield	3.36%
Dividend Yield - 5 Yr. Avg.	2.64%
Dividend Per Share (TTM)	1.12
Dividend Payout Ratio	48.29

Profit Margins: CPB	
Operations Margin	17.86%
Net Profit Margin	10.81%
Gross Profit Margin	41.04%

Financial Strength: CPB	
Quick Ratio (MRQ)	0.38
Current Ratio (MRQ)	0.79
LT Debt to Equity (MRQ)	217.89
Total Debt to Equity (MRQ)	351.07
Return on Equity (ROE) Per Share	76.74
Return on Assets (ROA)	13.60
Return on Invested Capital (ROIC)	25.54

Assets: CPB	
Asset Turnover	1.23
Inventory Turnover	5.52

(Source: Retrieved from http://www.dailyfinance.com/financials/campbell-soup-company/cpb/nys/key-ratios)

Earnings from U.S. Soup, Sauces and Beverages increased 2% in 2010, primarily due to an improvement in gross margin percentage and lower advertising expenses, partially offset by lower sales. For fiscal 2010, sales in Baking and Snacking increased by 23 percent to $ 3.22 billion. In regards to International Soup, Sauces and Beverages, sales increased to $1.6 billion from $69 million (Annual Report, 2010).

The company's capital stock is listed and principally traded on the New York Stock Exchange. The company's capital stock is also listed on the SWX Swiss Exchange. On September 15, 2010, there were 26,190 holders of record of the company's capital stock (Annual Report, 2010). Since its lowest dip to US$25 in April 2009, the stock prices have been on a steady growth over the past two years as of April 2011 (See Figure 9 for stock prices as of April 25, 2011 and stock prices over the previous 2 years).

Figure 9 – Campbell's 2-year period stock prices – as of April 27, 2011

(Source: Yahoo Finance)

With regard to financials, Douglas R. Conant, Campbell's President and Chief Executive Officer, said, "In a challenging year, we delivered strong earnings growth, overcoming softer-than-expected sales, particularly in our U.S. soup business. We had another year of strong cash flow performance, generating more than $1 billion in cash flow from operations. For the year, we expanded gross margins through supply chain productivity improvements and previously announced cost-savings initiatives. By effectively managing our margins in a tough economic environment, we have set the stage for next year and positioned the company for growth through continued innovation, category leading marketing spending and competitive pricing. I am confident that we have the right strategies to drive growth across our strong portfolio of healthy beverages, baked snacks and simple meals. In healthy beverages, we will build on our track record of innovation and continue our effective marketing efforts. In baked snacks, we have a full slate of innovation across our portfolio with exciting new products for Pepperidge Farm and Arnott's. In U.S. soup, we have significant plans to enhance our condensed soups, strengthen our competitiveness in ready-to-serve soups and introduce a new advertising campaign to support the entire U.S. portfolio of 'Campbell's' soup brands and to help drive category growth." (Annual Report, 2010).

SUSTAINABILITY

Campbell Soup Company had been named to the Dow Jones Sustainability Indexes (DJSI) for the second year in a row in 2010 and to the DJSI World Index for the first time. This independent ranking recognizes the company's strategic and management approach to delivering economic, environmental and social performance. Launched in 1999, the DJSI tracks the financial performance of leading sustainability-driven companies worldwide. In selecting the top performers in each business sector, DJSI reviews companies on several general and industry-specific topics related to economic, environmental and social dimensions. These include corporate governance, environmental policy, climate strategy, human capital development and labor practices. Campbell includes sustainability and corporate social responsibility as one of its seven core business strategies (News Release, 2010(b)).

In 2010, Campbell Soup placed second on Corporate Responsibility Magazine's 12th annual 100 Best Corporate Citizens List, regarded as the top corporate responsibility ranking based on publicly-available information. Campbell moved up ten places from its ranking from previous year.

CEO Douglas Conant said, "Campbell is committed to advancing our commitment to corporate social responsibility and sustainability. It is gratifying to have Campbell's corporate responsibility practices and performance be recognized. This honor reflects the effort of thousands of dedicated Campbell people around the world who are absolutely committed to winning in the workplace, marketplace and community." (News Release, 2011)

WHAT'S NEXT?

A new food rating system, the Affordable Nutrition Index (ANI), that analyzes both nutrition and cost value of food, might make it easier for people to find budget-friendly, nutritious foods in today's tough economy. Dark colored vegetables, certain fruits and vegetable soups were among the most affordable, nutritious foods. "In today's economy, more people are making food choices based solely on cost, so it's important to guide them on ways to get nutritious options without hurting their wallets," said Adam Drewnowski, PhD, professor at University of Washington, "It is important to identify a wide range of affordable, nutritious choices that can help people build a balanced diet that fits their lifestyle and budget." (Anonymous, 2009). Twenty-five *Campbell's* soups followed closely on the ANI scale, particularly condensed vegetable soup varieties that were lower in sodium, like *Campbell's*® *Healthy Request*® condensed vegetable soup, which was certified as heart-healthy by the

American Heart Association, and *Campbell's*® Tomato soup, which underwent a 32 percent reduction in sodium and was one of the top-selling soups in the United States (Investor News(d)).

Even though Campbell's Baking and Snacking and International Soup, Sauces and Beverages segments grew during 2010, the Soup, Sauces and Beverages sales dropped by 2 percent and North American Foodservice sales dropped by almost 4 percent. But when the economic recession ends and the economy improves, will Campbell's name still resonate with American consumers? Will consumers venture back to restaurants or continue to take comfort in soup at home?

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COASTAL FLOORING

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CASE SYNOPSIS

Timothy Price was the majority owner and operator of a 100-year-old, regional flooring supplies company. General contractors hired Coastal Flooring, who in turn hired subcontractors, to supply and install carpeting and hardwood in retail, residential, and commercial projects. Because a large portion of Coastal Flooring's business had been hurt by a recession, the company was considering marketing themselves to the increased number of government contracts that were becoming available in 2010 and 2011. These changes could have significant effects on Coastal Flooring's operational structure and regulatory obligations. Price must decide if the shift in the company's marketing and operations is worth the risk.

COASTAL FLOORING

All Timothy Price could see was stagnation. Coastal Flooring had been in business for over 100 years, but Price, who bought the majority share of the company in 1985, had never seen his commercial contracts in such a bad state. Commercial subcontracting, more than 80% of Coastal Flooring's business, was in a tailspin. In 2010, the United States had been battling a recession for two years, and President Obama had issued directives for one of the largest increases in government contracting in over 80 years. In efforts to increase business, Price could shift Coastal's marketing to win those government contracts, but it would require a significant change in the company's day-to-day operations. Coastal's board of directors meeting was next Friday, and one of the largest federal contracts to date had a deadline three weeks after that. Price needed a plan, and he needed a plan fast.

COMPANY BACKGROUND

Coastal Flooring, Inc. traced its roots to 1895. Over the next 50 years, it became a very recognizable name in South Carolina's carpet sales along with its cleaning services. During the 1970s, Coastal Flooring's management decided to concentrate on flooring, thereby dropping rug cleaning. Timothy Price purchased the business in 1985. Coastal Flooring was a widely recognized name along the mid- to south-Atlantic coast. Flooring products sold by Coastal include bound rugs, carpet, ceramic tile and stone, vinyl, hardwood, cork, and bamboo.

Coastal Flooring provided flooring products to retail customers, along with designers, architects, homebuilders, and U.S. general contractors along the Atlantic coast. The goal was "helping you find the right floor furnishes for your home, your office or retail space, or your commercial projects." While retail flooring was, and most likely would continue to be, included in the mission statement of the company, the larger moneymakers were commercial projects. In fact, commercial work for the major general contractors accounted for roughly 80-90% of all sales.

Coastal Flooring, Inc. continued to place much of its focus on the customer satisfaction aspects of the business. The company valued its reputation for quality flooring and reasonable price. As its ownership looked to the future, they saw "green," environmental-friendly, flooring products in government-related, commercial, and retail sales as a key business driver.

THE MANAGEMENT PROBLEM

Price and Coastal Flooring had built their business on marketing to major commercial projects. "We put flooring in some of the biggest projects along the Atlantic coast." Price was proud of where his company had come from. "Those projects brought us a reputation that money simply can't buy." However, Price's "bread and butter" contracts were getting fewer and farther between in 2010.

OPERATIONS ISSUES

With the recession that had begun a couple years ago, much of the commercial projects had vaporized. In 2009, President Obama had backed and signed one of the largest government-funded construction increases since the New Deal. Government jobs, however, were creating much new potential work for flooring companies across the U.S. The problem Coastal Flooring faced when bidding on the government work had historically been in the documentation and excessive paperwork required. The government required contractors to account for the legitimacy of its workers, whether they were employees or subcontractors. They were also required to sign off on the hourly wages that workers were paid on any government-related job by filing 1099 payroll forms with the U.S. Wage and Hour Division. This has become an issue since most of the subcontractors were paid piece-wise instead of by the hour. "The government required us to trust our subcontractors, in everything from wages to working papers, or else we were the ones on the hook," Price lamented. The most common way to deal with these government project inconveniences was to convert subcontractors into full-time employees.

Coastal Flooring employed twelve full-time employees. Historically, Coastal Flooring had its installation labor performed by subcontractors. For up to 90% of their jobs, these subcontractors had been compensated piece-wise for their work. By paying set labor costs by the square-footage, Coastal Flooring had avoided any uncertainty from labor costs due to delays by hourly employees. The ownership, along with its subcontractors, decided that the best working situation was a more "free" version where workers were not required to show up to work every day if they did not wish to. This freedom became a cultural group pride exhibited by the subcontractors, who did not wish to become full-time employees. "You just have to understand, the people that do this kind of work are just a little…different," Price said, laughing. While work obviously had its ups and downs due to the nature of the construction business in America, the owners of Coastal Flooring estimated that they would need to add about twelve full-time employees to accommodate an average influx of government work in the future.

Because of the lack of full-time employees in flooring installation, the management of Coastal Flooring had avoided the costs of work vans, gasoline, tools, etc. Assets are currently limited to very little in the form of automobiles and other equipment, as shown in Exhibit 1. Buying vans and installation tools would immediately decrease cash or increase liabilities. By converting subcontractors to full-time employees, the company would also see increased costs in the form of benefits, FICA, Social Security, and unemployment fees. The anti-discrimination laws covered under Title VII of the Civil Rights Act of 1964 that apply to companies with more than fifteen employees also could have become an issue, even possibly forcing Coastal Flooring to hire a Human Resources officer.

The main dilemma Price faced was whether Coastal Flooring should try to convince some of its subcontractors to join the full-time list of its employees. While this would increase costs on many levels throughout the company, it would also increase Coastal Flooring's ability to garner significantly larger government jobs in their future. With 2009 Net Income barely in the black after taxes, Coastal Flooring was looking to increase profits for 2010 and beyond (see Exhibit 2).

If Coastal Flooring did not make changes to its organizational structure, it would miss out on federal contracts. The federal government was an increasing buyer of large projects such as the ones that Coastal Flooring works. "There's no doubt that the government is where the money is right now and probably will be for a while," Price explained. "But, I am just not convinced that will be the case forever." However, in order to win those contracts, Coastal Flooring would have to make significant changes to its operational structure.

LEGAL ISSUES

Bidding for federal contracts required that contractors meet certain stipulations. The Davis-Bacon Act required that all employees be documented and receive a fair hourly rate. Bureaucrats in different geographic areas determined what the fair rate was in a county based upon competitive salaries in private work. Additionally, federal legislation required that general contractors certify that their subcontractors were meeting Davis-Bacon standards, or else the general contractor was liable. Therefore, subcontractors reported their wage and hour information to general contractors who file 1099 forms with the U.S. Wage and Hour Division. Because of the legal liability, many general contractors would directly employ laborers instead of taking the risk and trusting a subcontractor. Price's business was based on reputation, "We work with the same subcontractors frequently, so we take them at their word." For a majority of Coastal Flooring's area, carpet layers and hardwood floor installers were required to earn \$13 an hour. "After taxes and other requirements, these laborers cost roughly \$20 per hour to Coastal Flooring," Price calculated.

Directly employing these laborers would have doubled the size of Coastal Flooring's workforce overnight. Currently, Coastal Flooring employed 12 people full-time. In order to meet their demands, Coastal Flooring would have to directly employ another 13 people, at least. Coastal Flooring had to be careful with who they hired, because inexperienced workers were unreliable and untrained, whereas experienced workers would have to be courted away from working as subcontractors. Competition for laborers between the general contractor, like Coastal Flooring, and its subcontractors could cause animosity and fallouts in Coastal Flooring's separate private contracts. The competition for laborers may not have currently been a problem because of the economy, because many people were looking for work, but it could become an issue in the future.

Coastal Flooring's legal liability also would become an issue after the firm hired more people. Companies with more than 15 employees begin to fall under federal nondiscrimination and harassment statutes. Therefore, the company may be subject to liability if they were ever sued on an allegation of sexual harassment or discrimination based upon race, color, sex, religion or national origin. These liabilities were hard to compute due to the infrequency and variability of damage claims, but one could settle in the tens of thousands of dollars. Through the eyes of the owner, there was a small chance that a single, angry employee could cost the company an exorbitant amount of money in legal fees. "Title VII compliance is one of my biggest worries," Price explained. "I just have no idea what it is going to take, how much paperwork, how much more time, I just don't know."

Additionally, because federal contracts required documented workers, Coastal Flooring would be directly responsible for checking immigration statuses. Because of the certification that federal contracts required, Coastal Flooring would be attesting that their employees were legitimate under penalty of law. Many, subcontractors carry their own insurance policies. The subcontractors were liable for the actions of their employees, but a general contractor like Coastal Flooring was not liable unless it is over an area that the general contractor exerts control. Coastal Flooring did offer an umbrella insurance policy to uninsured subcontractors, but only as a service rendered for a discount on the subcontractor's bid. By directly employing laborers, Coastal Flooring would have to expand its insurance policy to cover work-related accidents and will be required to meet certain OSHA standards. The cost to comply with OSHA safety standards was potentially high, depending on the location and the type of work.

OTHER CONSIDERATIONS

In its push to get government contracts, Coastal Flooring also faced an agency problem. Whereas subcontractors were generally paid by the square foot or square yard, bringing in full-time employees to be paid by the hour could create inefficiencies and slow completion times. Before, when subcontractors were paid a flat rate based on the amount of material, the subcontractor had an incentive to ensure that his hourly workers completed the job as quickly as possible. If the subcontractor finished ahead of time, he saved on labor costs enough to make a profit. If Coastal Flooring were to bring in its own full-time, hourly employees, Coastal Flooring would be directly responsible for making sure that the job got done in a timely and cost-efficient manner. However, employees that worked by the hour had every incentive to continue to drag out the process in order to make more money. Coastal Flooring did not have the personnel to properly manage and supervise all the employees need to complete their projects. As well, if Coastal Flooring was to attract more contracts, in an attempt to double its revenue in the next few years, the company would be forced to hire one, or even two more managers to ensure that work gets done efficiently.

Additionally, Tim expressed concern over working so heavily with governmental entities. "We have a hard enough time getting good customers to pay on time. What's it going to be like trying to get the government to cut us a check? In a lot of ways we will be at their mercy. If they pay on time then we will be in good shape cash flow wise, but if they don't…." his voice trailed off but not without meaning in what was not said. Tim was also worried if his assertions about government spending increases were even correct. "Will this move put us in a bad situation if government spending does not go up the way we think it will? Could we go back to our old business model or would we be too far gone to turn back around?"

A final issue for Coastal Flooring was scalability. Coastal Flooring could manage as little as one or as many as five separate, large projects without changing too much of the current labor costs because that aspect of their operations was handled by the subcontractor. If Coastal Flooring shifted to full-time workers, these workers would be getting paid regardless of Coastal Flooring's revenues. If Coastal Flooring went several months without a large project, they may be forced to lay off workers. Likewise, if Coastal Flooring expanded quickly, the company may not have enough laborers to complete the project in time, and would have to resort to hiring unproven laborers or expensive experienced ones. Full-time laborers would potentially limit Coastal Flooring's flexibility and abilities to adapt to external opportunities.

THE DECISION

As Tim prepared for the upcoming board meeting he reflected. "I'm the primary shareholder, so what I say goes, but things would run much smoother if I can get everyone else on board." Price had so many questions on his mind: Should the company move towards full-time laborers or decline the work on larger projects to maintain Coastal's current structure? Would the shift alienate Price's employees, or maybe even some subcontractors? Was Title VII the overwhelming obstacle Price thought it was? With all the concern would it even be worth rocking the boat? Price put another cup of coffee to boil. "This is a fork in the road," Price muttered to himself, "or is it?"

EXHIBIT 1

Statement of Assets, Liabilities and Equity
December 31, 2009

ASSETS		LIABILITIES AND STOCKHOLDER'S EQUITY	
CURRENT ASSETS		CURRENT LIABILITIES	
Cash	61,992	Accounts Payable	489,731
Accounts Receivable - Trade Accounts	474,467	Customer Deposits	363,072
Receivable - Other	5,610	Accrued Expenses	94,481
Inventory	838,803	Notes Payable – Current	159,779
Work in Process	84,441	Income Taxes Payable	2,588
Deposits	2,006	TOTAL CURRENT LIABILITIES	1,109,651
Prepaid Income Taxes	2,542		
Prepaid Expenses	113	LONG TERM LIABILITIES	
Other Assets	23,428	Notes Payable - Long Term	18,357
TOTAL CURRENT ASSETS	1,493,402	TOTAL LONG TERM LIABILITIES	18,357
PROPERTY AND EQUIPMENT		STOCKHOLDERS' EQUITY	
Automotive Equipment	61,464	Common stock, $1 per share;	
Office Equipment	79,383	1,000 shares authorized, 692 issued,	
Warehouse Equipment	37,542	and 175 outstanding.	647
Leasehold Improvements	13,528	Additonal Paid-in Capital	18,520
	191,917	Treasury Stocks	(105,225)
		Retained Earnings	516,709
Less: Accumulated Depreciation	126,716	TOTAL STOCKHOLDER'S EQUITY	430,652
TOTAL PROPERTY AND EQUIPMENT	65,257		
	1,558,659		1,558,659

EXHIBIT 2

Statement of Revenue, Expenses and Retained Earnings
December 31, 2009

Revenue	5,187,591
Cost of Sales	4,134,746
Gross Profit	1,052,846
Operating Expenses	1,044,986
Operating Income (Loss)	7,860
Other Income & Expenses	2,682
Net Income (Loss) Before Income Taxes	10,541
Income Taxes	9,485
Net Income (Loss)	1,057
Beginning Retained Earnings	515,653
Ending Retained Earnings	516,709

THE CASE OF REWARDING "A" BUT EXPECTING "B" IN HIGHER EDUCATION: REVISITING REWARD SYSTEMS THAT FAIL IN UNIVERSITIES

Robin L. Snipes, Columbus State University
Fonda Carter, Columbus State University

CASE DESCRIPTION

The primary subject matter of this case is employee motivation and developing reward systems that match the organization's mission and objectives. Secondary issues examined include performance appraisal systems and employee compensation. This case has a difficulty level of four, appropriate for senior-level undergraduate students or first-year graduate students. The case is designed to be taught in a one-hour class and is expected to require at least three hours of outside preparation by students.

CASE SYNOPSIS

There are many examples of reward systems where the behaviors that are rewarded are not those desired by management. In public universities, officials hope that teachers will focus on quality instruction, but they are mainly rewarded on their research and publications. Moreover, teaching quality is often measured by student evaluations, which may be manipulated by making courses easier or more "fun". Students get rewarded for getting good grades, not necessarily for acquiring knowledge. In short, the reward systems of most universities have failed to achieve their intended objectives. As pointed out by Steven Kerr over 30 years ago, some of the causes of this are the fascination with "objective" criteria, overemphasis on highly visible behaviors, and an emphasis on equity rather than efficiency.

THE FOLLY OF REWARDING "A" BUT EXPECTING "B" IN HIGHER EDUCATION

More than 30 years ago, Steven Kerr pointed out the problems with most reward systems in his influential article printed in the *Academy of Management Journal* entitled, "On the Folly of Rewarding A, While Hoping for B" (1975). In the article, Kerr explained that many reward systems are "fouled up in that the types of behavior rewarded are those which the rewarder is trying to discourage, while the behavior desired is not being rewarded at all" (p. 769). In his article he laments that "society hopes that teachers will not neglect their teaching responsibilities, but rewards them almost entirely for research and publications" (p. 773). And more than 30 years later this still seems to be the case in higher education. Good teaching is rarely rewarded, and when it is the rewards are usually limited to annual "Outstanding Teacher Awards" which are given to a very small percentage of faculty and usually come with a very small monetary bonus.

Recent evidence suggests that university course rigor has declined in the last few decades. One recent study of college students found that they spend 10 fewer hours a week studying now than they did in 1961, yet college grades on average have gone up (Wilson, 2010). Another study of 259 business professors who had been teaching for at least 10 years showed that, on average, they had reduced the analytical-thinking requirements in their courses and, in exchange, had replaced them with group presentations. The author of the study predicted that, over time, courses will "inexorably become easier as students (even the conscientious ones) choose courses where they can expect higher grades, and professors (even the most dedicated) turn to strategies that they expect will improve their student evaluations" (Glenn, 2011). One survey by the National Institute for Learning Outcomes Assessment found that provosts at universities identified faculty engagement as their number one challenge in making greater efforts to assess student learning – not because of a lack of concern by professors, but instead because of what the rewards system tells them is important (Wilson, 2010).

University accrediting agencies have historically focused on faculty qualifications (as measured by faculty degrees and research productivity), but in the last decade they have started to focus more on student learning outcomes in the accreditation and re-accreditation process. However, faculty have little incentive to change the way they are doing things. Faculty rewards are not tied to the assessment of student learning. And to further compound the problem for administrators, the concept of "academic freedom" to faculty means that they should have the final say in what goes on in their classroom, within reason. According to the guidelines posted on the American Association of University Professors ("AAUP") website, tenure is "a means to certain ends, specifically: (1) freedom of teaching and research and of extramural activities, and (2) a sufficient degree of economic security to make the profession attractive to men and women of ability" *(www.aaup.org)*.

Historically, a faculty member's time was split between three primary responsibilities: teaching, research, and service to the institution. In addition to teaching and research, faculty are also expected to perform certain service activities. Service to the institution usually includes serving on college and departmental committees and student advising/mentoring. Faculty service is essential to the effective functioning of an academic institution, since many of the institution's decisions are driven by faculty input. Like many employees in the private sector, the reduction in budgets has translated to a reduction in the number of faculty and support staff (which includes graduate assistants). Faculty are now being asked to handle more with less support – more service obligations, more students, and more classes. Additionally, the service component of a faculty member's job is usually not given the same weight on annual performance evaluations as teaching and research. In reality there are few faculty who are eager to serve on major committees. Faculty know that committee work doesn't transfer to other institutions. In other words, it doesn't make one more "marketable" in that it doesn't improve one's potential salary in the marketplace. Faculty know that the best way to improve one's marketability is through research. Some participate more on committees because of their loyalty to the college and/or desire to participate in the decision-making process. Yet this is usually a small percentage of the faculty, which means that the few who do are usually unduly "taxed" with too much service work (and little to no rewards).

MEASURING FACULTY PRODUCTIVITY: THE FASCINATION WITH OBJECTIVE CRITERIA

Teaching Quality. Most universities use some type of student evaluation to measure instructional quality. Student evaluations usually contain several statements to which students indicate their level of agreement or disagreement (normally on a five-point scale). Examples of the items on student evaluation surveys include, "This instructor is well prepared", or "I can now articulate the core concepts of this course." The overall scores are averaged for each class, and faculty instructional quality is measured by the numerical average of student evaluation ratings. For some universities this is the only measure of instructor teaching quality. However, many feel that this measure doesn't actually achieve its objective of assessing instructional quality but feel it is more of a measure of student satisfaction.

A big debate in higher education today is whether students are to be viewed as the "product" of the organization, or its customers. Many feel that the overuse of student evaluations as the sole measure of teaching quality is putting too much power in students' hands and can have the impact of actually lowering academic standards. As pointed out by many faculty, the problem with treating students as customers is that they are also the product of a university. So, universities have two oftentimes-conflicting goals: one is to increase student (customer) satisfaction, and the other is to increase student learning. Many faculty believe that making courses easier (and grades higher) and spoon-feeding students are good ways to increase student evaluations, but they don't increase the amount of student learning or instructional quality. A recent study seems to confirm this. In his study, Ewing (2009) concluded that lenient grading does indeed inflate student evaluation scores and, thus, can yield incorrect conclusions regarding instruction quality. The results of the study indicated that student evaluations were not valid measures of student learning (based on students' performance in future classes). Stephen Joel Trachtenberg, President Emeritus of George Washington University, recently pointed out in a New York Times interview (2010):

> *"Students are not customers nor are they not customers. They are investing time and money with a purpose in mind. The school that does not serve that purpose will not survive. Students are looking for a quality education, and they want distinguished and accomplished professors on the faculty. But that alone is not sufficient."*

Studies in the area of education have demonstrated that improving teaching quality can increase student achievement. In his 2003 study of middle school students, Marzano concluded that, "on the average, the most effective teachers produced gains of about 53 percentage points in student achievement in one year (on all levels), whereas the least effective teachers produced achievement gains of about 14 points over one year" (p. 72). To more accurately assess instructional quality, a good measure of student learning needs to be developed. One way to measure student learning is through pre-tests and post-tests given to students prior to taking a class and again when the class is completed. As pointed out by Chatterjee (1994), "an alternative to student evaluations is to think in terms of output measures rather than customer satisfaction, and the teaching output of a university is the additional educational value added to each student"

(p. 2). However, many faculty have resisted participating in this type of course assessment because they feel that it is not a productive way to spend their time. Many feel that their limited time might be better spent doing other things such as updating their courses, or looking for new and better ways to teach their classes. Course assessment requires a lot of paperwork and time -- it's one more demand on a faculty member's time -- and many feel that the costs are larger than the potential benefits.

Faculty Service. To measure faculty service, most colleges simply count the number of committees and/or the number of advisees assigned to a faculty member. However, this is not always an accurate or fair measure of productivity because some committees require a lot of time and effort, while others only meet once a year. Additionally, chairing a committee requires significantly more time and effort than simply being a member of one.

Academic advising can be defined as the "process that helps students develop academic success through relationships and guidance from faculty members or assigned advising staff" (Coll, Oh, Joyce, Coll, 2009, p. 1). Student advising in higher education is playing an increasingly important role in student success. Several recent students have shown a positive relationship between the amount and quality of student advising and retention, academic success, and satisfaction with the institution (Tinto, 2006). Although faculty are usually expected to spend part of their time advising and/or mentoring students, it is usually not measured nor is it part of their annual performance appraisal. There are faculty who enjoy this aspect of their jobs and spend a great deal of time advising and mentoring students, but it is usually the minority rather than the majority.

Research Productivity. There is no doubt that a strong research profile can add to a college's reputation, and students want to attend prestigious universities (Wilson, 2010). Additionally, accreditation agencies look at faculty research productivity as a measure of faculty qualifications. It is believed by these agencies that faculty who continue to do research will remain current in their field of study and, therefore, will be more effective teachers. Research productivity is important to individual faculty as well because it can bring professional recognition and rewards in the form of higher pay. So, faculty research output remains a big concern for both faculty and administrators. Universities measure faculty research productivity by reviewing scholarly presentations, journal publications, and research grants acquired by a faculty member each year.

It is interesting to note that several studies have investigated the correlation between faculty research and instructional quality with mixed results. Some studies suggest that teaching and research can be mutually reinforcing (Colbeck, 1997; Fairweather, 2002), while others have found little to no evidence of a correlation between research productivity and teaching effectiveness (Feldman, 1987; Hattie and Marsh, 1996). Research productivity can help the reputation of an academic institution, but the jury is still out on whether it improves teaching effectiveness.

MEASURING FACULTY PRODUCTIVITY: THE OVEREMPHASIS ON HIGHLY VISIBLE BEHAVIORS

As pointed out by Stephen Kerr in his 1975 article, "difficulties often stem from the fact that some parts of the task are highly visible while other parts are not… publications are easier to demonstrate than teaching… hitting home runs is more readily observable than advancing base runners (in baseball)" (p. 780). It is easier to simply count publications than it is to try to develop more valid assessments of teaching quality. Additionally, it is difficult to get faculty agreement on the most appropriate way to measure teaching quality because it is somewhat of a subjective evaluation. Most universities continue to measure service by simply counting the number of committees and/or the number of advisees assigned to a faculty member. An objective measure is not necessarily the most valid one.

MEASURING FACULTY PRODUCTIVITY: THE OVEREMPHASIS ON EQUITY RATHER THAN EFFICIENCY

There are other factors that might prevent academic institutions from rewarding the behaviors desired by administrators (Kerr, 1975). The challenge of motivating professors to become better teachers is further complicated by the current state of university budgets across the country. Just as in the private sector, most public universities in the country have experienced budget cutbacks as the result of the economy, so faculty are being asked to do more with less. Merit pay increases in academic institutions across the U.S. have been nominal to nothing in recent years, further limiting administrators' ability to reward good behaviors. When Merit pay is available, it is often distributed equally among all faculty – faculty receive very similar pay increases (within a percentage point or two). Furthermore, within a particular discipline, faculty pay is determined by a variety of internal and external factors. Internal factors include research publications and length of service. External factors include the external labor market (supply and demand of Ph.D.'s in each discipline area).

In academia today, pay compression, and sometimes pay inversion, is commonplace. *Pay compression* occurs when the salaries of new professors are very close to tenured professors who have been with the institution for many years. *Pay inversion* is the rare case where the starting salaries of the new Ph.D.'s are actually higher than the salaries of tenured professors. This is due, in part, to the dwindling supply of new Ph.D.'s – especially in certain discipline areas such as business and medicine. This is also due to the down economy and the continuing budget cuts that have frozen most tenured faculty salaries for years, while market salaries for new Ph.D.'s continue to rise. These salary differences are market-driven, but they sometimes affect collegiality within an academic institution and can affect the ability of a university to keep good tenured faculty. Salary differences within an academic institution can be substantial -- faculty who are in disciplines where the supply of Ph.D.'s is larger and demand is smaller, such as History or English, sometimes make almost half of those in the high demand/low supply disciplines. Due to concerns of fairness and the ambiguity in assessment criteria, some have pushed for salary equity across the university so as to create a more collegial and collaborative working environment. However, others suggest that public colleges, like private for-profit institutions, should offer salary increases to reward productivity and marketability. The market favors those faculty who are most mobile – the productive researchers who can bring the institution more prestige and are in specialized, high-demand fields. As pointed out by Amey and VanDerLinden (2002), "administrators must consider all forms of reward to attain the desired level of faculty productivity… offering one-time bonuses to redress past salary inequities, for example, does little to compensate for base salary inequities" (p. 29). Administrators need to consider several factors in determining a faculty member's total compensation package, including the institutional mission, faculty evaluation criteria, merit pay, and the labor market.

YOUR SITUATION

You are Dean of a College of Business at a medium-sized public university in the Midwestern part of the United States. Due to the economy, you have been told by the President of your university that you will not be able to offer salary increases to your faculty again this year. Because of cuts in federal and state budgets, you haven't been able to give your faculty cost-of-living or merit pay increases for three years now. Like many universities, some of the new hires are now making just a few thousand dollars less than tenured faculty. Some of your tenured faculty are very dedicated employees who have been at the university for more than 10 years.

You have a total of 35 faculty in your College, not including the Assistant Dean and three Department Chairs. Although your student enrollment has increased, faculty turnover in your college has been high the last several years – some of your tenured faculty have retired, but much of the turnover is due to rising market salaries for business Ph.D.'s. In fact, only about 20% of your current faculty are tenured (which means that they have been at the college for more than five years). Some of your tenured faculty are very dedicated employees who have been at the university for more than 15 years. Others are less engaged and do the minimal amount of work expected. You have been able to hire new faculty recently, but you haven't been able to fill all of the open positions, and you've had to pay the new faculty close to what your tenured faculty make to get them to come to your college. The labor market for business Ph.D.'s is still very tight – while faculty salaries have been frozen across the nation due to the economy, new Ph.D.'s are still in high demand and their salaries continue to go up.

You need your tenured faculty to help mentor the new faculty and help with the departmental committee work and student advising. Untenured faculty are usually discouraged from serving on many committees so that they can work on their research since it is a big consideration in getting tenure. You know that asking your untenured faculty to do too much service work will set them up for failure in the tenure process. Most U.S. universities continue to use the tenure system. In essence, the tenure process means that all new faculty are on a probationary period for up to seven years. The tenure decision is made by a group of tenured faculty within the same discipline (usually four or five). New faculty who fail to achieve tenure by their seventh year of service are given one year to find another job. Under the tenure system at your college, a new professor will not be given tenure unless he/she demonstrates a strong record of published research and good teaching evaluations (mainly measured by student evaluations of teaching). New professors can apply for tenure at the end of their fifth year of service (which is considered early), but have to apply no later than their seventh year of service.

Recently, your accrediting agency, the Association to Advance Collegiate Schools of Business ("AACSB"), has asked all colleges to submit their learning assessment plans. These plans require that everyone in the college participate in developing learning outcomes for their classes (including the new faculty), and then develop measures to assess learning in every class on each outcome. It is a very time-consuming and paper intensive process, and your faculty are already busy with their other responsibilities, which include not only teaching and research, but committee work and student advising as well. You know that while some faculty do the minimum amount of work, others are already working well over 40 hours a week. Additionally, faculty will receive little help from the staff which has been cut back in recent years as well due to budget cuts. The work will have to be done by faculty, and you know that some will put the time in it and do it well, others will not.

Some faculty have raised the issue of equity in the number of course preps. Within your college, every professor teaches three courses each semester (with the exception of the Department Chairs and the Assistant Dean who are on reduced teaching loads because of their other responsibilities). Some faculty have taught the same courses for years, while others teach new courses almost every semester. Prepping (preparing) a new course requires a lot more of the faculty member's time than the ones he/she has already taught. Although the scheduling process is faculty-driven, some of the untenured faculty have complained that they have more course preps because the tenured faculty have more say in the scheduling process (in part due to the politics of the tenure process). There is also the issue of how to assign graduate courses (your college offers two graduate programs at night and on the weekends). About half of the faculty teach graduate courses and half do not. Because graduate courses are taught at a higher level (and graduate students are charged a higher tuition than undergraduates), faculty who teach in the graduate program are supposed to be the ones who have the highest research productivity and who are considered to be the best teachers in a discipline area. In fact, faculty can only teach in the graduate program if they are designated as "graduate faculty" by the university after a thorough review of their records. Teaching graduate courses requires more time and effort because the courses are more complex, there are more assignments to grade, and graduate students' expectations are higher than undergraduates. However, besides the designation, currently graduate faculty are given no additional consideration by the college in the way of recognition, release time, or monetary bonuses. They are treated the same as others. Consequently, there are some faculty who do not want to teach in the graduate program, while others teach three or more graduate courses a year. Some faculty enjoy the challenge, while others feel that the amount of work put into teaching graduate courses could be better spent doing research since research is recognized and rewarded by the college (when there is money in the budget).

Lately you have noticed that faculty morale has gone down, but you don't know exactly what you can do about it. You have read some research that suggests that faculty morale and motivation are affected by disparate workloads and/or compensation levels. Some faculty have complained about the number of students and new course preps given to them as compared to other faculty. Also, because you have so few tenured faculty, you have been asking untenured faculty to pick up some of the student advising and committee work that would normally be done by tenured faculty. You have read that successful collaboration in any organization requires both individual- and group-level rewards, such as college-wide bonuses, but you have very limited funding for either. Although you don't have any money in the budget for salary increases, you have been given some money to use for faculty travel to present their research papers at academic conferences, and in any other way you deem appropriate to meet the college's mission and goals. Currently, this annual pool of money equals about $75,000. You have considered giving some faculty a reduction in their course loads to do some of the additional service work required, but that would mean that you would have to hire adjunct instructors to take their place at a cost of about $3,500 per course. Additionally, the quality of adjuncts varies, so student learning might actually be hurt by this plan.

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ZERO TOLERANCE OR ZERO RATIONALITY

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CASE DESCRIPTION

The primary subject matter of this case concerns organizational culture and conflict management. Secondary issues examined include ethics, human resource management, organizational theory and strategy. The case has a difficulty level appropriate for upper division and graduate business students. The case is designed to be taught in one to two class hours and is expected to require two to four hours of outside preparation by students. Zero tolerance policies, while still on the rise in many institutions in this country (most prominently in U.S. school systems), are increasingly being challenged in courts at various levels. Two of the most common reasons for court cases in this area are inflexibility in relatively minor violations and egregious penalties that far exceed the particular situation. Both of these reasons for litigation are evidenced in the case presented here.

CASE SYNOPSIS

A large international distribution company has a personnel problem in their Orlando, Florida division. An internal audit has discovered that two long-time employees have violated a zero tolerance policy concerning the private use of a company vehicle. This division falls under the supervision of Linda Douglas, southeastern U.S. regional vice president for the company. Linda, while vacationing in Miami Beach, has been instructed by the international vice president for human resource management at the company headquarters in London, Victoria Vasilias, to terminate both the delivery driver for personal use of a company delivery van and his supervisor that knew of the violation and did nothing about it.

Linda investigates the allegations and learns from the supervisor that the driver had an emergency involving his elderly mother, and felt he had no choice but using the company van. The supervisor explained that he could not justify firing the driver for a number of reasons, including his loyalty to the company and the negative impact on the morale of the other drivers in the unit. The supervisor is not concerned about retaining his job because he could easily get a job immediately with one of their competitors and take a lot of business with him.

Linda offers to write a detailed explanation of how the employees' dismissal would be harmful to the company and suggest an alternative punishment if Victoria would present the explanation to senior management in London. Victoria was not supportive, but agreed to read the explanation when she received it. She also told Linda that she might be jeopardizing her (Linda's) career with the company if she submits the explanation rather than terminating both employees immediately. Linda must now choose which course of action to pursue.

CASE BODY

Linda Douglas had just finished brunch at an outdoor table on Ocean Drive and settled into her beach chair on beautiful South Beach in Miami Beach, Florida. It was her first full day of vacation and she was looking forward to a relaxing week of rest and relaxation in South Florida. Linda is the southeast U. S. regional vice president for a large international distribution company headquartered in London. The company's southeast regional headquarters is located in Atlanta. She regularly checks in with her office when on vacation and decided to call in before going for a quick swim and starting the paperback novel that she purchased at the airport.

She could tell by the tone of Helen Lane, her executive assistant, that something was very wrong. Helen informed Linda that the company's international vice president for human resource management, Victoria Vasilias, had called from London trying to reach her regarding a serious matter that she would only discuss with Linda. Linda had met Victoria on a few occasions both in London and Atlanta, but had not worked with her to any great extent. Helen had committed Linda to receiving her call at her hotel room the next day at 8 am Miami time.

Linda tried to put the matter out of her thoughts as she enjoyed the rest of the day on the beach, informally toured Miami Beach in her convertible and ended the day with an enjoyable dinner with Rachel Douglas, her cousin and a Miami native, at an outdoor waterfront restaurant in North Bay Village. As she expected, Victoria called the next morning exactly at 8 am. After the customary pleasantries, Victoria got to the point:

Victoria: *I have some rather unpleasant news to share with you. Our internal audit division has found that two of your employees have violated two of the company's no tolerance policies and will have to be terminated.*

Linda: *What happened?*

Victoria: *The audit report found that Jim Evans, a driver in the Orlando division, used a company delivery van for personal travel and that the manager for the division and Jim's boss, Dan Dole, was aware of the violation and did nothing about it. Misuse of a company vehicle violates a company zero tolerance policy. Failure to enforce the zero tolerance policy is also considered a violation of the policy.*

Linda: *Both of them are long term employees of the company. Let me check into this a bit more before we discuss it further. Can I call you tomorrow?*

Victoria: *This is a pretty straight forward matter. They have both violated no tolerance policies and will have to be terminated. However, I will allow you time to verify that the internal audit results are correct. Perform your own investigation and call me back tomorrow at 3 pm London time.*

Linda: *Thanks Victoria. I will do that.*

Linda immediately placed a call to Dan Dole.

Linda: *I just got off the phone with Victoria Vasilias in London. She wants me to fire both you and Jim Evans based upon internal audit report results. What happened?*

Dan: *I guess no good deed goes unpunished. Jim and I have each been loyal and valuable employees of the company for years.*

Linda: *Just tell me exactly what happened.*

Dan*: Jim and his wife live in an area of Orlando near Lake Nona, just east of the airport. He, like all delivery drivers at our location, takes his van home at night. Other than commuting, they are only to be used for deliveries and other company business. This arrangement saves the drivers commuting expense and is considered by them to be an important fringe benefit. It also benefits the company because they are occasionally called out after hours to make an unscheduled delivery to customers.*

Linda: *One of our zero tolerance policies is that there is no personal use of company vehicles.*

Dan: *All of our drivers are very careful about observing that policy.*

Linda: *Then why did Jim violate it?*

Dan: *Jim and his wife Betty only have one car. One Saturday Betty was shopping when Jim received a call from his elderly mother who lives alone in a large retirement community near Leesburg. She had fallen and couldn't get up. Jim found out later that she had fractured her hip. After hanging up, Jim got in the van and drove as fast as he could to her house. All the vans are equipped with SunPass. With SunPass, a decal device is attached to the windshield, which allows toll road fees to be billed automatically to an individual or a company. Jim went through numerous turnpike toll booths on the way. The auditors picked it up on the monthly SunPass statement because it was on a Saturday, not a regular work day. That is one of the things they regularly check.*

Linda: *That explains Jim's problem. What about you?*

Dan: *When I got the auditor's report, I called Jim in and asked him about it. He told me the story and I confirmed it by contacting the hospital that treated his mother. I told him that it was a serious violation and not to let it happen again. He told me that he and Betty were very sorry and they had already purchased a second car so that if a similar situation happened again they would be able to respond quickly without using the van. I have known Jim for 20 years. He has been a terrific employee and I believed his promise that this would never happen again. Betty is a cancer survivor and Jim had previously experienced some heart problems. If he loses* *his job, he will have a very hard time getting an individual health insurance policy. At his age, I also know that he will have a hard time getting another delivery job if he loses this one. Jim is our most senior delivery person and has trained virtually the whole delivery staff. The delivery staff looks up to Jim and the loss of his leadership would certainly adversely affect our operations. In addition I feel that, had I received a similar call, I would have done exactly the same thing. I felt that giving him a second chance was the right thing to do. Internal audit followed up on the matter and when I told them that I was not going to fire Jim they reported me to headquarters.*

Linda: *Aren't you worried about your future with the company?*

Dan: *Not really. Our main competitor in my territory has been trying to hire me for years. At the risk of sounding boastful, nobody in this territory has the customer relations that I have developed over the last 20 years. I have won the top sales award for the region for the last three years, in addition to being the division manager and handling all the administrative tasks. I can't believe the company would turn their best salesman into their biggest competitor over something like this.*

Linda: *I certainly hope we can work this out. Let me get back to you.*

Linda was very concerned that either enforcing or not enforcing the no tolerance policy violations could cause problems. Enforcing the policy would result in the loss of two key employees and probably a significant drop in both sales and profits if Dan is forced to work for a competitor. In addition, terminating Jim and Dan would damage the positive organizational culture that Dan has created and might result in morale problems, additional turnover and a reduction in the productivity of the remaining delivery staff employees. Not enforcing the policy would send the message that it is not really a zero tolerance policy after all. This could harm the enforcement of all other company no tolerance policies. In addition, not enforcing the policy would put Linda into conflict with company leadership.

She spent the day on the beach mentally formulating her reply to Victoria while enjoying the idyllic setting as much as possible. She once again met her cousin Rachel for dinner at South Beach and discussed her situation before ending the evening at a popular club on Collins Avenue. Allowing for the time differential between Miami and London, she placed the call to Victoria the next morning.

Linda: *Victoria, I have talked to Dan Dole and, while the facts presented by the internal auditors are correct, there are additional facts that need to be considered.*

Victoria*: You know as well as I do that zero tolerance means zero tolerance. These two need to be terminated immediately.*

Linda: *What should be our goal? Enforcement of an inflexible policy or doing what is best for the company? Does it necessarily follow that termination has to be the punishment for* *violating a zero tolerance policy? Shouldn't a manager that has discretion over the disposition of large amounts of company resources also have discretion over disciplining its employees?*

Victoria: *We are a worldwide company with thousands of employees and we have to have strict rules governing their conduct. If we didn't there would be chaos. You need to do your job and terminate them as soon as possible.*

Linda: *There are other factors to consider. If I am responsible for the profitability of the region, then shouldn't I also have the discretion to make decisions that affect profitability? Wouldn't that include making decisions when extraordinary problems occur that conflict with company policies? We also have little tolerance for poor economic performance by regional managers. Firing these two will definitely adversely affect the profit of my region. If I send you a memo outlining the problems that firing these two would cause and proposing some other punishment, would you at least discuss it with the other members of top management?*

Victoria: *Quite frankly, sending such a memo could be quite injurious to your career. If you send it, I will read it. I will not guarantee anything further. Good day.*

Linda had a big decision to make. Should she just fire them or should she write the memo? She was reluctant to discuss the matter with the senior vice president for North American operations and her superior, Benjamin Hill. Mr. Hill had transferred to that position from the company's London headquarters the previous month and Linda had yet to meet him in person. Because of the potential effect it might have on her career, she needed to spend some time considering the issues before she made that decision. As she relaxed in her beach chair she could not stop considering the pros and cons of what she should do next.

LUMBER PRESERVING: A CAPACITY AND WAREHOUSING DILEMMA

Joseph G. Ormsby, Stephen F. Austin State University

CASE DESCRIPTION

The organization is experiencing a rapid level of growth and the resultant strain placed on production's ability to adapt to this growth will be presented in this case. Data for this case was taken from a local lumber preserving mill of the corporation. This case was designed to give students an opportunity to suggest ideas that will assist in dealing with new levels of demand resulting from new market growth. The local mill needs to determine if current capacity is sufficient given this level of increasing demand. The case has a difficulty level appropriate for senior or first year graduate students and is appropriate for classes in operations management, quantitative analysis and general management. It is designed to be taught in two class hours with three hours of outside preparation by students.

CASE SYNOPSIS

The case will discuss changes in the business market industry with regard to chemicals used in the treating process and its resultant impact on production, plant layout and capacity of the loading operation. The forecasted demand of the facility will have to be determined to develop production requirements for the facility. Finally, a determination will have to be made regarding the capacity of the current facility.

HISTORY

The organization started operation in 1971 with minimal equipment, three employees, and a rundown wood preserving plant in Alabama. By 1976, delivery trucks were making over half their deliveries to the Mobile area and as a result opened its second treating plant in that city. Nine years later the organization expanded again by opening a new plant in Georgia.

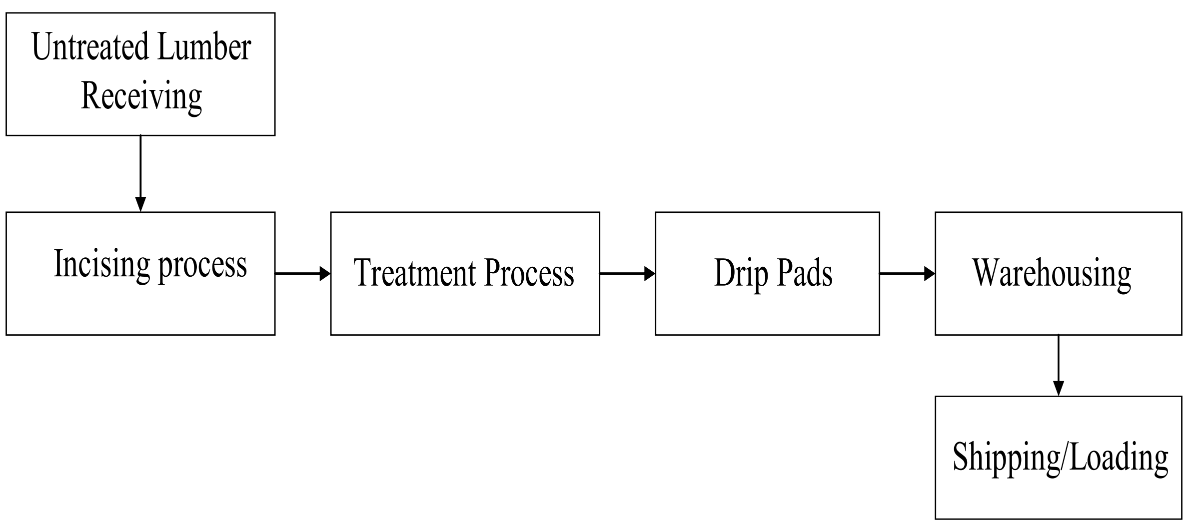
When the Georgia plant was opened, the organization entered a period of rapid growth adding full-service treating facilities in Florida, Texas, Missouri and Arkansas as well as additional locations in Alabama and Georgia. These locations strategically positioned the organization to provide prompt and efficient service to lumberyards and building supply stores across a broad geographic region. The organization enjoyed phenomenal growth based on the reputation it earned for producing superior building products; however the newest facility in Texas has encountered capacity problems attributable to the rapid growth in sales volume.

THE PRESSURE TREATING PROCESS

The primary purpose of wood pressure treatment is to force preservative chemicals deep into the cellular structure of wood. The chemical acts as a barrier between the wood and any biological deterioration agents, so that the service life of the wood can be substantially increased. A primary objective is to match the best preservative and application method to the wood species and to end use of the finished product. A variety of lumber preservatives and application methods are in use worldwide. Application methods include high pressure impregnation, low pressure impregnation, vacuum methods, dip treatments and brush or spray-on application. The organization's primary wood species has been southern yellow pine lumber and the treatment process is a high pressure impregnation process.

Lumber arrives for impregnation in standard lengths. Incoming products are checked for quality and stacked in the lumber yard, or moved directly to the impregnating process. A schematic of the impregnating process is shown in Figure 1.

Figure 1 – Steps in the Pressure Treatment of Wood



Incising is a process to prepare wood for treatment. Sharp steel teeth are pressed into the sides of the timber to increase chemical penetration into the wood during the treatment process. A track system is normally employed to load the cylinder allowing lumber to remain in shipping bundles. Size of the cylinder used depends on the quantity of lumber needed to replenish inventory or to meet customer orders. The organization has two cylinders; one is 8' x l00' and can treat about 50,000 board feet (bft) of lumber. The other cylinder is 8' x 50' and can treat about 25,000 (bft) of lumber. The cylinder is sealed, flooded with the chemical preservative followed by a cycle of pressurization and vacuuming. Typical treatment methods can be classified as full-cell or empty-cell processes..

The full-cell method is typically used where the application involves a significant exposure to rain or moisture (examples include utility poles, farm fences and bridge timbers.) In a full-cell treatment, there is an initial vacuum to rid the cylinder of air, afterwards the tank is filled with preservative and pressurized to 140-150 psi for several hours. The cylinder is drained and then the lumber is vacuumed to clean away any excess chemicals left on the surface of the lumber.

By contrast the empty cell method requires an initial pressurization (35-40 psi). This forces air into wood cell lumens with the ultimate purpose of pulling out preservatives injected into the wood at the end of the treatment process. The cylinder is filled with preservatives while the initial pressure is maintained. Afterwards, the pressure is increased to 140-150 psi and held for several hours. After pressure treating, cylinder pressure is released and the final vacuum is applied to clean any surface preservatives remaining on the wood. After treating, lumber is moved to drip pads where treated lumber is allowed to dry prior to storage in the warehousing facility.

WAREHOUSING OPERATIONS AND SHIPPING VOLUME

The current layout of the warehouse is presented in Figure 2. This layout pattern allowed fork-lift operators to travel back and forth from the warehouse and the loading area. High volume products included 2 x 4x 8, 1 x 6 x 6 DE, and 2 x 4 x 8 #2 prime. Other lengths of 2 x 4, 2 x 6, 2 x 8, 2 x 10, and 2 x 12 have lower yearly volumes. The design layout consists of seven rows for material storage that are broken down into sixteen block sections. There are six aisles for traveling back and forth. Closeness factors were determined for inventory items based on volume sold, see Table 1. The distance measurement is the distance from the inventory item's block section to the loading/shipping area. High volume items listed above were placed at the back of the warehouse closest to the drip pad. The warehousing manager thought that storing high volume items closer to the drip pads, would speed the clearing of the drip pad for future use.

The loading process consists of two forklifts dedicated to truck loading. The facility operates five days a week, 52 weeks of the year. The forklift operators work 8 hr shifts. The warehouse currently has two shifts for inventory loading/shipping. The average time to load a truck is 46 minutes. The average truck can hold 15,000 (bft) of treated lumber. The two year sales volume averaged is around 120,000,000 (bft), which means 8,000 trucks on average have been loaded per year.

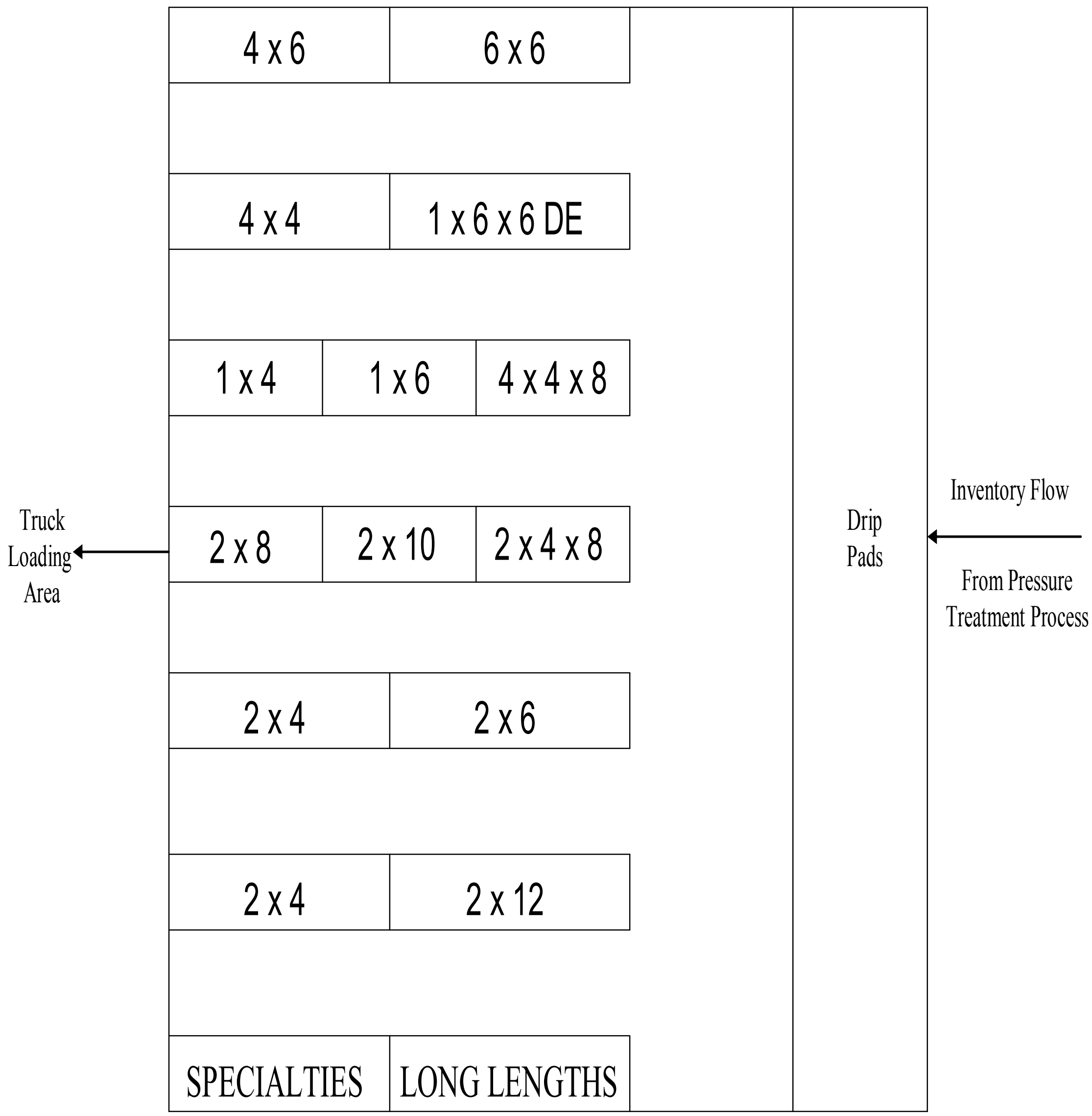


Figure 2: Warehouse Layout and Inventory Flow

TABLE 1 – Current Inventory, Closeness Factors and Distance to Loading/Shipping Area		
Inventory Item	Closeness[1] Factor	Distance (ft)
2 x 4 ACQ	8	100
2 x 6 ACQ	8	200
2 x 8 ACQ	4	100
2 x 10 ACQ	2	150
2 x 12 ACQ	3	200
4 x 4 ACQ	7	100
4 x 6 ACQ	6	100
6 x 6 ACQ	2	200
1 x 4 ACQ	5	100
1 x 6 ACQ	6	150
1 x 6 x 6 DE	10	200
2 x 4 x 8 #2 Prime	10	200
4 x 4 x 8	9	200
Specialties	1	100
Long Lengths (22'–24')	1	200

[1]Closeness factor determination for 2 x 4 ACQ:

1) Largest yearly volume items were assigned a value of 10.

Volume of 1x 6 x 6 DE/Volume of 2 x 4 ACQ = 10/X

Solving for X would result in the closeness factor for 2 x 4 ACQ.

ENVIRONMENTAL CHANGES AND WAREHOUSING MODIFICATIONS

The primary chemical used in pressure treating (Chromated Copper Arsenate, CCA) was banned in residential applications due to its arsenic properties. A new chemical, Alkaline Copper Quaternary (ACQ) was the replacement chemical and as a result the warehouse layout had to segregate lumber stocks into residential lumber treated with ACQ and lumber for non residential use.

A second problem in the warehousing layout was introduction of borate treated lumber. Borate treated lumber is used for the bottom sill plate in housing. Lumber treated with this preservative cannot be stored outside because inclement weather will wash away the protective chemical. Consequently, it must be stored in the finished lumber warehouse. In fact, the organization is one of a few industry members that keep 90 % or more of treated inventory under roof. These two environmental changes coupled with the rising level of demand have created a capacity problem in warehousing operations.

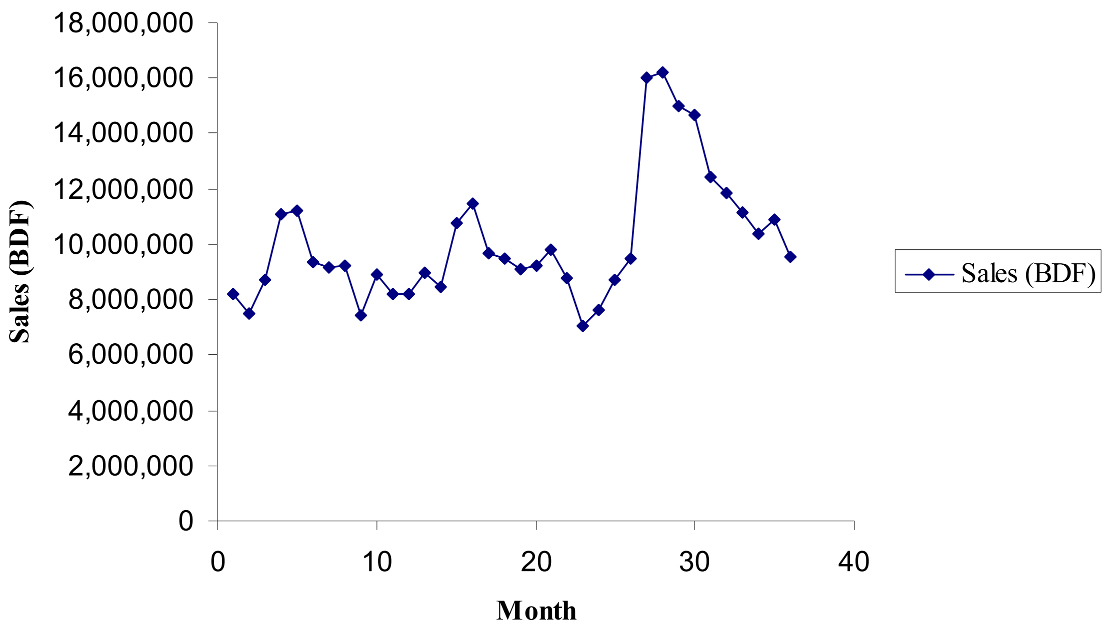
Due to the expected growth of production, warehousing will need to know the maximum amount of loads they can load a day using two forklifts. Production manager has asked for a projected level of sales for the next year.

GROWTH IN SALES AND THE CORPORATE HEADQUARTERS RESPONSE

Sales growth for the past two years has fluctuated within a few customer types, but overall volume has grown. Warehousing needs to know next year's sales volume. With this information, warehousing will be able to calculate number of shifts to handle the expected growth. Demand for board feet of lumber is presented in Table 2 along with a graph of sales volume in Figure 3.

Table 2: Three Year Sales Volume (Board Feet, BFT)			
Month	Year 1	Year 2	Year 3
January	8,231,218	8,953,999	8,687,643
February	7,506,737	8,424,947	9,503,976
March	8,731,336	10,760,412	16,014,978
April	11,108,172	11,490,163	16,218,415
May	11,196,626	9,656,253	15,006,708
June	9,365,374	9,475,104	14,689,315
July	9,143,151	9,074,696	12,454,828
August	9,212,190	9,228,455	11,858,030
September	7,402,707	9,832,683	11,128,742
October	8,920,306	8,748,438	10,385,114
November	8,220,209	7,047,088	10,894,929
December	8,225,487	7,638,360	9,560,288
Total:	107,263,513	110,330,598	146,402,966

Figure 3: Three Year Sales Volume



Initially, the local plant thought that a warehouse expansion would be a long run solution for the increased level of demand. However, when the local plant approached corporate headquarters with this idea, it was rejected and corporate headquarters indicated that the local plant would have to handle the increased demand with current resources.

QUESTIONS:

1. Reconfigure the layout using the inventory items and closeness factors shown in Figure 2 and Table 1.

2. Forecast the sales volume for Year 4.

3. Calculate the average number of trucks loaded in a day. What considerations should one make in using this calculation?

4. Had corporate headquarters given the approval for the new warehouse expansion, what considerations would have to be made in planning this expansion?

THE CASE OF SMALLVILLE COLLEGE: YEAR-END ENTRIES FOR HIGHER EDUCATION

Theresa A. Gunn, Alfred University
Tammara L. Raub, Alfred University

**This is a fictitious college and case study. Any relatedness to actual colleges, individuals or situations is purely coincidental.*

CASE DESCRIPTION

The primary subject matter of this case concerns financial reporting issues in higher education using fund accounting. Secondary issues examined include endowment investment issues, adjusting entries, pledge accounting, and capital projects as they all relate to fund accounting. The case would be appropriate for a senior level undergraduate course as well as a graduate course. This case is designed to be taught in one to two class hours in conjunction with a section on not-for-profit accounting or auditing and is expected to require approximately two to three hours of outside preparation by the students.

CASE SYNOPSIS

In this case, students are introduced to Adam Counterman, a staff accountant at a regional accounting firm, who is assigned to the engagement team auditing Smallville College. The College is a new engagement for Adam's accounting firm. Fund accounting is generally used in higher education and to date, Adam has not been exposed to this form of accounting. The trial balance of Smallville College is unadjusted so there may be some adjusting entries that are needed that the client has missed. The students will need to lead Adam through the steps of preparing proper adjusting entries so the client will be able to prepare accurate financial statements.

INTRODUCTION

Smallville College contains the schools of liberal arts and professional studies. Student enrollment is around 1,500 and full time employees total 325. In the prior year, Smallville College has had one of its business school alumni, Martin Moneybags, donate $50,000,000 effectively doubling its endowment. Martin Moneybags made his money investing in the Gifthorse hedge fund that had very favorable historic returns as compared to the standard and poor's index. As Mr. Moneybags also serves on the board of trustees he recommended the Gifthorse hedge fund to members of the investment committee of the board of trustees. Upon Mr. Moneybags recommendation, the board decided to put the entire equity position of the endowment in this hedge fund. The investment committee has a board approved investment policy of 80% equities and 20% fixed income.

Smallville College has a June 30 year end and is classified as a not-for-profit using fund accounting. During the current year they approved a new billing date of June 15 to allow students and their families 60 days instead of 30 days to pay.

The College has several fund types that make up its general ledger. An unadjusted trial balance has been provided.

Smallville College Trial Balance June 30, 2012		
	Unadjusted Trial Balance	
	Debits	**Credits**
Assets		
Cash and cash equivalents	8,000,000	
Student accounts receivable	16,000,000	
Contributions receivable	0	
Investments	100,000,000	
Equipment	5,000,000	
Buildings	60,000,000	
Construction in progress	0	
Accumulated depreciation		25,000,000
Liabilities		
Accounts payable		2,000,000
Accrued interest		0
Accrued wages		0
Deferred revenue		0
Long-term debt		7,000,000
Net Assets		102,000,000
Revenues		
Tuition		75,000,000
Grant revenue		2,000,000
Gifts		0
Investment income		5,000,000
Expenses		
Wages	20,000,000	
Operations and capital expenditures	6,800,000	
Interest Expense	200,000	
Depreciation	2,000,000	
	218,000,000	218,000,000

Budget Fund – This is the main operating fund for the College. All tuition, fees, room and board charges are recorded here as are all of the main operating expenses such as financial aid, wages, fringe benefits and general operating expenses.

Endowment Funds – This is actually a group of individual donor funds that are pooled and invested permanently. A portion of the market value is allocated for spending each year by the board and this is withdrawn from the investment pool and spent according to each donor's wishes. The current endowment consists of 300 separately named funds with varying restrictions, i.e. endowed chairs, scholarships, and direct support of specific programs.

Plant and Project Funds – This group of funds tracks the overall property, plant and equipment of the College along with the associated accumulated depreciation. There are also individual funds to track major construction projects.

Agency Funds – This group of funds contains the student senate and the individual clubs the senate supports. The activity in these funds is not included in the College's statement of activities.

SMALLVILLE COLLEGE - ASSETS

The College's assets consist of cash, student accounts receivable, pledges receivable, long-term investments, buildings and equipment.

CASH

Cash consists of petty cash on hand and cash in bank accounts. Since the College is in a rural setting the local banks are very small and don't offer much in the way of cash management products. The College daily deposits locally all cash and checks received. The College uses fraud protection products that prevent unauthorized checks, wires or ACH transactions from being processed. The College also takes advantage of online banking to check all transactions daily, and to process ACH, wire transfers and foreign currency transactions.

STUDENT ACCOUNTS RECEIVABLE

Student accounts consist of the net amount after financial aid has been posted that each student has been billed but has not paid. This amount is reduced by an allowance based on the ageing of the balances. The College generates most of its revenue through student billings. As students register online for courses and select housing and meal plans, charges are posted electronically to each student's account. The financial aid department then awards scholarships and those are posted against the accumulated charges. On June 15 the bursar runs a billing process for the fall semester that produces electronic statements that are emailed out to all of the students. The student can then go online to a secure site and pay the bill via an ACH debit to their bank account. At this time, the College does not accept credit cards. Students also have the option of sending a paper check into the bursar's office or paying at the counter in cash. The mail is opened by the cashier and the checks are immediately stamped 'for deposit only' into the College's bank account. They are then entered into the student's account. Cash is accepted at the counter and posted to the student account with a receipt printed for the student at that time. All cash and checks are taken to the head cashier and reconciled and deposited daily.

PLEDGE RECEIVABLE

The College receives two major kinds of gifts: unrestricted gifts that support the budget fund and endowed gifts that support student scholarships and donor restrictions. Unrestricted gifts are generally received through the secure donation website or by a check in the mail. Mail is opened by the gift processing office and checks are entered into the gift tracking system. Daily the checks are brought to the head cashier for deposit and processing into the system and also daily the gift tracking system produces a feed to post all of the gifts to the correct funds.

The gift solicitation department also obtains pledges for future gifts. These pledges are recorded into the gift tracking system, but not in the general ledger. Pledge receivables are posted at year end only. A report is produced from the gift tracking system of all pledges made during the year and unpaid at June 30th. If the pledges are for multiyear payments they are discounted by using a present value calculation.

Endowed gifts generally tend to be electronic transfers of stock into the College's brokerage account where they are immediately converted into cash and then invested into the endowment fund under long-term investments (see below).

LONG-TERM INVESTMENTS

Long-term investments consist of the pooled endowments funds that the board of trustees has decided to invest 80% in the Gifthorse hedge fund and 20% in bonds and cash. They are recorded on a current market value basis quarterly with transactions recorded monthly. The board reviews the market value quarterly and compares the actual return with the market index. During the year the endowment fund had earnings and gains net of fees of $5,000,000 and $1,000,000 was allocated for use in the budgeted fund.

BUILDINGS AND EQUIPMENT

Buildings and equipment are recorded in the general ledger as expenses during the year to enable budget tracking. At year end, the expenses are credited and the assets are debited. Depreciation is then calculated and recorded on all booked buildings and equipment at year end. Construction in progress is also moved to an asset account in the plant and project fund at year end. The College has received a $2,000,000 grant to upgrade its Library. This capital improvement project was started during the year and is approximately 50% complete at June 30th.

SMALLVILLE COLLEGE – LIABILITIES

Liabilities consist of accounts payable, accrued interest, accrued wages and long term debt.

ACCOUNTS PAYABLE

Accounts payable is made up of all invoices for goods and services received by June 30th, but not yet paid. General operating expenses are initiated by the various departments and divisions by submitting a requisition to purchasing. Purchasing determines the vendor to use by taking into account price and quality and produces a purchase order and issues it to the vendor. This process also encumbers the funds so that the area financial manager will know that the available balance in their budget has been reduced by this order. When the order is received by the department and the invoice is processed by the business office this encumbrance is relieved and the department budget is charged the actual expense with an offsetting credit to accounts payable. When the check run is processed accounts payable is cleared.

During Adam's review of the July accounts payable check runs, an unrecorded invoice for $200,000 was paid in July for work performed on the library project in the month of June.

Small purchases and all travel related expenditures are generally paid with the College's credit cards. An employee may be approved for a credit card by their area vice president if their job description requires it. Before receiving a credit card each employee must undergo a training seminar and sign an agreement. Statements are reconciled monthly and approved by the division administrator and then forwarded to the credit card program director for final review. Bills are paid monthly by automatic withdrawal from the College's bank account. A monthly accounting feed is processed by the program director that charges each department's budget for the prior month's charges.

HUMAN RESOURCES AND PAYROLL

The majority of the College's expenditures are personnel related. Faculty are contracted to work from September 1 through May 1, but are paid over 12 months. Most administrators and staff are 12 month employees. New positions or employees are added to the system by the human resources employees and payroll is processed by the payroll department employees.

Accrued wages consists of all wages earned by employees as of June 30th but not yet paid. Faculty have earned their entire pay as of May 1st, but have their pay deferred to fund their paychecks for 12 months. The remaining faculty wages are paid through August 31st.

ACCRUED INTEREST AND LONG-TERM DEBT

Long-term debt consists of an outstanding bond issue with a balance at June 30th of $7,000,000. The interest rate is 3% and payments are made on October 1st and April 1st.

SMALLVILLE COLLEGE - NET ASSETS

There are three categories of net assets: unrestricted, temporarily restricted and permanently restricted. Most net assets are classified as unrestricted. Only donor imposed restrictions can make a net asset temporarily restricted or permanently restricted. Permanently restricted net assets are made up of donor gifts that must be invested in the endowment and not spent. Temporarily restricted net assets are made up of the earnings on the permanently endowed gifts, any unspent withdrawals from the endowment that the donor stipulates are for a specific purpose and gifts that donors have given that can be spent for a particular purpose.

For our case study financial statements the beginning balances in net assets are as follows: Unrestricted - $22,423,000; Temporarily Restricted - $25,000,000; Permanently Restricted - $58,577,000. Total beginning net assets are $102,000,000.

Ending net assets are computed on the statement of activities by classifying activities by their restriction type as indicated above with the unrestricted activities in the first column, temporarily restricted activities in second column and permanently restricted activities in the third column. Activities are also classified as operating and non-operating. The operating section comes first which includes: revenues of tuition and the endowment income allocated for operations; expenses of wages, operating expense, interest expense and depreciation. There is then a change in net assets from operating activities calculated by subtracting the expenses from the revenues. Then the non-operating activities are listed: endowment income, less endowment income allocated for operations followed by endowed gifts and capital grants.

Based on the above information, Adam Counterman has the information to prepare multiple adjusting journal entries that the client missed. Once the adjusting journal entries are processed, Smallville College will be able to generate proper financial statements for June 30, 2012.

READINGS

Optional reading for students and/or instructors using this case

Greater Washington Society of CPAs Educational Foundation. www.nonprofitaccountingbasics.org -*Excellent website for Nonprofit Accounting Basic information*

Lee, H. (2008). The growth and stratification of college endowments in the United States. *International Journal of Educational Advancement.* 8(3/4) 136-151.

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IS SUSTAINABLE LUMBER A MYTH? THE CASE OF LATVIAN TIMBER INDUSTRY

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Michael Martin, University of Northern Colorado

CASE DESCRIPTION

The primary subject matter for this case involves strategic management, sustainability, international law, and business ethics. Firm positioning as an environmental leader represents a growing strategic trend. Incorporating sustainable business policies is a practice that many stakeholders are demanding. With these concepts in mind, this case is most appropriate for discussion and analysis in undergraduate management, business law, or ethics courses where the topics of leadership, management, ethics, and sustainability are covered. This case is also appropriate for discussion in any courses where the instructor is ready to discuss ethics in international business and society. This case is designed to be taught in approximately one or two class sessions.

CASE SYNOPSIS

This case describes the hypothetical management decisions Matt Lelander, a fictional marketing and purchasing manager of a British home improvement store, must make. The principle dilemma revolves around the choice of whether to continue purchasing lumber from the Latvian state owned lumber company. It has come to the attention of the purchasing manager, Matt Lelander that the rate of consumption of Latvian forests appears to be unsustainable. However, Matt realizes that the Latvian state lumber company is certified as a sustainable provider of lumber by the internationally recognized Forest Stewardship Council (FSC). Mr. Lelander is acutely aware that his customers value purchasing lumber from sustainably harvested sources and that they rely on FSC certification when making their purchases. Further, Mr Lelander is presented some legally challenging issues with regards to contract performance and bribery. The case provides detailed background information on the Latvian state owned lumber company, FSC, the current situation of Latvian forests, applicable laws, ethical frameworks, and competitive market considerations. At the end of the narrative the reader is asked to formulate ethically and strategically sound recommendations.

INTRODUCTION

After a hectic day of orientation at the corporate headquarters of one of Britain's largest home improvement stores, Flat and Builder's Supply (FBS), Matt Lelander settles into his corner office and pours himself a cup of black coffee and adds two nondairy creamers. Matt, a recent graduate from one of Britain's most prestigious universities, has been hired by this family owned and operated store to evaluate the purchasing decisions of his employer. Recently, Matt's firm has noticed a significant upward trend in the number of consumers requesting timber that is sourced from sustainably managed forests. Matt is charged with reviewing his firm's purchases from the tiny country of Latvia. A recent film titled, 'Latvia's Pulp Fiction' has publically questioned the forest management practices of the Latvian state owned timber company[1]. Prior to formulating purchasing strategies, Matt must review information on Latvia, the Latvian timber industry, U.K purchases of Latvian timber, background information on the international sustainable forest certification body, forest stewardship council (FSC), and applicable ethical frameworks. Mr. Lelander has until the end of the week to formulate an ethically sound purchasing strategy to ensure his customers' demands for sustainably harvested timber are met as well as a strategy to ensure his firm is competitive.

LATVIA AND THE LATVIAN TIMBER INDUSTRIES

Latvia is a small country on the Baltic sea, with just over 2 million inhabitants. Figure one presents of a map of the country. Latvia shares a border with four nations: Estonia, Russia, Belarus, and Lithuania. According to the US Central Intelligence Service (CIA), Latvia has a small economy with exports contributing significantly to its GDP. As figure 1 illustrates Latvia has a key geographical location which has led to a highly developed transit services along with timber and wood-processing, agriculture and food products, and manufacturing of machinery and electronic devices. Having just gained independence in 1991 from the former Soviet Union, corruption continues to be an impediment to attracting FDI flows and Latvia's low birth rate and decreasing population are major challenges to its long-term economic vitality.

Figure 1: Political Map of Latvia (*www.cia.gov*)

After independence, Latvia's economy experienced rapid GDP growth. For example in 2006-2007 GDP grew at more than 10% (www.cia.gov). However, Latvia's export oriented economy is extremely vulnerable to global demand shocks. Following the global credit crisis of 2008-2009, Latvia's GDP growth plummeted 18% in 2009. As world demand strengthened at the end of 2009 and 2010, Latvia's growth turned to a positive 2.9% in the third quarter of 2010. Latvia joined the World Trade Organization in 1999 and the European Union in 2004. One of the primary political objectives of Latvia is to enter the euro zone by 2014. Since independence in 1991, most companies have been privatized, although the state still holds sizable stakes in a few large enterprises, including ownership of over 50% of Latvian forests (WWF, 2006). Latvia is a middle income country with estimated per capita GDP of just over $14,000 USD (www.cia.gov).

The timber industry is extremely important to the Latvian economy. Forest products contribute approximately one third of Latvia's export revenue. Export revenue generated from the lumber industry in Latvia is in excess of 1 billion USD (Hanley, 2011). Latvian timber exports are not only large but also growing. As the world economy sluggishly recovers from the financial crisis of 2008, Latvia saw its timber exports increase by 50% from 2009-2010. About two-thirds of Latvian timber exports end up on the shores of Great Britain (Hanley, 2011). The Latvian economy is touched in many aspects by its timber industry. Latvia also has huge processing capacity, which is higher than available timber supplies within Latvia. Latvia is a large importer of lumber from primarily Russia, Belarus, and their northern neighbor Estonia.

Mr. Lelander takes a deep breath and begins to contemplate the potential consequences of his research before continuing. Mr. Lelander notices during his research several articles about 'illegal' logging in Latvia. Below is a summary of his research into this important issue as it relates to British imports of Latvian lumber.

According to the World Wildlife Federation: *"Illegal logging occurs when timber is harvested, transported, processed, bought or sold in violation or circumvention of national or sub-national laws*". The American Forest and Paper Association defines illegal logging as follows: "*Theft of timber or logs; cutting in parks, reserves or similar areas; and cutting where government approvals are obtained by corrupt practices.*" Since Mr. Lelander is currently working for a British firm he also checks the definition of illegal logging from the European Commission and finds the following definition: "*Harvesting timber in volition of national laws is illegal. Illegal harvesting may include not only using harvesting practices that contravene the regulations but also using corrupt means to gain harvesting rights, extraction without permissions or from protected areas, cutting protected species or extracting timber in excess of agreed limits. Beyond harvesting, illegal processing and export, non-payment of taxes or charges, and mis-declaration to customs.*" With several definitions of illegal logging in hand, Mr. Lelander proceeds to investigate the degree to which Latvian lumber is harvested illegally.

After a trip to the local Black Bean coffee shop, Matt quickly comes across a report detailing the illegal logging practices in Latvia and the degree to which U.K lumber imported from Latvia is from illegal sources. In a 2005 report, Taiga Rescue Network reports that approximately 20% of Latvian production is from illegal sources. In a supporting report by the World Wildlife Federation in 2003, the estimate is between 15 and 20% of production from illegal sources. Several illegal logging practices are common in Latvia. The two most common violations cited in the reports are: 1) failure to pay royalties and/or taxes and 2) intentional misclassification or undervaluation of traded products. As Matt ponders these new revelations, he decides to head out to the warehouse and inspect the most recent shipment of treated lumber from Riga.

When Matt arrives at the warehouse about an hour later he is greeted by Ida May, the inventory manager. Ida has been working in the warehouse for over 20 years and recalls the days just after the fall of the Soviet Union. Matt asks her to inspect the shipment from Latvia. He immediately notices that the majority of lumber from Latvia carries a yellow stamp with the letters "FSC". "What does 'FSC' stand for?' inquires Matt.

Ida immediately responds, "Forest Stewardship Council, most of our lumber carries this stamp these days". Ida continues, "We are finding that a lot more of our customers demand that the timber they purchase carry the FSC stamp, so we are stocking a lot more of it". She continues, "FSC is a great marketing tool for high end customers who are not price sensitive and who are committed to being green."

Mr. Lelander spends another hour in the warehouse and confirms the majority of the timber from Latvia carries the FSC stamp. Matt heads back to corporate headquarters to investigate Forest Stewardship Council and the certification process.

FOREST STEWARDSHIP COUNCIL

Matt finds that FSC is an independent, non-governmental, not-for-profit organization established to promote the responsible management of the world's forests (www.fsc.org). Forest Stewardship Council is a relatively new NGO and was established in 1993 to prevent global deforestation and promote responsible forest management through solutions to help forest-dependent communities. Roughly 130 representatives of environmental organizations, lumber companies, forest product retailers, indigenous people groups, forestry certification groups, and scientists from around the world gathered to create the FSC. This wide ranging group of timber industry stakeholders from the World Wildlife Fund to Home Depot (a competitor of FBS) came together in response to activists protesting in retail outlets and the increased consumer awareness of harmful lumber harvesting.

One of the major activities of FSC is providing certification. According to forest stewardship council, "*FSC* certification *provides a credible link between responsible production and consumption of forest products, enabling consumers and businesses to make purchasing decisions that benefit people and the environment as well as providing ongoing business value*" (www.fsc.org).

When a forest is certified according to FSC, it shows that a forest complies with the highest social and environmental standards on the market, not to mention their own well-articulated set of organizational principles (see Exhibit 1). FSC claims that its certification provides a credible signal to customers that the timber harvested from a certified forest is sustainability managed. Matt finds that FSC claims their certification helps to protect a firm's brand and reputation allowing access to highly environmentally sensitive markets. FSC Controlled Wood controls the non-certified material in FSC products to avoid timber from the most destructive and harmful practices, such as illegal logging or human rights abuses (www.fsc.org).

As Matt continues to research the process for obtaining FSC certification, he notices that FSC does not issue certificates itself. The certification process is carried out by independent organizations called certification bodies. These certification bodies assess forest management and chain of custody operations against FSC standards. Only FSC accredited certification bodies are authorized to issue FSC certificates (www.fsc.org). It is getting late, but Matt ponders the degree to which independent bodies can successfully ensure forests are harvested sustainably in a country known for a long history of corruption.

Matt arrives back at his bare apartment in the city of London and plugs in his television. Unfortunately, his concern with regard to the FSC certification process has him worried, so he opens a beer and flips the channels. By chance he finds a documentary film by Glenn Ellis on the very topic he has been researching on all day. The title of the documentary is 'Latvia's Pulp Fiction'. The documentary highlights several issues about the Latvian lumber industry. In particular, the documentary claims that Latvian forests are being poorly managed. The documentary squarely lays the majority of the blame for the mismanagement of the Latvian forests on the state owned forest company, Latvijas Valsts Mazi (LVM), which owns half of Latvia's forest resources. The most controversial practice mentioned in the documentary is the clear cutting. As Mr. Lelander watches the documentary the camera pans over vast tracks of Latvia's landscape that have been completely clear cut. A Latvian agriculture professor is interviewed in the documentary and points out that while Latvian lumber is breathing life back into its struggling economy, the negative consequences are being ignored.

The documentary goes on to report that FSC certification was suspended on July 16th, 2010, but after the suspension that Latvian timber was still on sale in U.K stores as FSC certified. The revelation that FSC certified wood could be sold even after the certification has been suspended shocked Mr. Lelander. He quickly opens his iPad and goes to the webpage of the documentary to see if any comments had been posted since "Latvia's Pulp Fiction' was aired. He finds the following quote from FSC's U.K director: "[*Latvijas Valsts Mazi]… have no FSC certificates issued to them that allow them to claim that their forests are either FSC certified in full or are covered by a controlled wood forest management certificate. It is possible that some timber from their woodland is entering the supply chain as controlled wood, but this would have had to be especially risk-assessed on its own merits. LVM does have a chain-of custody certificate that allows them to pass controlled wood on as a dealer, so to speak. However, this is not at all the same as saying that all their forests have 'blanket' controlled wood clearance. A chain-of-custody certificate only allows LVM to pass on timber as FSC-controlled wood from any source that had been properly risk-assessed as falling within the rules*."

Mr. Lelander continues to search well past midnight looking for information from the executives of LVM on the sustainability or lack thereof of their forest management. He finds a level of hostility in the public comments by executives of LVM. According to the executive director of the Latvian Forest Industry Federation, the FSC certificate is "a marketing tool and nothing else." LVM went so far as to say that not only was the certificate unnecessary, but the procedures for determining certification was faulty. The main concerns stemming from the FSC audit were regarding management, stating that LVM had begun felling trees in a concentrated widespread cutting area (e.g., clear cutting). Instead of working towards their own Environmental Policy, of "ensuring the sale of FSC-certified growing trees and assorted round wood from all of the LVM-managed forests," LVM criticized the FSC, saying "Professionals involved in the audit process were inconsistent and implied incompetence of the Latvian forest management issues, which has led to suggestions that it complicates the company-developed plan to reduce the environmental impact of disposal, fossil fuel consumption and reduction of forest management activities" (Hanley, 2011).

Additional research reveals that after the LVM lost its FSC certification it later was certified by a competing certification association entitled Programme for the Endorsement of Forest Certification (PEFC). According to their website (PEFC) is an international non-profit, non-governmental organization dedicated to promoting Sustainable Forest Management (SFM) through independent third-party certification. PEFC works throughout the entire forest supply chain to promote good practice in the forest and to ensure that timber and non-timber forest products are produced with respect for the highest ecological, social, and ethical standards. Thanks to its eco-label, customers and consumers are able to identify products from sustainably managed forests. Matt learns that there is a fair amount of controversy and confusion between the two certification bodies and their distinct methods of silviculture.

An important difference between the two involves their schemes and procedures. FSC is an international scheme that is applicable worldwide with a performance based standard that is translated to the national level. PEFC endorses national schemes and includes many elements of a system based standard. Matt finds a report published on the FSC website, the report concludes "that PEFC certified material does not meet the requirements for "Controlled Wood", although they can contribute to some of them[2] Therefore, although PEFC and SFI certification can contribute to the compliance with FSC 'Controlled Wood', materials certified under these schemes cannot be automatically mixed with FSC certified material without further examination of their origin and the associated risk."

Matt Lelander arrives at headquarters bright and early the next morning and settles down to prepare his preliminary report on purchasing from Latvia and in particular from LVM. As he begins to prepare his report Matt is surprised to learn that FBS does not have an articulated code of conduct from which employees can take direction. There are no written statements of company values, rules, mission, or polices to create an ethical culture. This troubles Matt, but he brushes this aside as a side product of a tight knit family company and rationalizes this by thinking, "they don't need a code of conduct here, we are all on the same page."

Several issues concerning his firm's purchase decision are pertinent to his report. How much do his customers value lumber from sustainable sources? What are the consequences of selling lumber that is certified sustainable, but are in fact potentially from unsustainable sources? This issue is of particular relevance if FBS' customers discover his firm has sold Latvian lumber as sustainably harvested. Does Matt's employer have a responsibility to inform their customers of the controversy surrounding FSC and LVM? What is the impact on the economy of Latvia if is purchases of Latvian lumber decline significantly? While these questions are of immediate importance, there are several other strategic questions that Mr. Lelander must address in his report. These questions include: What is the responsibility of firms with regard to sustainability of the products they sell? Can FBS trust external certification bodies to verify sustainability?

Does FBS want to market itself as a "green" builder? Economically, does stockpiling the more expensive FSC lumber represent the best use of FBS resources? What responsibility do firms have to their stakeholders with regard to the products they sell? Finally, does FBS want to take an environmental leadership position?

As Matt begins to compose his report the telephone rings, it's Steve Harris (the rumored next CEO and current CFO of FBS) on the telephone. "Matt, I hope you are well and fancying London. I just called to tell you that one of our largest suppliers of Latvian FSC Lumber, Stratton Lumber, has just reduced their price by 25%. Appears like global demand for timber is sluggish, I hope you can recommend an increase in purchases from Stratton Lumber, as the International Olympic Committee is requesting that any structures built for the 2012 Olympic games meet stringent environmental standards. If we can build up our supply of FSC certified lumber we will be sitting pretty for the anticipated increase in demand for FSC lumber created by the 2012 games. We certainly could use some good financial news this quarter. By the way, speaking of the Olympics, Bill Jacobson a parliament member and Conner Gordon, who owns Gordon Construction Co., the likely contractor of the soon to be built government plaza center in London, called me this morning. They both want to secure a luxury suite in Wembley Stadium for the 2012 Olympic football finals. Mr. Gordon and Mr. Jacobson are good friends of mine and would really appreciate these tickets, I know previous contractors have, make sure it happens for them old chap, cheers!"

As Matt replaces the receiver of his telephone, he takes a deep breath, checks his e-mail, and then returns to his work. Based on Mr. Harris' suggestion Matt begins to research FBS's contractual relationship with the LVM. After a lengthy search Matt finds the supplier agreement between FBS and the LVM (see Exhibit 1). Mr. Lelander learns that FBS has an agreement to satisfy, "all their FSC certified lumber requirements directly from the LVM. The LVM will be FBS's exclusive supplier of FSC lumber." After additional reading Matt finds that this contract which was created in 2009 will be renewed upon mutual agreement of both parties every five years. What Matt finds interesting is that the LVM guarantees their lumber meets all "FSC certification procedures and /or requirements."

Matt calls Kelly Ashdown, the manager of the FBS controller's department. He questions her regarding the FBS and LVM lumber contract and discovers that at the time this contract was created, FBS was in a pickle. They had received an extremely large order (over (€) 4 million) from an international contractor for FSC lumber and the only supplier available at that time was the LVM. As a result of this order, FBS was willing to enter this long term agreement, despite the fact that the LVM was charging a 5% inflation protected premium for their FSC lumber. Kelly mentions that there are still relatively few suppliers of FSC lumber. However, Stratton Lumber does have a good reputation. Ms. Ashdown is not certain of where Stratton Lumber obtains their FSC lumber, but suggests they may receive significant portion of their supply from the LVM as well.

Mr. Lelander is unsure if Steve Harris is aware of this exclusive supplier contract with the LVM. Steve is usually well informed and it would be unusual for him to overlook such an important detail. However, Matt is certainly aware that given the 25% discount Stratton Lumber is providing coupled with the 5% premium the LVM is charging, there is certainly a significant price difference. Switching suppliers could potentially save FBS millions of euros.

Matt is certainly confused. He is uncertain after reviewing the Exclusive Supplier Contract if FBS would be in breach if they purchased lumber from Stratton. Matt is acutely aware of the fact that the United Kingdom has not signed the United Nation Convention on Contract for The International Sale of Goods (CISG). While Latvia has adopted the CISG he is not yet familiar with the U.K.'s domestic law or if it even applies to this situation. Matt makes a note to review the contract again and calls the legal department who sends him a portion of the United Kingdom's Sale of Goods Act of 1979, (Exhibit 2). While he is not sure it is applicable Matt files this document with the rest of his research, and makes a mental note to review it later.

Even more troubling is Mr. Harris's implicit directive to obtain those football tickets. Matt remembers reading a few recent BBC articles on Gordon Construction. They are currently awaiting word on several large governmental construction bids/contracts and are the largest contracting firm in London. In fact, Matt remembers seeing some recent FBS internal memos regarding a bid to supply lumber, submitted (by FBS) to Gordon Construction with regards to the potential building of a new government office plaza. Matt is aware that certain FBS board members do have some connections with the folks over at Wembley, however, even with those connections a suite for the football finals will be expensive and potentially improper under the recently enacted (July 2011) U.K. Bribery Act. Matt would hate to disappoint Steve and realizes the current CEO Dave Harris (Steve's Father) is a busy individual. Securing cheaper lumber and a contract with Gordon would really help FBS. The global recession has been rough on FBS and rumors of layoffs are constantly swirling.

END NOTES

[1] The film Latvia's Pulp Fiction can be found at the following: http://english.aljazeera.net/programmes/peopleandpower/2011/02/2011211357149645.html

[2] The full report can be read at the following: http://www.fsc.org/fileadmin/webdata/public/document_center/publications/PEFC_and_FSC/FNAL-Summary_Report_FSC_CW_and_PEFC-EN.pdf

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EXHIBIT 1

Note: Portions of this Agreement have been redacted. The redacted portions are subject to a request for confidential treatment that has been filed with the United Kingdom Financial Services Authority.

<u>EXCLUSIVE SUPPLY/SUPPLIER AGREEMENT</u>

This Exclusive Supply/Supplier Agreement (this " **Agreement** "), is entered into as of March 29, 2009, by and between Flat and Builders Supply, Inc., a United Kingdom (U.K.) corporation ("**Customer** ") and Latvijas Valsts Mazi, (LVM)., a Latvian State Stock Company ("**Supplier**").

WITNESSETH:

WHEREAS, Supplier is a wholesaler of Lumber and related products, with first-right relationships with Latvian lumber suppliers;
WHEREAS, Customer is a reseller of lumber and other building materials;
WHEREAS, Supplier will become the exclusive supplier of certain products to Customer, pursuant to this certain Exclusive Supply Agreement between Customer and Supplier, as amended March 29th , 2009;
WHEREAS, Customer and Supplier desire to amend or replace all Existing Agreements with this Agreement, which shall supersede any Previous Agreement in its entirety, and clarify the terms under which Supplier shall provide Customer with the products set forth herein.

NOW THEREFORE, in consideration of the foregoing premises and the mutual covenants and undertakings contained herein, and of other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties to this Agreement hereby agree as follows:

<u>ARTICLE I</u>

SUPPLY OF PRODUCTS

1.01 *Retention and Appointment* . Customer hereby retains and appoints Supplier as its exclusive supplier of all Latvian FSC lumber and related products (collectively, the " **Products**"), and Supplier hereby accepts such retention and appointment and assumes all obligations associated herein.

1.02 *Order Procedure; Delivery Timeframe* . Customer shall submit orders to purchase Products to Supplier on Customer's standard purchase order form, which must first be approved in writing and initialed by an authorized officer of Customer, a list of which shall be provided to Supplier and updated as necessary by Customer. Supplier shall supply the ordered Products to Customer within the time specified in the applicable purchase order, but Customer shall give Supplier at least seven business days to deliver the Products. Customer shall have the right to accumulate supplies of Products as needed in order to have sufficient quantities for manufacturing.

1.03 *Shipping*. Supplier shall suitably package and ship the Products to Customer's London, U.K. warehouse location, or such other location as directed by Customer, and the risk of loss during transit shall be borne solely by Supplier until Products are unloaded at Customer's facility and accepted by Customer. Supplier agrees, from time to time, to open additional warehouses as requested by Customer to support the geographical growth of Customer.

1.04 *Quality Audits*. Customer shall have the right, upon three days prior notice to Supplier, to inspect any of Supplier's facilities and operations to determine whether Supplier is producing or supplying the Products in accordance with this Agreement.

1.05 *Right to Purchase Products from Other Sources.* In the event that, for any reason, Supplier cannot supply Customer with Products ordered by Customer within the timeframes requested by Customer, Customer may obtain such Products from another source; provided, however, that once Supplier can demonstrate that Supplier is again able to supply the Products to Customer on a timely basis, Customer shall return to purchasing the Products exclusively from Supplier under the terms of this Agreement.

1.06 Supplier Guarantee. The supplier provides a guarantee that all lumber products provided the customer will meet or exceed all Forrest Stewardship Council (FSC) certification procedures and or requirements and will be FSC certified.

<u>ARTICLE II</u>

PRICING AND QUANTITIES

2.01 *Product Pricing* . The Products shall be priced to Customer at Supplier's necessary, documented out-of-pocket costs of obtaining (direct costs of purchases and shipping only, including foreign currency conversion, excluding any overhead costs of Supplier) and shipping the Products to Customer, plus a 10.0% mark-up; this mark up will be adjusted annually to reflect inflationary pressures; provided however Supplier assures Customer of its lowest pricing. In the event Supplier offers a lower price to any customer, it shall immediately notify Customer and extend such price to Customer so long as any other customer of Supplier has such lower pricing. Supplier shall notify Customer at time of Purchase Order of any factor that Supplier expects to cause an increase or decrease of at least 15% in the cost of any Products or delivery thereof.

2.02 *Terms of Payment* . Customer shall pay Supplier within 45 days of receiving Supplier's invoice for Products delivered to and accepted by Customer. Customer shall have 150 days from the Effective Date to bring all amounts currently owed to Supplier that exceed 45 days to within the 45 days required by this Section 2.02. All amounts invoiced by Supplier, and amounts paid by Customer, shall be in Euro currency.

2.03 *Minimum Quantities Purchased* . Customer hereby agrees to purchase at least €325,000 per month of Products from Supplier during the Term. Customer will not be obligated to pay Supplier for any shortfall of this minimum purchase requirement, but Customer will make Supplier whole by purchasing the aggregate shortfall of product from Supplier every 2 months. Customer shall notify Supplier as soon as possible of any factor that Supplier expects to cause an increase or decrease of at least 10% in the historical quantities of Products purchased.

2.04 *Record Keeping.*

(a) <u>Monthly Accounting</u> . Supplier shall maintain complete and correct records containing all data required for Customer to verify the costs of Products for purposes of calculating and verifying the prices for Products as set forth in Section 2.01.

(b) <u>Audit</u> . Customer shall have the right, during normal business hours and upon 10 days' prior notice, to audit the records described in Section 2.04(a) hereof to verify Supplier's compliance with this Agreement. Any such audit shall be conducted at Customer's expense unless the results of such audit establish inaccuracies that have resulted in any overpayment by Customer to Supplier. If Customer establishes any such overpayment, Supplier shall pay all costs of the audit and shall pay all amounts determined by Customer to have been overpaid to Supplier, plus 2% interest on any such overpaid amounts, and such interest shall accrue from the date such amounts were paid by Customer through the date of Supplier's repayment to Customer. Supplier shall pay all such amounts overpaid by Customer, including the interest thereon, and Customer's costs of the audit, no later than 45 days following written notice by Customer setting forth the calculation of such amounts. In the event that Supplier does not pay such amounts to Customer within such 45-day timeframe, Customer shall have the right to offset future amounts owed to Supplier by such amounts.

ARTICLE III

TERM AND TERMINATION

3.01 *Expiration; Renewal* . This Agreement shall have an initial term of 5 years commencing on the date hereof and expiring on the 5th anniversary thereof (the " **Initial Term**"). On or before the expiration of the Initial Term, Customer and Supplier shall negotiate in good faith to renew this Agreement, and any such renewal period that is agreed to shall constitute the " **Renewal Term** ". For the purposes of this Agreement, the term " **Expiration Date** " shall refer to (a) the last day of the Initial Term if the term of this Agreement is not timely renewed, or (b) the last day of the Renewal Term in the event that the parties hereto renew the Initial Term of this Agreement

3.02 *Termination*. This Agreement may be terminated prior to the Expiration Date (a) by both parties hereto at any time upon the mutual written agreement of both parties hereto; (b) by the non-breaching party to this Agreement upon a breach of any term or provision of this Agreement by the other party hereto, that is not cured by the breaching party within 10 days of written notice by the non-breaching party specifically describing such breach; or (c) by either party at any time in the event (i) all or a substantial portion of the other party's assets have been transferred or are subject to transfer for the benefit of creditors.

3.03 *Choice of Law.* This agreement shall be governed by and interpreted in accordance with the laws of the United Kingdom

ARTICLE IV

MISCELLANEOUS PROVISIONS

4.01 Independent Parties. LVM and FBS independent Parties, and nothing contained herein will be construed to create a joint venture, partnership or similar relationship. Neither Party is authorized to, nor will it, make any statements, claims, representations, warranties or otherwise act in any way so as to incur any liability whatsoever for which the other Party may become directly, indirectly or contingently liable.

4.02 Assignment. The rights and obligations of the Parties under this Agreement may not be assigned or transferred in any manner, including, without limitation, by operation of law, sale of stock or sale of assets, without the prior written approval, which shall not be unreasonably withheld, of the other Party (and any attempt to do so will be void) except that rights to payment of money may be assigned without such approval. Despite the foregoing, in no event will LVM be obligated to consent to an assignment of this Agreement to a Competitor.

4.03 Notices. Any and all notices given pursuant to this Agreement shall be in writing and shall be deemed duly given (a) on the date of delivery if delivered personally, (b) upon confirmation of receipt if delivered by facsimile, (c) on the first business day following the date of dispatch if delivered by a recognized next-day courier service, or (d) on the date received if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the Party to receive such notice

4.04 Force Majeure.

(A) The obligations of a Party hereunder will be suspended during the time and to the extent that such Party is prevented from complying therewith due to any event or circumstances beyond the reasonable control and without the fault or negligence of the affected Party (which circumstance is hereinafter referred to as "Force Majeure"), including but not limited to floods, fire, storms, earthquakes, lockouts, explosion, hostilities, war (whether declared or undeclared), acts of terrorism, civil disturbances, order or acts of any government, whether de jure or de facto or any official purporting to act under authority of any such government (other than as to Regulatory Approval), illegality arising from domestic or foreign laws or regulations, insurrections, quarantine or custom restrictions (other than due to the action or inaction of the Party claiming a Force Majeure), acts of God or other similar events beyond the reasonable control of, as the case may be, LVM or FBS which results in hindrance of the performance by the Party of its obligations hereunder.

(B) As soon as possible after being affected by a Force Majeure circumstance, the affected Party must furnish to the other Party all particulars of the Force Majeure and the manner in which its performance is thereby prevented or delayed. The Party whose obligations hereunder have been suspended will promptly and diligently pursue appropriate action to enable it to lift the Force Majeure situation, except that Party shall not be obligated to settle any strike, lockout or other labor difficulty on terms contrary to its wishes.

4.05 Amendment and Waiver. This Agreement (including the Exhibits hereto) may be amended, modified, superseded or cancelled, and any other of the terms or conditions hereof may be modified, only by a written instrument executed by both Parties or, in the case of a waiver, by the Party waiving compliance. Failure of either Party at any time or times to require performance of any provision hereof will in no manner affect the right of such Party at a later time to enforce the same, and no waiver of any nature, whether by conduct or otherwise, in any one or more instances, will be deemed to be or considered as a further or continuing waiver of any provision of this Agreement.

4.06 Severability. If any one or more of the agreements, provisions or terms contained herein are declared invalid, illegal or unenforceable in any respect, the validity of the remaining agreements, provisions or terms contained will shall in no way be affected, prejudiced or invalidated thereby.

Note: Portions of this Agreement have been redacted. The redacted portions are subject to a request for confidential treatment that has been filed with the United Kingdom Financial Services Authority.

4.07 Entire Agreement. This Agreement, together with the Exhibits hereto and the Specifications, contains the entire agreement between the Parties, and supersedes any agreements between them with respect to the subject matter hereof.

15.8 Section Headings; Recitals. The section headings contained in this Agreement are for reference purposes only and will not affect in any way the meaning or interpretation of this Agreement. The recitals are hereby incorporated into this Agreement by reference.

4.09 Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the substantive law (without regard to conflicts of law provisions) of the laws of the United Kingdom.

15.10 Consent to Jurisdiction. Each of LVM and FBS irrevocably agrees that any legal action or proceeding with respect to this Agreement, the transactions contemplated hereby, any provision hereof, the breach, performance, validity or invalidity hereof or for recognition and enforcement of any judgment in respect hereof brought by another Party or its successors or permitted assigns shall be brought and determined in any court located in the United Kingdom, and each of LVM and NEW FBS hereby irrevocably submits with regard to any such action or proceeding for themselves and in respect to their property, generally and unconditionally, to the exclusive jurisdiction of the aforesaid courts.

4.10 No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the Parties hereto to express their mutual intent, and no rule of strict construction will apply to any term or condition of this Agreement.

4.11 Counterparts. This Agreement may be executed in separate counterparts, each of which will be deemed to be an original, but which together will constitute one and the same instrument. An executed signature page of this Agreement delivered by facsimile transmission shall be effective as an original executed signature page.
Note: Portions of this Agreement have been redacted. The redacted portions are subject to a request for confidential treatment that has been filed with the United Kingdom Financial Services Authority.

4.12 Enforcement. The Parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed by the Parties in accordance with their specific terms. It is accordingly agreed that the Parties shall be entitled to specific performance of the terms hereof, this being in addition to any other remedy to which a Party is entitled at law or in equity.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the date and year first written above.

Latvijas Valsts Mazi, LVM/
Latvia's State Forests
By: /s/ Douglas Sampson
Name: Douglas G. Sampson
Title: CEO

FLAT AND BUILDERS SUPPLY, INC.

By: /s/ DAVE HARRIS
Name: DAVE HARRIS
Title: CEO

EXHIBIT 2

Sale of Goods Act 1979
1979 CHAPTER 54

Performance of the Contract
27. Duties of seller and buyer.
It is the duty of the seller to deliver the goods, and of the buyer to accept and pay for them, in accordance with the terms of the contract of sale.
28. Payment and delivery are concurrent conditions.
Unless otherwise agreed, delivery of the goods and payment of the price are concurrent conditions, that is to say, the seller must be ready and willing to give possession of the goods to the buyer in exchange for the price and the buyer must be ready and willing to pay the price in exchange for possession of the goods.
29. Rules about delivery.
(1)Whether it is for the buyer to take possession of the goods or for the seller to send them to the buyer is a question depending in each case on the contract, express or implied, between the parties.
(2)Apart from any such contract, express or implied, the place of delivery is the seller's place of business if he has one, and if not, his residence; except that, if the contract is for the sale of specific goods, which to the knowledge of the parties when the contract is made are in some other place, then that place is the place of delivery.
(3)Where under the contract of sale the seller is bound to send the goods to the buyer, but no time for sending them is fixed, the seller is bound to send them within a reasonable time.
(4)Where the goods at the time of sale are in the possession of a third person, there is no delivery by seller to buyer unless and until the third person acknowledges to the buyer that he holds the goods on his behalf; but nothing in this section affects the operation of the issue or transfer of any document of title to goods.
(5)Demand or tender of delivery may be treated as ineffectual unless made at a reasonable hour; and what is a reasonable hour is a question of fact.
(6)Unless otherwise agreed, the expenses of and incidental to putting the goods into a deliverable state must be borne by the seller.
30. Delivery of wrong quantity.
(1)Where the seller delivers to the buyer a quantity of goods less than he contracted to sell, the buyer may reject them, but if the buyer accepts the goods so delivered he must pay for them at the contract rate.

(2)Where the seller delivers to the buyer a quantity of goods larger than he contracted to sell, the buyer may accept the goods included in the contract and reject the rest, or he may reject the whole.
(2A)A buyer who does not deal as consumer may not—
(a) where the seller delivers a quantity of goods less than he contracted to sell, reject the goods under subsection (1) above, or
(b) where the seller delivers a quantity of goods larger than he contracted to sell, reject the whole under subsection (2) above,
if the shortfall or, as the case may be, excess is so slight that it would be unreasonable for him to do so.
(2B) It is for the seller to show that a shortfall or excess fell within subsection (2A) above.
(2C) Subsections (2A) and (2B) above do not apply to Scotland.**]**
(2D) Where the seller delivers a quantity of goods—
(a)less than he contracted to sell, the buyer shall not be entitled to reject the goods under subsection (1) above,
(b)larger than he contracted to sell, the buyer shall not be entitled to reject the whole under subsection (2) above, unless the shortfall or excess is material.
(2E) Subsection (2D) above applies to Scotland only.**]**
(3) Where the seller delivers to the buyer a quantity of goods larger than he contracted to sell and the buyer accepts the whole of the goods so delivered he must pay for them at the contract rate..
(4) This section is subject to any usage of trade, special agreement, or course of dealing between the parties.

Interpretation.

(1) In this Act, unless the context or subject matter otherwise requires,—

- "action" includes counterclaim and set-off, and in Scotland condescendence and claim and compensation;
- "bulk" means a mass or collection of goods of the same kind which—

(a) is contained in a defined space or area; and
(b) is such that any goods in the bulk are interchangeable with any other goods therein of the same number or quantity;**]**

- "business" includes a profession and the activities of any government department (including a Northern Ireland department) or local or public authority;
- "buyer" means a person who buys or agrees to buy goods;
- "consumer contract" has the same meaning as in section 25(1) of the Unfair Contract Terms Act 1977; and for the purposes of this Act the onus of proving that a contract is not to be regarded as a consumer contract shall lie on the seller**]**
- "contract of sale" includes an agreement to sell as well as a sale;
- "credit-broker" means a person acting in the course of a business of credit brokerage carried on by him, that is a business of effecting introductions of individuals desiring to obtain credit—

(a) to persons carrying on any business so far as it relates to the provision of credit, or
(b) to other persons engaged in credit brokerage;

- "defendant" includes in Scotland defender, respondent, and claimant in a multiple poinding;
- "delivery" means voluntary transfer of possession from one person to another ; except that in relation to sections 20A and 20B above it includes such appropriation of goods to the contract as results in property in the goods being transferred to the buyer;**]**
- "document of title to goods" has the same meaning as it has in the Factors Acts;
- "Factors Acts" means the Factors Act 1889, the Factors (Scotland) 1890, and any enactment amending or substituted for the same;
- "fault" means wrongful act or default;
- "future goods" means goods to be manufactured or acquired by the seller after the making of the contract of sale;
- "goods" includes all personal chattels other than things in action and money, and in Scotland all corporeal moveables except money; and in particular "goods" includes emblements, industrial growing crops, and

things attached to or forming part of the land which are agreed to be severed before sale or under the contract of sale; and includes an undivided share in goods;**]**

- "plaintiff" includes pursuer, complainer, claimant in a multiple pointing and defendant or defender counter-claiming;
- "producer" means the manufacturer of goods, the importer of goods into the European Economic Area or any person purporting to be a producer by placing his name, trade mark or other distinctive sign on the goods;**]**
- "property" means the general property in goods, and not merely a special property;
- **[**"repair" means, in cases where there is a lack of conformity in goods for the purposes of section 48F of this Act, to bring the goods into conformity with the contract;**]**
- "sale" includes a bargain and sale as well as a sale and delivery;
- "seller" means a person who sells or agrees to sell goods;
- "specific goods" means goods identified and agreed on at the time a contract of sale is made and includes an undivided share, specified as a fraction or percentage, of goods identified and agreed on as aforesaid**]**;
- "warranty" (as regards England and Wales and Northern Ireland) means an agreement with reference to goods which are the subject of a contract of sale, but collateral to the main purpose of such contract, the breach of which gives rise to a claim for damages, but not to a right to reject the goods and treat the contract as repudiated.

(3) A thing is deemed to be done in good faith within the meaning of this Act when it is in fact done honestly, whether it is done negligently or not.

(4)A person is deemed to be insolvent within the meaning of this Act if he has either ceased to pay his debts in the ordinary course of business or he cannot pay his debts as they become due, **[**whether he has committed an act of bankruptcy or not, and whether he has become a not our bankrupt or not**]**.

(5)Goods are in a deliverable state within the meaning of this Act when they are in such a state that the buyer would under the contract be bound to take delivery of them.

(5A)References in this Act to dealing as consumer are to be construed in accordance with Part I of the Unfair Contract Terms Act 1977; and, for the purposes of this Act, it is for a seller claiming that the buyer does not deal as consumer to show that he does not.**]**

(6)As regards the definition of "business" in subsection (1) above, paragraph 14 of Schedule 1 below applies in relation to a contract made on or after 18 May 1973 and before 1 February 1978, and paragraph 15 in relation to one made before 18 May 1973.

INTERNATIONAL STUDIES AT SALZBURG COLLEGE

Nancy E. Kucinski, Hardin-Simmons University

CASE DESCRIPTION

The primary subject matter of this case concerns the strategic decision-making, market characteristics, and philosophical perspectives of understanding world cultures. The case has a difficulty level of three, appropriate for junior level students. The case is designed to be taught in a 50 minute class period and is expected to require two hours of outside class preparation.

CASE SYNPOSIS

Dr. Ina Stegen (pronounced "Schdegen") was the founder and executive director of Salzburg College, an international studies program for college students located in Salzburg, Austria. As Dr. Stegen was retiring, she needed to find a replacement for the position of executive director; someone who could take the reins of the college, increase the enrollment, and keep to the founding principles of Salzburg College alive and well. Salzburg College was founded on the idea that cultural exchange was important for the development of mutual understanding between differing cultures around the world. However, many college students who attended Salzburg College in recent years seemed more interested in developing their own job skills in an international setting than in cultural understanding and world peace. In addition, enrollment in Salzburg College had declined by 43% over an eight year period. As international study programs become more popular, Salzburg College had more competition especially for students from the United States. A new executive director would have to be able to market Salzburg College and develop a strategic plan that would meet the needs and demands of a new generation of students, while also maintaining the original mission to open eyes and hearts to a broad world.

INTRODUCTION

It was June, 2008, and Dr. Ina Stegen (pronounced "Schdegen") sat at her desk and looked out of the window of the 16th century building that housed Salzburg College. She contemplated the many international students who had studied here over the thirty-seven year history of the college and her tenure as director. The time had come for her to retire, and she was about to interview a potential replacement. It was important for her successor to build the enrollment numbers, because numbers had dropped dramatically since the preceding spring semester. Building the enrollment would require marketing and recruiting efforts. But those efforts would not bear fruit without personal relationships with all of the partners that Dr. Stegen had developed over the years. Dr. Stegen also contemplated an equally important issue, how would her replacement be able to meet a broader challenge, a challenge that was at the heart of the idea and philosophy of Salzburg College, how to get students to see a new perspective of the world, a new perspective of Europe, and a new perspective of the United States. Students seemed more interested in the "big adventure" of study abroad, and less interested in committing to something outside them. How would her replacement be able to address the practical problem of declining enrollments and the deeper philosophical problems that seemed to plague international study programs?

BACKGROUND

Salzburg College was born out of a meeting between Dr. Stegen and a friend of a friend. In the summer of 1970, standing in front of the grand hall fireplace at Leopoldskron Palace, Dr. Stegan met the international programs director of a large university in Illinois. He was looking for a way to begin a study abroad program for students in Austria. While discussing the possibilities it became clear that an important partnership had begun as Salzburg College was born. The first group of students from Illinois arrived in January 1971. Salzburg College was housed in the historic Meierhoff building adjacent to the Leopoldskron Palace, located just on the outskirts of the city of Salzburg, Austria, and known around the world from The Sound of Music film. Part of the uniqueness of the college centered around the concept that students from the United States, while earning credits for courses that would transfer back to their home universities, needed to be immersed in European culture as fully as possible, even if they did not speak the language. After considerable debate, the decision was made that Austrian professors would teach in English, require every student to take a German language and a civilization course in addition to other courses of their choice, and that students would live with host Austrian families. An additional, critical element of the Salzburg College study abroad program was the extensive European travel that constituted part of the course work as well as independent travel during semester breaks. It wasn't just an Austrian study abroad program, but a European immersion experience. Thus, the concept of learning inside and outside the class room became a central aspect of the Salzburg College philosophy.

By the mid-1970's, Salzburg College had grown considerably with students from many American universities attending. Concerned with stabilizing enrollment, Dr. Stegen decided to move beyond the affiliations with American universities and use a personal trip to Japan in 1977 to contact Japanese universities. While in Tokyo, she read an article in an English language daily paper about the director of the international campus of Sophia University, the prestigious Jesuit institution. She made an appointment with him and again a partnership was formed to allow Japanese students to study abroad at Salzburg College. Salzburg College enjoyed some of its highest enrollments from 1980 to 1986, averaging approximately 90 students each Spring semester (the more popular semester). By the late 1980's, educational and economic conditions had changed in Japan which eventually brought an end to the partnership between Salzburg College and Sophia University.

Without the Japanese students, enrollment numbers declined. However, a chance encounter offered the opportunity to partner with a small Southern Baptist university. Two administrators and their spouses happened upon Dr. Stegen's office while searching for the University of Salzburg. They stopped to ask directions and mentioned their search for a study abroad program for their students. A lengthy conversation ensued as the two parties discussed their goals with frankness and candor. The encounter yielded significant results as Dr. Stegen and the travelers made an agreement to form a partnership. So, instead of connecting to the University of Salzburg, the American administrators, along with Dr. Stegen, formed an agreement for a study abroad program with Salzburg College. Through Dr. Stegen's easy, open manner and her uncanny instincts for reading people, she formed partnerships with several other small universities. It appeared that academia was a rather small world. One administrator from one small school knew someone from another school who was interested in starting a study abroad program. Through this network of friends, strong partnerships were created with at least 7 small universities. These relationships were important for the success of Salzburg College yet such relationships were often formed through serendipitous events that could not be planned. The basis of these relationships was grounded in a sense of trust and mutual benefit. Dr. Stegen remained constant in her belief that, instead of focusing on the private needs of each party, all concerned must work for the benefit of the common good.

CURRICULUM

Through the years, Salzburg College changed its curriculum to meet the evolving needs of students. Salzburg College started with a classical European Studies Program of liberal arts courses. In 1975, at the request of the Illinois partner institution, Salzburg College created a photography program. A lab was built, a gallery established, and photographers from all over Europe were invited to teach. Salzbrug College became a center for the study of photography for European and American students alike. Eventually, Salzburg College added other studio art courses as well as music performance. By the mid 1980's it became evident that, in response to an increasingly competitive economic environment, students going abroad were looking more and more for marketable assets rather than "just" a better understanding of the world or themselves. Dr. Stegen acknowledged this need by introducing two new areas of study. Business and communication courses became part of the curriculum as well as opportunities for international internships. The goal of getting students to see a broader philosophical perspective changed. The goal of encouraging students to view the world through an international lens began to develop into an international understanding of country cultures, business and communication practices, and international management complexities. As changes became necessary, Dr. Stegen considered the importance of the Austrian civilization course, a mainstay of the program's curriculum.

Given the changing geopolitical and economic conditions since the end of the cold war, as well as the U.S. involvement in the Middle East, the Austrian Civilization course underwent a transformation. Originally, the course featured Austrian history and culture, Salzburg College renamed the course, "Understanding Austria-A Cross-cultural Exploration." The course consisted of four sections, an introduction to Austrian history and culture, a discussion of modern Austria and its political issues, a cross-cultural project, and a section on U.S.-European Relations.

In each section, faculty asked the students to take the concepts they learned, discuss them with their host families and bring their findings to class for discussion. In the cross-cultural project, they were asked to introduce Austrian political, economic and socio-cultural perspectives to the American context, thus analyzing different cultural models. The section on U.S.-European relations asked U.S. students if the responses to such things as the Iraq War (or war in general) would be the same or different. Such an exercise was intended to push students to see the world from a different angle. Throughout the course, faculty encouraged students to discuss global and Austrian issues with their host families.

The host family concept served multiple functions. In addition to the "home-away-from-home" support, families also provided a direct contact with typical Austrian social and political opinions. Ideally, students would learn to respect their host family and consider their personal views as authentic and valid. Directing and managing the host family segment of Salzburg College took time and great care. With the help of her staff, Dr. Stegen identified potential families and then interviewed them carefully. Some families she had known for years and some were new to the program. The key was to select families who were willing to support the mission of the College; from there the selection involved whether there was a sense of potential compatibility between the College, the students and the host families. Again, Dr. Stegen relied upon her experience at building relationships and her intuition.

THE BIG DECISION

In 1999, Salzburg College faced a big decision. Dr. Stegen learned that their long tenure at the Meierhoff building of the Schloss Leopoldskron was coming to an end. The educational foundation who owned the building needed more space for their international seminars on globalization. The difficulty was in where to relocate. The important criteria for making the decision rested on the original purpose and mission of the College. Namely, that the new location had to be in keeping with Austrian history and culture. After much searching, the new location was selected in the old part of the city. The new location was in two 16th century townhouses that were joined together. It was centrally located and very near most of the important historic sites. The location at Ursulinenplatz, was in a square on the embankment of the Salzach River. The row of houses was flanked by the ancient city gate, or entrance to the city (the Klausentor, built in 1612), and a famous Baroque church, St Mark's. The back of the structures on Ursulinenplatz are built into the Monchsberg mountain atop of which stood the Fortress Hohensalzburg overlooking all of the city of Salzburg. The Fortress Hohensalzburg was the most easily recognizable structure in Salzburg and the new location was within walking distance to the north.

The problem that Dr. Stegen faced was that the historical building she wanted to rent needed major restoration and transformation to meet the needs and security standards of an educational institution. Salzburg College, operating on a non-profit basis, possessed limited funds for renovations. Dr. Stegen decided to commit parts of her personal retirement funds to the project to avoid taking out a loan.

Dr. Stegen was enormously proud of the Ursulinenplatz restoration project with its new classrooms, library, offices, cafeteria, music practice room, art studio and photo lab. Specifically, the library was moved one-to-one from the Meierhof and was located on the top floor of the building with a beautiful view over the city. The music practice rooms were located in the front of the building in airy, sunny rooms with windows that opened and often emitted beautiful music to people on the street and river below.

The library and computer lab were well equipped and wired for internet usage. However, the rule was that all computers must be turned off at the end of the day. After all, it was a 16th century building and the staff didn't want to risk overheated outlets. The first floor housed the cafeteria and kitchen, by far the most active and loudest room. Everyone seemed happiest when seated around tables enjoying good Austrian food. Dr. Stegen and the staff each had their favorite desserts. The photography classroom was situated on the top floor and the darkroom was tucked in the back where the building dug into the mountain. The arched ceiling and walls clearly showed where the rock had been carved out to make accommodation for the back of the original townhouses. It was the perfect space for the darkroom, provided one was not claustrophobic. Overall, the Ursulinenplatz location was ideal and the building worked well for college classes.

ENROLLMENT AND RECRUITING

Ironically, the completion of the renovation to the building at the new location coincided with a downturn in enrollment. In the decade of the 90's the average Spring enrollment was 107. Between Spring 2000 and Spring 2008, the average enrollment was 60. Once the Japanese program ended and the photography program became less important, the enrollments were never as large, but there still seemed to be a decline not explained by the Japanese student departure. Had things changed in general for international studies programs? Was there more competition? Were U.S. students more cautious of travel since 9-11? As additional issues came to Dr. Stegen's mind, she contemplated her dilemma: How would her successor attract more students?

THE BIG IDEA

One of the founding concepts of Salzburg College was the emphasis on understanding the philosophical and cultural perspectives of the world. The inspiration for Salzburg College's study abroad program came from Dr. Stegen's own experiences as an exchange student from Germany to the United States and from her reading of Senator J. William Fulbright's call for an exchange program to promote mutual understanding after World War II (http://fulbright.state.gov/fulbright/about/biography-of-j.-william-fulbright). Dr. Stegen wanted to remain true to the mission of the Fulbright Scholar program, but with a vastly different world than immediately after World War II. The challenge facing Dr. Stegen's replacement required careful analysis of world events such as political opinions of the U.S. and Iraq, Iran, and the Middle East; new economic powers and emerging markets; and most significantly, the vast complexities of globalization. Although things in the world had changed, the need for the open exchange of ideas and culture remained strong, just as it had been after World War II. Understanding and cooperation were just as important in the 21st century as they had been in the previous century.

Beyond careful analysis of world events, the new director of Salzburg College had to tackle growing problems of a new generation of professionally-minded students; more competition in study abroad programs; and the original mission to open eyes and hearts to a broad world. Cultural studies remained important but how did such a program impact students, particularly business and professional students, in ways that approached the goals set out by Dr. Stegen? Essentially, the new director of Salzburg College would have to market, recruit, and build relationships, and provide students with new perspectives.